Joint Stock Bank of Reconversion and Development

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

For the year ended 31 December 2012

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Translation note: This version of our report is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent Auditor's Report

To the Shareholders and the Board of Directors of RDB-Bank JSC

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

Management's Responsibility for the Financial Statements

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

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 about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of matter

We draw attention to Note 2 to these financial statements which indicates that as of 1 January 2013 and as of the date of this audit opinion the Bank did not comply with the normative of the minimum regulatory capital for operating bank with the right to attract funds of individuals, who are not individual entrepreneurs, in deposits and (or) open and serve bank accounts of such individuals set by the National Bank of the Republic of Belarus. This, along with other matters as described in Note 2,

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indicates the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern. Our opinion is not qualified with respect of this matter.

PricewaterhouseCoopers Assurance, Private Enterprise

21 May 2013
Minsk, Republic of Belarus

Translation from original in Russian language

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

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

In preparing the financial statements, management is responsible for:

- proper selection and application of accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2012 were authorised for issue on 20 May 2013 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

N. K. Jurkevich
Acting Chairman of the Management Board

Minsk
20 May 2013

T. I. Karchmit
Chief Accountant

STATEMENT OF FINANCIAL POSITION

In millions of Belarusian Roubles

	Notes	31 December 2012	31 December 2011 (as restated, Note 7)
Assets			
Cash and balances with the National Bank of the Republic of Belarus	8	130,675	125,390
Derivative financial assets	9	300,101	334,719
Due from other banks	10	78,843	66,579
Loans to customers	7,11,35	404,356	413,484
Investment property	12	8,434	10,473
Property and equipment	13	14,838	15,623
Intangible assets	14	1,304	1,385
Current income tax asset		1,587	1,000
Deferred income tax asset	7	-	342
Other assets	15	26,852	30,605
Total assets		**966,990**	**999,600**
Liabilities			
Derivative financial liabilities	9	13,241	15,471
Due to other banks	16	4,431	146,893
Customer accounts	17,35	696,835	579,629
Debt securities in issue	18,35	31,088	49,183
Deferred tax liability	7,21	5,428	-
Other liabilities	22	3,763	2,921
Subordinated debts	19	47,053	54,538
Preference shares	20	6,228	6,827
Total liabilities		**808,067**	**855,462**
Equity			
Share capital	23	225,455	225,455
Treasury shares		(2)	(2)
Additional capital contribution	19	26,213	26,213
Accumulated loss		(92,743)	(107,528)
Total equity		**158,923**	**144,138**
Total liabilities and equity		**966,990**	**999,600**

On behalf of the management of the Bank:

N.K. Yurkevich
Acting Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
20 May 2013

The notes set out on pages 7 — 76 form an integral part of these financial statements.

INCOME STATEMENT

In millions of Belarusian Roubles

	Notes	Year ended 31 December 2012	Year ended 31 December 2011 (as restated, Note 7)
Interest income	7,24,35	158,550	172,897
Interest expense	24,35	(79,760)	(85,748)
Net interest income		**78,790**	**87,149**
Fee and commission income	25,35	14,010	18,557
Fee and commission expense	25,35	(2,914)	(4,223)
Net fee and commission income		**11,096**	**14,334**
Net gain on derivative financial instruments	9, 35	29,883	477,037
Net gain/(loss) on foreign exchange operations	26,35	2,299	(483,937)
Net loss on operations with financial assets available for sale		(48)	-
(Loss)/gain on change in fair value of investment property	12,35	(2,218)	4,877
Other income	27,35	4,908	8,767
Operating income		**124,710**	**108,227**
Operating expenses	28,35	(70,896)	(72,541)
(Write-down)/recovery of repossessed assets cost		(2,052)	3,577
Provision for impairment losses on interest bearing financial assets, net	7,29,35	(8,672)	(32,894)
Provision for impairment losses on other financial assets, net	15,35	(1,025)	-
Provision for loan commitments, net	31,35	11	527
Profit before income tax and loss on net monetary position		**42,076**	**6,896**
Loss on net monetary position	7,35	(19,507)	(136,752)
Profit /(loss) before income tax		**22,569**	**(129,856)**
Income tax (expense)/recovery	7,21,35	(7,784)	6,098
Net profit /(net loss) for the year		**14,785**	**(123,758)**

On behalf of the management of the Bank:

N.K. Yurkevich
Acting Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
20 May 2013

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STATEMENT OF COMPREHENSIVE INCOME

In millions of Belarusian Roubles

	Year ended 31 December 2012	Year ended 31 December 2011 (as restated, Note 7)
Net profit /(net loss) for the year	**14,785**	**(123,758)**
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	**14,785**	**(123,758)**

On behalf of the management of the Bank:

N.K. Yurkevich
Acting Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
20 May 2013

The notes set out on pages 7 — 76 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (DIRECT METHOD)

In millions of Belarusian Roubles

	Notes	2012	2011 (as restated, Note 7)
Cash flows from operating activities			
Interest received		156,534	172,497
Interest paid		(80,315)	(82,341)
Fee and commission received		13,981	17,766
Fee and commission paid		(2,904)	(4,244)
Income received from financial derivatives		5,214	31,920
Income /(expenses) from trading in foreign currencies	26	15,125	(43,090)
Expenses for operations with financial assets held for sale		(48)	-
Other operating income received		4,790	8,792
Operating expenses paid		(66,662)	(68,662)
Income tax paid		(2,779)	(7,861)
Cash flows from operating activities before changes in operating assets and liabilities		**42,936**	**24,777**
(Increase)/decrease in operating assets:			
Mandatory reserve deposits with the National Bank of the Republic of Belarus		(4,218)	(4,293)
Due from other banks		(9,598)	18,281
Loans to customers	7	(69,777)	(139,719)
Financial assets available for sale		-	25,179
Financial assets held to maturity		(2,629)	-
Other assets		(554)	5,202
Increase/(decrease) in operating liabilities:			
Due to other banks		(126,561)	30,223
Customer accounts		226,197	239,225
Other liabilities		(57)	(5,055)
Net cash inflow from operating activities		**55,739**	**193,820**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(1,963)	(3,579)
Proceeds from disposal of property and equipment		175	37
Acquisition of investment property, modernisation expenses		(179)	(1,767)
Net cash outflows from investing activities		**(1,967)**	**(5,309)**

STATEMENT OF CASH FLOWS (DIRECT METHOD) – CONTINUED

In millions of Belarusian Roubles

	Notes	2012	2011 (as restated, Note 7)
Cash flows from financing activities			
Interest on subordinated debt paid		(198)	(1,756)
Dividends paid		-	(2)
Proceeds from issue of debt securities			53,335
Repayment of debt securities		(10,603)	(74,942)
Net cash outflow from financing activities		**(10,801)**	**(23,365)**
Effect of changes in foreign exchange rates on cash and cash equivalents		2,307	22,631
Effect of inflation on cash and cash equivalents	7	(38,051)	(129,025)
Net increase in cash and cash equivalents		**7,227**	**58,752**
Cash and cash equivalents at the beginning of the year	30	**187,250**	**128,498**
Cash and cash equivalents at the end of the year	30	**194,477**	**187,250**

N.K. Yurkevich
Acting Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
20 May 2013

The notes set out on pages 7 — 76 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In millions of Belarusian Roubles

	Notes	Share capital	Treasury shares	Additional capital contribution	Accumulated loss	Total equity
Balance as at 1 January 2011		**225,455**	**(2)**	**26,213**	**16,232**	**267,898**
Net loss for the year (originally reported)		-	-	-	(118,633)	(118,633)
The result of restatement	7	-	-	-	(5,125)	(5,125)
Net loss for the year (restated)		-	-	-	(123,758)	(123,758)
Total comprehensive loss for the year (as restated, Note 7)		**-**	**-**	**-**	**(123,758)**	**(123,758)**
Transactions with shareholders recorded directly in equity						
Dividends paid	20	-	-	-	(2)	(2)
Balance as at 31 December 2011 (as restated, Note 7)		**225,455**	**(2)**	**26,213**	**(107,528)**	**144,138**
Net profit for the year		-	-	-	14,785	14,785
Total comprehensive income for the year		**-**	**-**	**-**	**14,785**	**14,785**
Balance as at 31 December 2012		**225,455**	**(2)**	**26,213**	**(92,743)**	**158,923**

On behalf of the management of the Bank:

N.K. Yurkevich
Acting Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
20 May 2013

The notes set out on pages 7 — 76 form an integral part of these financial statements.

1. General information

Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking licence # 21 issued by the National Bank of the Republic of Belarus on 31 January 2008. The Bank also has a licence for performing professional and stock-exchange activities with securities # 02200/5200-1246-1126 issued by the Ministry of Finance of the Republic of Belarus dated 29 June 2012.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals, small and medium enterprises and other companies; attracting deposits from non-banking and banking customers, legal entities and individuals; maintaining customer accounts; performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has a certificate of acceptance for registration in the State Agency of Guaranteed Compensation of Individual Deposits, which guarantees 100% repayment of deposits of individuals in case of withdrawal of the banking licence.

The Bank has one branch in the Republic of Belarus in a regional city Vitebsk.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, 220034 Minsk, Republic of Belarus.

The average number of employees of the Bank was 372 in 2012 (2011 - 411).

Shareholders structure of the Bank as at 31 December 2012 and 2011 is presented below:

	31 December 2012 % of the total number of shares	**31 December 2011 % of the total number of shares**
European Bank of reconstruction and development (hereinafter - EBRD)	27.68	27.68
LLC "Dicrys"	26.54	26.54
LLC "German society on investments and development" (DEG)	16.60	16.60
Tsybulin V.A.	14.17	14.17
JLLC "Speedster"	13.65	11.73
Other	1.36	3.28
Total	**100.00**	**100.00**

The ultimate controlling party of the Bank as at 31 December 2012 and 2011 was Valentin Anatolyevich Tsybulin, the resident of the Republic of Belarus.

2. Basis of preparation of the financial statements

Statement of compliance

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

General basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank will continue as a going concern.

According to the requirement of the National Bank of Belarus the minimum size of regulatory capital calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks attracting deposits from individuals and maintaining accounts of individuals should not be less than EUR 25 million. As a result of significant national currency devaluation in 2011 the Bank did not comply with the mentioned requirement as at 31 December 2012 and 2011, and at the date of approval of these financial statements for issue, and the National Bank provided the Bank with a grace period until 1 July 2013 to increase regulatory capital to the required level. Non-compliance with the mentioned requirement may cause revocation of the licence to attract deposits from individuals, who are not individual entrepreneurs, and (or) open and maintaining current accounts of such individuals.

In order to replenish the regulatory capital to the required level the Bank's management negotiates with the shareholders with regard to the share capital increase. In April 2013 an agreement was signed with an independent appraiser on appraisal of properties owned by the ultimate controlling party of the Bank for the purpose of introduction them as a non-monetary contribution to the Bank's capital. The meeting of the Board of Directors is scheduled on 23 May 2013. Its agenda includes approval of the value of non-monetary contribution to the capital for the purpose of future discussion of additional share emission and its partial settlement by non-monetary contributions and additional monetary contributions if applied by the shareholders.

The management and shareholders are putting all efforts to remove material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern, have intention to further develop the business of the Bank in the Republic of Belarus. Making this judgment, the Management considered financial position of the Bank, current intentions about increase of the regulatory capital, profitability of operations, availability of financial resources, and analysis of the impact of the macroeconomic situation on the future of the Bank's operations.

The Bank maintains accounting records in accordance with the requirements of the effective legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS in all material respects.

The functional and presentation currency is the national currency of the Republic of Belarus — Belarusian rouble.

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

Hyperinflation accounting

In 2011 the economy of Belarus was recognised as hyperinflationary since numerous characteristics of the economic environment provided in IAS 29 "Financial Reporting in Hyperinflationary Economies" have been met. This standard requires that financial statements of the entity, whose functional currency is the

currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period.

In accordance with IAS 29, the Bank's financial statements and the corresponding figures for the previous periods have been restated for the change in the general purchasing power of the Belarusian rouble and, as a result, have been presented in terms of the measuring unit current at the end of the reporting period.

Quantitative changes indicator of general price level is the Consumer Price Index (hereinafter — "CPI") published by the National Statistical Committee of the Republic of Belarus, which is the basis for calculation of the conversion factors. The changes in the Consumer Price Index rates for the five-year period ended 31 December 2012 were as follows:

Year	**Annual change in Consumer Price Index, %**	**Conversion factor from the end of the year until 31 December 2012**
2008	13.3	3.078
2009	10.1	2.795
2010	9.9	2.542
2011	108.7	1.218
2012	21.8	1.000

Monetary assets and liabilities were not restated because they are already expressed in terms of the monetary unit current at 31 December 2012. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2012) and components of equity were restated by applying the relevant index, calculated from the date of purchase or contribution. The restated amount of non-monetary items is reduced according to the corresponding IFRS if it exceeds the recoverable amount.

The amounts in the profit and loss account are translated using the price index for 2012, based on the assumption that the income and expenses have been accrued evenly throughout a month.

The monetary assets of the Bank exceed its monetary liabilities, which leads to the loss of purchasing power during inflation. The appropriate amount of loss on the net monetary position is included in the profit and loss account as an individual item.

All items of the statement of cash flows were restated for presentation in the current prices at the end of the reporting period. Loss on monetary items in cash and cash equivalents is the total amount of the effect of inflation in the reconciliation of cash and cash equivalents.

The comparative information for prior periods is restated by applying price index so that the financial statements are presented in current prices at the end of the reporting period.

3. Adoption of new and revised standards and interpretations

In the reporting year the Bank adopted all new and amended standards and interpretations issued by IASB and by IFRIC related to the Bank's operations and effective for the reporting period ended 31 December 2012. Their adoption did not have a significant impact on the Bank's financial statements, but it may influence the treatment of the Bank's operations in the future.

"Disclosures — Transfers of Financial Assets" — Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have a material impact on these financial statements.

4. New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments Part 1: Classification and Measurement". IFRS 9, issued in November 2010, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Bank management anticipate that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance.

IFRS 11 "Joint Arrangements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities — Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

IFRS 12 "Disclosure of Interests in Other Entities" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarized financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

IAS 27 "Separate Financial Statements" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10 "Consolidated Financial Statements".

IAS 28 "Investments in Associates and Joint Ventures" (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

This package of standards is effective for annual periods beginning on or after 1 January, 2013 with early application permitted provided that all from "the package of five" standards are applied. The Bank does not expect that these standards will have a significant impact on the financial statements as the Bank did not participate in business combinations.

IFRS 13 "Fair Value Measurement" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The Bank is currently assessing the impact of the amended standard on its financial statements.

Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'.

The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

The Bank does not expect that these amendments will have an impact on the financial statements as the Bank doesn't carry pension liabilities to its employees.

"Disclosures - Offsetting Financial Assets and Financial Liabilities"- Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off.

The Bank expects the amended standard to change presentation of its financial statements, but have no impact on measurement and recognition of financial instruments.

"Offsetting Financial Assets and Financial Liabilities" — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

The Bank is currently investigating the impact of the amended standard on its financial statements.

Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards — Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013). The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. This will give first-time adopters the same relief as existing preparers.

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 "Borrowing costs", retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes,

while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that servicing equipment that is used for more than one period is classified as property, plant and equipment rather than inventory. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 will require disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual financial statements.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 "Consolidated Financial Statements". Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities", by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied.

Amendments to IFRS 10, IFRS 12 and IAS 27 — Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary.

The Bank does not expect that these amendments will have a significant impact on the financial statements as the Bank did not participate in business combinations.

Other revised standards and interpretations: IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", considers when and how to account for the benefits arising from the stripping activity in mining industry. The interpretation will not have an impact on the Bank's financial statements.

5. Summary of significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets which can be easily converted into known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with original maturity exceeding 90 days cannot be considered as cash equivalents when their residual period to maturity reduces to 90 days. The balances which are restricted for use are excluded from cash and cash equivalents.

Mandatory reserve deposits with the National Bank of the Republic of Belarus

Mandatory reserve deposits with the National Bank of the Republic of Belarus (the "National Bank") are funds deposited with the National Bank, which are not intended for the financing of current operations. Mandatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

Financial instruments

Classification of financial instruments on initial recognition is performed on the basis of intention, for which they were acquired or incurred and their characteristics.

Reclassification of financial instruments after their initial recognition is permitted or required only when certain criteria established by appropriate IFRS are met. During the analysis of the possibility of reclassification of financial instruments the Bank follows the principle that the financial instrument should meet the definition of the category where it is aimed to be reclassified.

Financial instruments are classified into the following categories.

Financial assets and liabilities carried at fair value through profit or loss are those that have been classified by the Bank as carried at fair value through profit or loss or as held for trading. Financial instruments held for trading are those that the Bank buys for the purpose of generating profit from short-term fluctuations in their price. Derivatives except for hedging instruments also fall to this category.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the nearest term;
- those that the Bank designates upon initial recognition as carried at fair value through profit or loss or as available for sale;
- those for which the Bank may not recover substantially all of its initial investments, for the reason other than credit deterioration, and which shall be classified as available for sale.

Loans and receivables include amounts due from other banks, loans to customers and other financial assets which comply with these classification criteria.

Available-for-sale financial assets are non-derivative financial assets that are not included into any of other categories described above. Available-for-sale instruments may include certain debt and equity investments.

Financial liabilities carried at amortised cost include financial liabilities except for:

- liabilities measured at fair value with any gains or losses arising on remeasurement recognised in profit or loss;
- liabilities which arise from a transfer of financial assets not qualifying for derecognition and are accounted using the continuing involvement method (i.e. recognition of the assets to the extent of continuing involvement).

Financial liabilities measured at amortised cost include balances due to other banks, customer accounts, debt securities issued, subordinated debt and other borrowed funds.

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation concerning the instrument. Purchase and sale of the financial assets and liabilities on standard terms are recognised at settlement date.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Fair value of financial instruments

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

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument, otherwise, using external independent sources data on demand (supply) prices for comparable financial instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. Input data for such models is based on the market under observation, if possible; otherwise, application of judgment is required. The judgment should be made taking into account the liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include models of net current value and discounted cash flow, comparison with analogous instruments for which there are observable prices. Assumptions and data used in valuation techniques include risk-free and initial interest rates, loan spreads and other premiums used for estimation of discount rates, cost of debt and capital, currency exchange rates, capital and securities indexes and expected fluctuations of prices. The aim of valuation techniques is to assess the fair value of financial instrument equal to the value which could be determined by independent willing parties in an arm's length transactions as at the reporting date.

Derecognition of financial assets

Derecognition of financial assets (or, if applicable, of a part of the financial asset or of a part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;

- the Bank transfers the contractual rights to receive the cash flows from the financial asset, or if the Bank retains the right to obtain cash receipt from such asset with simultaneous obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer.

Derivative financial instruments

Derivative financial instruments used by the Bank include foreign currency forwards and swaps. The Bank uses derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments used by the Bank do not qualify for hedge accounting as the Bank does not formally determine and document the strategy for hedge accounting and does not evaluate the hedge effectiveness in order to apply special rules for hedge accounting.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from the discounted cash flows model. Derivatives financial instruments are recognised in assets if their fair value is positive or otherwise in liabilities. Respective transaction costs are recognised in profit or loss in the period in which they are incurred. Both positive and negative valuation results on change in fair value of derivative financial instruments are recognised in the income statement line “Net gain/(loss) on derivative financial instruments”.

Due from other banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortised cost is based on fair value of loans issued (deposits placed) determined considering interest rates of analogous (similar) loans and deposits effective at the date of loan issuing (deposit placement). If loans are issued (deposits placed) at interest rates which are higher (lower) than the market rates the difference between fair value and nominal value of a loan (deposit) is recognised in the income statement as effect on initial recognition of financial instruments at fair value. The due from other banks balances with undefined maturity are measured at amortised cost based on the expected maturity. Due from other banks are recorded at amortised cost less any impairment.

REPO deals

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Securities sale and purchase back agreements (“repos”) are treated as borrowing transactions with transferring securities as collateral. Securities sold on repo are retained in the financial statements with the same classification as they had at the date of the deal. The difference between securities sale and purchase back prices is recognised as interest expense and is accrued at effective interest rate through the repo deal life.

Securities purchase and sale back agreements (“reverse repos”) are considered as lending transactions collateralized by securities. Securities purchased on reverse repo agreements are not recognised in the statement of financial position. The difference between purchase price and sale back price of such securities is recognised as interest income and accrued applying effective interest rate through the reverse repo deal life. If the securities are sold to third parties, financial result from their purchase and sale is recognised in profit or loss.

The Bank enters into repo agreements with receiving or transferring collateral in the normal course of business. Under standard terms for repurchase transactions in the Republic of Belarus, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

Loans to customers

Loans to customers are recognised at the moment of lending funds to customers in the amount of funds lent less transaction costs (i.e. at fair value). Loans issued at non-market interest rates are evaluated at the date of issue at fair value which is determined as future cash flows from the loan discounted at market rates for analogous loans. The difference between fair value and nominal value of loans is recognised in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently, loans to customers are carried at amortised cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment loss.

Loans renegotiated during the reporting period which otherwise would be overdue are accounted for in accordance with renegotiated terms.

Financial assets impairment

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognised when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of financial assets and which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively assessed for impairment with other assets.

The following principal criteria are used to determine whether there is objective evidence that an impairment loss has occurred:

- delinquency in any ordinary payment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower’s business;
- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower’s financial difficulty that the lender would not otherwise consider.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not

exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss figures.

Impairment losses are always recognised by the allowance charge in the amount of the loss measured as the difference between the asset's carrying amount in the statement of financial position and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate.

The present value of estimated cash flows of financial assets received as collateral is the amount which may be recovered through its foreclosure less expense on transferring and selling of collateral. For the purpose of a collective evaluation of impairment of loans to individuals based on historic information on the borrower's fulfilment of its obligations, terms of repayment and incurred losses the Bank doesn't take collateral into account.

The Bank doesn't recognise impairment losses for new loans. New loans are determined as loans issued within 30 days before the reporting period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance account in profit or loss.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined.

Repossessed assets

In the normal course of business the Bank occasionally takes possession of non-financial assets that originally were pledged as collateral for loans. When the Bank acquires (i.e. gains a full title to) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of net realisable value and cost restated in order to be presented in monetary units current as at 31 December 2012.

Net realisable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated costs necessary to make the sale.

At each reporting date the Bank revises the net realisable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in estimated costs of completion and costs necessary to make the sale, the Bank writes such assets down to their net realisable value and recognises the write down in operating expenses in the period such write down occurs or losses takes place. Subsequently, if the circumstances which led to write down of assets change or if there is an evidence of net realisable value growth, the amount of write down is reversed so that the revised carrying amount in the statement of financial position would be the lower of net realisable value and cost.

Repossessed assets initially intended for purposes other than sale in the normal course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Financial assets available for sale

Financial assets available for sale are represented by debt securities. Such securities are initially recorded at fair value. Subsequently these securities are measured at fair value with re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the income statement. Interest income is accrued using the effective interest rate method and is recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value of Bank's financial assets available-for-sale. Non-marketable debt securities for which fair value cannot be reliably measured are stated at amortised cost less impairment losses, if any.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the income statement for the period. The main criteria applied to determine objective indicators of securities impairment are the ability of the issuer to settle obligations as well as the information about the issuer's ability to service securities issued, securities market condition and other information.

Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognised in the income statement for the reporting period.

Financial liabilities

Financial liabilities, except for those carried at fair value through profit and loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities carried at amortised cost are initially recognised at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

If financial liabilities are issued at interest rates above (below) the market rates the difference between fair value and nominal value of financial liabilities is recognised in profit or loss as effect on initial recognition of financial instruments at fair value. Subsequently the carrying value of financial liabilities in the statement of financial position is amortised with respective expenses being recorded as interest expenses in profit or loss.

For borrowings received from shareholders at other than market rates the difference between the nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period when such instruments were acquired. Subsequently, the carrying amount of such instruments is amortised, and the related expense is recorded in the income statement as interest expense using the effective interest rate method.

Derecognition of financial liabilities

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability(or its part) is replaced by another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original and new financial liability is recognized in profit or loss.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Two financial instruments are accounted for as one combined financial instrument in the following cases:

- agreements are entered into at the same time and interrelated;
- agreements are concluded by the same counterparty;
- instruments are subject to the same risk; and
- there is no apparent economic need or substantive business purpose for accounting the transactions separately that could not also have been accomplished in a single transaction.

Property and equipment

Property and equipment are recorded at historical cost restated in order to be presented in monetary units current as at 31 December 2012 less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. This is the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined by reference to their carrying values and recognised in the income statement as other income or expense.

Repair and maintenance costs are charged to the income statement as incurred.

Construction in progress is accounted for at cost restated in order to be presented in monetary units current as at 31 December 2012 less impairment allowance, if any. When construction is completed, it is transferred to property and recognised at the carrying value at transfer. Construction in progress is not subject to depreciation before it is put in operation.

Depreciation

Depreciation is charged from the month following the month property and equipment has been put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 — 11%;
- vehicles – 11 — 15%;
- office and computer equipment – 10 — 20%;
- other property and equipment – 5 — 25%;
- safes and other engineering devices (included in other property and equipment) – 2 — 3%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset after deducting the estimated costs of disposal if the asset would be of the age and in the condition expected at the end of its useful life.

The residual values, depreciation methods and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably.

Intangible assets include software, licences and other intangible assets.

Intangible assets which are separately acquired are recognised at cost restated in order to be presented in monetary units current as at 31 December 2012 less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised evenly during the useful life of 1 to 10 years and are evaluated for impairment when there is an evidence of possible impairment of intangible assets. Useful lives and method of amortisation of intangible assets are reviewed at least annually at the end of the reporting period.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than investment property and deferred tax are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists than the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets other than goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

After the recognition of an impairment loss the depreciation charge for property and equipment and intangible assets for future periods is adjusted to allocate the assets' revised carrying value presented in the statement of financial position, less its residual value (if any), on a systematic basis over its remaining useful life.

Gain or loss from disposal of property, equipment and intangible assets is determined as the difference between net inflows from disposal and carrying value of assets per the statement of financial position and is included in the income statement in "Other income".

Investment property

Investment property is the real estate held by the owner or lessee under a finance lease agreement, including property under construction or reconstruction for future use as investment property, to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. The Bank considers that short-term perspective is the ordinary operating cycle of 12 months. Investment property also includes assets with undefined use at the date of recognition or at the reporting date.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank values investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs. Current prices for identical real estate properties in an active market are the best evidence of the fair value of investment property. In the absence of current prices in an active market, the Bank is guided by the following data: current prices in an active market for similar real estate properties, adjusted for the differences; recent prices for similar real estate properties in less active markets, adjusted to any changes from the transaction date to the reporting date; discounted cash flow projections.

Rental income from investment property and net gain/(loss) from change in fair value of investment property are recognised in the income statement in “Other income”.

The investment property is derecognized at its disposal or permanent withdrawal from operation when after the disposal of the investment property unit it is not expected to receive economic benefits.

Finance lease – Bank as a lessor

A finance lease is a lease when substantially all the risks and rewards incidental to ownership of an asset are transferred. Title may or may not eventually be transferred.

The Bank as a lessor recognises the present value of future lease payments in its statement of financial position as “net investment in financial lease” at the beginning of lease period. Net investment in financial lease is the minimum lease payments receivable by the lessor under a finance lease and any unguaranteed residual value of assets transferred to the lessee ("gross investment in financial lease") less unearned finance income.

The recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the finance lease. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

The inception of the lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. For this purpose the commitments should be in written form, signed by the parties under finance lease transaction and contain the significant terms of lease transaction.

Advances made by the lessee before inception of lease are deducted from net investments in lease.

If net investments in leases are impaired an impairment allowance is created. Net investments in lease are impaired if their carrying amount exceeds their estimated recoverable amount. The impairment allowance is determined as a difference between the carrying amount and the present value of estimated future cash flows on lease payments discounted at the original effective interest rate. Net investments in lease are measured in the statement of financial position less allowance for impairment.

Operating lease - Bank as a lessee

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Operating lease - Bank as a lessor

The Bank accounts for and depreciates assets leased into operating lease in the same way as assets analogous in nature and functions. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in income statement in “Other income”.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Preference shares

Preference share are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are mandatory. Dividends thereon are recognised as interest expense in the income statement as accrued.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Share capital is accounted for at historical cost restated in order to be presented in monetary units current as at 31 December 2012.

Loan commitments

The Bank assumes loan commitments, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits. Loan commitments represent an unused part of loans, guarantees or letters of credit authorised for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments. Though it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised or the best estimated losses to be incurred to settle the obligation as at the reporting date.

In case when commissions are accrued periodically in respect of unfulfilled liability they are recognised as revenue during the term of the respective liability.

Provisions, contingent liabilities and assets

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

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank.

The Bank does not recognise contingent assets and liabilities in its financial statements because their existence depends on events not wholly within the control of the Bank.

Information about contingent liabilities is disclosed in the financial statements except for cases when an outflow of resources embodying economic benefits to settle the obligation is remote. Information about contingent assets is disclosed when inflow of resources embodying economic benefits is probable (more likely than not).

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided or work performed.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

Tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. Tax expense includes current and deferred tax expense.

The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

As some types of expense are tax exempt and due to tax incentives permanent taxable differences arise. In the year 2012 the Bank applied the tax exemption provided by law for operations with state securities, bonds of the National Bank and bonds of other legal entities. In the year 2011 besides the mentioned exemption the Bank applied incentive for tax exemption of profit in the part used for financing of capital investments.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly into other comprehensive income, in this case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax, which are stipulated by the legislation of the Republic of Belarus, are accounted for in operating expenses.

Income and expense recognition

All significant income and expense categories are recognised on an accrual basis.

Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability recorded in the statement of financial position. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. The calculated effective interest rate usually includes any fees, points paid or received, transaction costs and other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

Commission income is recognised as revenue as the services are provided. Commission income on loan commitments, where it is probable that a loan commitment will lead to a specific lending arrangement, is deferred in other liabilities and subsequently recognised as an adjustment to the effective interest rate of the resulting loan. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in the income statement on expiry.

Fees and commissions for managerial or consulting services are recognised in accordance with the terms of service agreements. Commission income for services rendered for a long period of time or on continuing basis is recognised proportionally to the volume of services rendered in the reporting period.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the appropriate exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into Belarusian Roubles at the exchange rate of the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Roubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Gain and loss arising from these translations is included in the income statement in "Net gain/(loss) on foreign exchange operations".

The exchange rates of the Belarusian Ruble to the main Bank`s operational foreign currencies are presented below:

Reporting date	US Dollar ("USD")/ Belarusian Rouble ("BYR")	Euro ("EUR")/ Belarusian Rouble ("BYR")	Russian Rouble ("RUB")/ Belarusian Rouble ("BYR")
31 December 2012	8,570.00	11,340.00	282.00
31 December 2011	8,350.00	10,800.00	261.00

Determination and presentation of operating segments

The Bank determines and presents operating segments based on the information that is provided internally to the Management Board, which is the Bank's chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 "Operating Segments".

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category "Other/not distributed" in order to provide reconciliation segments` activities to the financial statements of the Bank.

The Bank does not use transfer pricing for allocation of funds among segments.

Accounting for income tax expense and loss on net monetary position due to inflation is not allocated to segments.

6. Critical accounting estimates and judgements in applying accounting policies.

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment losses on loans to customers

The allowance for impairment of loans assessed for impairment individually is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparties' financial position and the net realisable value of any underlying collateral. The impairment of loans, which are assessed collectively for impairment, is based on the available information, which provides evidence for the decrease of the expected future cash flows on the loan group. The Bank's assumptions about estimated losses are based on past performance, past customer behaviour, customer solvency and general economic conditions, which are not necessarily an indication of future losses.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of BYR 36,433 million and BYR 36,005 million as at 31 December 2012 and 2011, respectively.

In the year 2012 the Bank recovered allowance on loans to corporate clients in the amount of BYR 1,803 million due to improvement of financial position of borrowers.

Fair value of derivatives

The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Determination of fair value for financial instruments for which there are no observable market prices requires the use of valuation techniques described below.

Currency forward and swap contracts included in derivatives do not have active market and are valued using discounted cash flows model. The fair value of the derivatives is determined on the basis of the market interest rates for financial instruments with analogous credit quality and maturity applicable to respective currencies and exchange rates effective in the Republic of Belarus

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management's forecasts.

Initial recognition of related party transactions

In the normal course of business the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

7. Restatements and reclassifications

In 2011 the Bank treated the loans with the right to revise interest rates in case of change of situation on the financial market as instruments with fixed interest rate and upon changing the interest rates on such loans adjusted their carrying value. In the year 2012 the Bank determined that such loans are loans with variable interest rate and accordingly the change of future interest payments caused by the change in interest rates doesn't influence the carrying amount of such loans in the statement of financial position, but represents an adjustment to effective interest rate. In accordance with IAS 8 "Accounting policies, accounting estimates and errors" the adjustments to loans in accordance with the requirements of IAS 39 "Financial instruments" were made retrospectively.

The effect of the adjustments made to the financial statements as of 31 December 2011 and for the year then ended is as follows:

In millions of Belarusian Roubles	**As previously reported (in monetary units current as at 31 December 2012)**	**Amount of adjustment (in monetary units current as at 31 December 2012)**	**As restated (in monetary units current as at 31 December 2012)**
Statement of financial position			
Loans to customers	419,734	(6,250)	413,484
Deferred income tax asset	-	342	342
Deferred tax liability	783	(783)	-
Income statement			
Interest income	182,337	(9,440)	172,897
Provision for impairment losses on interest bearing financial assets, net	(36,016)	3,122	(32,894)
Income tax expense	4,973	1,125	6,098
Loss on net monetary position	(136,821)	69	(136,752)
Loss for the year	(118,633)	(5,125)	(123,758)

The adjustments had no effect on the opening statement of financial position as of 1 January 2011, and therefore the third statement of financial position has not been presented.

8. Cash and balances with the National Bank of the Republic of Belarus

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Cash balances with the National Bank of the Republic of Belarus	79,230	88,636
Cash in hand	51,445	36,754
Total cash and balances with the National Bank of the Republic of Belarus	**130,675**	**125,390**

The maximum exposure to credit risk of cash balances with the National Bank of the Republic of Belarus is equal to their value presented in the statement of financial position.

Information on cash and cash equivalents is disclosed in Note 30.

9. Derivative financial instruments

As at 31 December 2012 derivative financial instruments are presented as follows:

In millions of Belarusian Roubles	**Nominal amount**		**Fair value**	
	Currency acquired	**Amount of currency acquired**	**Asset**	**Liability**
Foreign currency forward contracts				
USD/BYR	USD	132,835	84,342	-
EUR/BYR	EUR	51,030	33,568	-
Total forward contracts		**183,865**	**117,910**	**-**
Foreign currency swap contracts				
USD/BYR	USD	307,867	182,159	
RUB/USD	RUB	25,380	32	-
BYR/USD	BYR	7,223	-	13,241
Total swap contracts		**340,470**	**182,191**	**13,241**
Total derivative financial instruments		**524,335**	**300,101**	**13,241**

As at 31 December 2011 derivative financial instruments are presented as follows:

In millions of Belarusian Roubles	**Nominal amount**		**Fair value**	
	Currency acquired	**Amount of currency acquired**	**Asset**	**Liability**
Foreign currency forward contracts				
USD/BYR	USD	157,611	88,867	-
EUR/BYR	EUR	72,336	49,989	-
Total forward contracts		**229,947**	**138,856**	**-**

In millions of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	**Amount of currency acquired**	**Asset**	**Liability**
Foreign currency swap contracts				
USD/BYR	USD	366,994	195,863	-
BYR/EUR	BYR	9,260	-	-
RUB/USD	RUB	35,280	-	-
EUR/USD	EUR	49,320	-	-
BYR/USD	BYR	56,886	-	15,471
Total swap contracts		**517,740**	**195,863**	**15,471**
Total derivative financial instruments		**747,687**	**334,719**	**15,471**

These derivative financial instruments give rise to a credit risk of the Bank. The maximum credit exposure related to derivative financial instruments is equal to their carrying value presented in the statement of financial position. Credit quality analysis of the Bank's counterparties with the derivative financial instruments based on ratings of Fitch Ratings, international rating agency, is presented below:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Derivative financial instruments		
The National Bank of the Republic of Belarus	300,069	334,719
Banks with BB- rating	32	-
Total derivative financial instruments, assets	**300,101**	**334,719**

The following table shows the analysis of net gain on derivative financial instruments:

In millions of Belarusian Roubles	**2012**	**2011**
Gain on swap contracts with the National Bank of the Republic of Belarus	21,299	239,648
Gain on forward contracts with the National Bank of the Republic of Belarus	10,038	218,452
(Loss)/gain on swap contracts with other banks	(918)	39,295
Loss on swap contracts with customers	(536)	(20,358)
Total net gain on derivative financial instruments	**29,883**	**477,037**

10. Due from other banks

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Nostro accounts	70,957	57,649
Loans granted to other banks	6,000	-
Loans granted to other banks under reverse repo agreements	-	8,208
Deposits placed with other banks as fulfilment of obligations	1,937	722
Total due from other banks	**78,894**	**66,579**
Allowance for impairment	(51)	**-**
Total due from other banks net of allowance for impairment	**78,843**	**66,579**

As at 31 December 2012 and 2011 deposits placed with other banks as fulfilment of obligations were presented by guarantee deposits placed with other banks for plastic cards transactions and letters of credit.

(a) Credit quality of amounts due from other banks

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2012, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In millions of Belarusian Roubles	**Nostro accounts**	**Loans granted to other banks**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Neither past due nor impaired				
A+	38,238	-	686	38,924
BBB-	311	-	-	311
BB-	13,254	-	-	13,254
B	1	-	-	1
B-	3,064	-	1,251	4,315
Not rated	15,918	6,000	-	21,918
Total neither past due nor impaired	**70,786**	**6,000**	**1,937**	**78,723**
Individually assessed for impairment (current)	171	-	-	171
Total due from other banks	**70,957**	**6,000**	**1,937**	**78,894**
Allowance for impairment	(51)	-	-	(51)
Total due from other banks net of allowance for impairment	**70,906**	**6,000**	**1,937**	**78,843**

As at 31 December 2012 amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks with good reputation.

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2011:

In millions of Belarusian Roubles	**Nostro accounts**	**Loans granted to other banks under reverse repo agreements**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Neither past due nor impaired				
A+	26,983	-	-	26,983
BB+	46	-	-	46
BB-	3,110	-	-	3,110
B	196	-	-	196
Not rated	27,314	8,208	722	36,244
Total neither past due not impaired	**57,649**	**8,208**	**722**	**66,579**
Allowance for impairment	-	-	-	-
Total due from other banks net of allowance for impairment	**57,649**	**8,208**	**722**	**66,579**

As at 31 December 2011 amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks with good reputation.

(b) Movement in the impairment allowance for amounts due from other banks

Movement in the impairment allowance for due from other banks in the year 2012 is presented below:

In millions of Belarusian Roubles	**Nostro accounts**	**Loans granted to other banks**	**Loans granted to other banks under reverse repo agreements**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Allowance for impairment as at 1 January 2012	-	-	-	-	-
Charge for the year	55	-	-	-	55
Monetary income	(4)	-	-	-	(4)
Allowance for impairment as at 31 December 2012	**51**	**-**	**-**	**-**	**51**

During the year ended 31 December 2011 no allowance for impairment was created.

(c) Collateral for reverse repo agreements

As at 31 December 2011 loans granted to other banks under reverse repo agreements were placed in Belarusian banks and collateralised by long- and short-term bonds issued by Belarusian enterprises. Agreements were concluded in accordance with the standard terms of repurchase operations. The fair value of collateral was determined by the Bank on the basis of current prices of bonds provided by the Belarusian Currency Stock Exchange and comprised BYR 8,406 million.

(d) Concentration of due from other banks

As at 31 December 2012 and 2011 the Bank had balances with two banks individually exceeding 10% of the Bank's equity. The total of those balances as at 31 December 2012 and 2011 comprised BYR 38,924 million and BYR 53,242 million, respectively.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of balances due from other banks equals the net carrying amounts as reported in the statement of financial position.

11. Loans to customers

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Commercial loans	126,437	126,512
Loans to individuals	290,092	302,623
Total loans to customers	**416,529**	**429,135**
Allowance for impairment	(12,173)	(15,651)
Total loans to customers net of allowance for impairment	**404,356**	**413,484**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loan portfolio as at 31 December 2012:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
New loans	1,719	11,020	12,739
Standard	45,591	263,779	309,370
Watch	32,212	1,364	33,576
Substandard	7,125	2,179	9,304
Doubtful	4,752	4,422	9,174
Loss	-	2,910	2,910
Total neither past due nor impaired	**91,399**	**285,674**	**377,073**
Total past due but not impaired			
Overdue less than 1 month	223	-	223
Overdue from 3 to 6 months	365	-	365
Total past due but not impaired	**588**	**-**	**588**
Loans individually determined to be impaired			
Current	33,310	3,951	37,261
Overdue from 1 to 3 months	-	154	154
Overdue from 3 to 6 months	-	313	313
Overdue from 6 months to 1 year	1,013	-	1,013
Overdue more than 1 year	127	-	127
Total loans individually determined to be impaired	**34,450**	**4,418**	**38,868**
Total loans to customers	**126,437**	**290,092**	**416,529**
Allowance for impairment	(4,443)	(7,730)	(12,173)
Total loans to customers net of allowance for impairment	**121,994**	**282,362**	**404,356**

The following tables provide information on the credit quality of the loan portfolio as at 31 December 2011:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
New loans	8,369	4,556	12,925
Standard	44,920	281,306	326,226
Watch	16,140	16	16,156
Substandard	3,100	3,494	6,594
Doubtful	4,777	2,476	7,253
Loss	1,836	1,980	3,816
Total neither past due nor impaired	**79,142**	**293,828**	**372,970**
Total past due but not impaired			
Overdue less than 1 month	-	**47**	47
Overdue from 1 to 3 months	449	-	449
Overdue from 6 months to 1 year	1,404	-	1,404
Total past due but not impaired	**1,853**	**47**	**1,900**
Loans individually determined to be impaired			
Current	42,425	7,529	49,954
Overdue less than 1 month	-	289	289
Overdue from 1 to 3 months	-	930	930
Overdue from 3 to 6 months	1,090	-	1,090
Overdue from 6 months to 1 year	2,002	-	2,002
Total loans individually determined to be impaired	**45,517**	**8,748**	**54,265**
Total loans to customers	**126,512**	**302,623**	**429,135**
Allowance for impairment	(8,290)	(7,361)	(15,651)
Total loans to customers net of allowance	**118,222**	**295,262**	**413,484**

For credit quality analysis the Bank uses classification of loans to customers by 5 risk groups. When classifying commercial loans, the following criteria are taken into account: debt service, financial indicators and other analytical information. When classifying loans to individuals the basic factor is payment discipline.

The Standard risk group includes loans to customers with stable financial position which are able to settle their obligations promptly and entirely. The Watch group comprises loans to customers with either insignificant worsening of financial position or appearance of separate short-term cases of loan delay. The Substandard group comprises loans to customers with particular risk degree but able to fulfil independently their obligations. The Doubtful group includes problem debtors with increased risk of non-repayment of debts. The Loss group comprises borrowers with insufficient financial position and high risk of non-repayment of loans.

(b) Movements in the impairment allowance for loans to customers

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2012 are as follows:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2012	**8,290**	**7,361**	**15,651**
Charge/(reversal) for the year	(1,803)	7,963	6,160
Write-off against allowance	(1,033)	(5,089)	(6,122)
Monetary gain	(1,011)	(2,505)	(3,516)
Allowance for impairment as at 31 December 2012	**4,443**	**7,730**	**12,173**

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2011 are as follows:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2011	**12,564**	**6,435**	**18,999**
Charge for the year	20,070	12,824	32,894
Write-off against allowance	(15,479)	(4,265)	(19,744)
Monetary gain	(8,865)	(7,633)	(16,498)
Allowance for impairment as at 31 December 2011	**8,290**	**7,361**	**15,651**

(c) Financial effect of collateral for loans to customers

Securing loans by collateral allows the Bank to minimize Bank's credit risks. The table below summarizes types of collateral securing commercial loans. The table presents the amount of loans secured by collateral and indicated in the statement of financial position, rather than the fair value of the collateral itself. Other collaterals generally include equipment, transport vehicles and goods in turnover. Financial effect of collateral is presented by the amount of allowance for loans impairment with collateral taken into account and without collateral.

The loans to customers by types of collateral as at 31 December 2012 are presented below.

In millions of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Commercial loans			
Real estate	65,737	1,047	7,343
Third party guarantees	27,443	1,597	7,450
Other collateral	23,886	1,715	7,457
Guarantee deposits	8,883	-	445
Unsecured loans	488	84	95
Total commercial loans	**126,437**	**4,443**	**22,790**

In millions of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Loans to individuals			
Real estate	167	20	20
Third party guarantees	1,112	57	57
Other collateral	2,603	76	77
Guarantee deposits	-	-	-
Unsecured loans	286,210	7,577	7,577
Total commercial loans	**290,092**	**7,730**	**7,731**
Total loans to customers	**416,529**	**12,173**	**30,521**

The loans to customers by types of collateral as at 31 December 2011 is presented below.

In millions of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Commercial loans			
Real estate	52,961	1,240	10,369
Third party guarantees	34,904	3,869	15,169
Other collateral	35,766	2,839	13,432
Guarantee deposits	398	-	1
Unsecured loans	2,483	342	381
Total commercial loans	**126,512**	**8,290**	**39,352**
Loans to individuals			
Real estate	803	111	250
Third party guarantees	4,311	808	961
Other collateral	6,395	788	929
Guarantee deposits	-	-	-
Unsecured loans	291,114	5,654	5,654
Total commercial loans	**302,623**	**7,361**	**7,794**
Total loans to customers	**429,135**	**15,651**	**47,146**

Insignificant effect of collateral for loans to individuals is explained by the fact the only collateral for individually impaired loans is taken into account for allowance calculation (Note 5).

(d) Industry analysis of loans to customers

Industry analysis of loans to customers for the years ended 31 December 2012 and 2011 is as follows:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Individuals	290,092	302,623
Trade	32,713	40,690
Manufacturing and other material production	28,310	28,491
Real estate	24,809	17,411
Construction	14,112	13,153
Transportation	11,564	12,952
Agriculture and food industry	10,351	5,540
Leasing	2,634	5,100
Other	1,944	3,175
Total loans to customers	**416,529**	**429,135**
Allowance on loans to customers	(12,173)	(15,651)
Total loans to customers less allowance	**404,356**	**413,484**

(e) Finance lease

Finance leases provided to commercial customers were as follows:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Finance lease receivables:		
Gross investment in finance leases receivable:		
Less than one year	1,179	2,082
Between one year and five years	-	562
Total gross investment in finance leases receivable	**1,179**	**2,644**
Unearned future income on finance leases	(171)	(785)
Net investment in finance leases	**1,008**	**1,859**
The net investment in finance leases:		
Less than one year	1,008	1,387
Between one year and five years	-	472
Net investment in finance leases	**1,008**	**1,859**

(f) Significant credit exposures

As at 31 December 2012 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2012 comprised BYR 18,670 million. As at 31 December 2011 the Bank had no significant credit exposures to one borrower.

(g) Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position.

12. Investment property

In millions of Belarusian Roubles	**2012**	**2011**
Balance as at 1 January	**10,473**	**-**
Acquisition	-	5,596
Subsequent modernisation expenses	179	-
(Loss)/Gain from fair value changes	(2,218)	4,877
Balance as at 31 December	**8,434**	**10,473**

The table below summarizes the amount of rental income and direct operating expenses arising from the investment property and recognized in profit or loss for the year:

In millions of Belarusian Roubles	**2012**	**2011**
Rental income arising from investment property	630	301
Direct operating expenses (including repair and maintenance) arising from investment property generating rental income	(212)	(97)
Net income arising from investment property	**418**	**204**

In the year 2011 the Bank acquired an administrative building by taking possession of collateral held as security for a loan issued. The Bank's management made a decision to lease the building under operating lease. The property was initially recognized at cost. As at 31 December 2012 and 2011 the fair value of the building comprised BYR 8,434 and 10,473 million, respectively. Valuation of the building was performed by a professional independent appraiser who used comparison and income methods of valuation. Comparison method is based on information on market prices for similar objects adjusted for existing differences. Income method is based on discounting of future cash flows from usage of investment property nominated in US dollars with the application of discount rate of 12.9% as at 31 December 2012 and 13.8% as at 31 December 2011.

The table below summarizes the future minimum lease payments under non-cancellable operating lease of the building classified as investment property where the Bank is a lessor:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Not later than 1 year	193	93
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total future minimum lease payments	**193**	**93**

The majority of rent agreements are concluded on standard terms according to which the lessee has a right to terminate an agreement ahead of schedule with notification to the Bank not later than 60 days before termination. Payment receipts for operating lease of investment property are calculated in accordance with the terms of rent agreements. The Bank believes that anticipatory termination of the contract is unlikely.

The Bank has no restrictions on the disposal of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.

13. Property and equipment

In millions of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Construction in progress and assets not put into operation**	**Total**
Net book value as at 1 January 2012	**4,475**	**1,301**	**9,843**	**4**	**15,623**
Cost					
Balance as at 1 January 2012	5,959	3,747	19,663	4	29,373
Additions	-	-	-	2,391	2,391
Transfers	504	-	1,868	(2,372)	-
Disposals	(41)	(714)	(448)	-	(1,203)
Balance as at 31 December 2012	**6,422**	**3,033**	**21,083**	**23**	**30,561**
Accumulated depreciation					
Balance as at 1 January 2012	1,484	2,446	9,820	-	13,750
Charge for the year	741	297	2,082	-	3,120
Accumulated depreciation on disposals	(35)	(699)	(413)	-	(1,147)
Balance as at 31 December 2012	**2,190**	**2,044**	**11,489**	**-**	**15,723**
Net book value as at 31 December 2012	**4,232**	**989**	**9,594**	**23**	**14,838**

In millions of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Construction in progress and assets not put into operation**	**Total**
Net book value as at 1 January 2011	**3,356**	**1,608**	**10,434**	**978**	**16,376**
Cost					
Balance as at 1 January 2011	4,592	3,762	18,969	978	28,301
Additions	-	-	-	2,440	2,440
Transfers	1,785	57	1,572	(3,414)	-
Disposals	(418)	(72)	(878)	-	(1,368)
Balance as at 31 December 2011	**5,959**	**3,747**	**19,663**	**4**	**29,373**
Accumulated depreciation					
Balance as at 1 January 2011	1,236	2,154	8,535	-	11,925
Charge for the year	434	347	2,067	-	2,848
Accumulated depreciation on disposals	(186)	(55)	(782)	-	(1,023)
Balance as at 31 December 2011	**1,484**	**2,446**	**9,820**	**-**	**13,750**
Net book value as at 31 December 2011	**4,475**	**1,301**	**9,843**	**4**	**15,623**

14. Intangible assets

In millions of Belarusian Roubles	**Software and licences**	**Investments in intangible assets**	**Total**
Net book value as at 1 January 2012	**1,373**	**12**	**1,385**
Cost			
Balance as at 1 January 2012	2,071	12	2,083
Additions	309	16	325
Transfers	12	(12)	-
Disposals	(150)	-	(150)
Balance as at 31 December 2012	**2,242**	**16**	**2,258**
Accumulated amortisation			
Balance as at 1 January 2012	698	-	698
Charge for the year	406	-	406
Accumulated amortization on disposals	(150)	-	(150)
Balance as at 31 December 2012	**954**	**-**	**954**
Net book value as at 31 December 2011	**1,288**	**16**	**1,304**

In millions of Belarusian Roubles	**Software and licenses**	**Investments in intangible assets**	**Total**
Net book value as at 1 January 2011	**1,202**	**-**	**1,202**
Cost			
Balance as at 1 January 2011	2,103	-	2,103
Additions	503	12	515
Disposals	(535)	-	(535)
Balance as at 31 December 2011	**2,071**	**12**	**2,083**
Accumulated amortisation			
Balance as at 1 January 2011	901	-	901
Charge for the year	332	-	332
Accumulated amortization on disposals	(535)	-	(535)
Balance as at 31 December 2011	**698**	**-**	**698**
Net book value as at 31 December 2011	**1,373**	**12**	**1,385**

15. Other assets

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Repossessed assets	24,278	26,334
Prepayments for taxes (other than income tax)	547	752
Advance payments	406	347
Prepayments for property and equipment	4	942
Other	36	38
Total non-financial assets	**25,271**	**28,413**
Other financial assets		
Accrued commission income and penalties	1,384	1,651
Receivables on reimbursement of state fees	746	391
Other receivables	498	202
Total financial assets	**2,628**	**2,244**
Less allowance for impairment of other financial assets	(1,047)	(52)
Total financial other assets less allowance	**1,581**	**2,192**
Total other assets	**26,852**	**30,605**

(a) Repossessed assets

The table below summarizes the information about assets repossessed by the Bank:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Residential real estate under construction repossessed as a result of debt restructuring under administrative office construction contract	10,505	11,730
Residential real estate under construction repossessed as a compensation for loans to customers	13,772	14,599
Other assets repossessed as a compensation for loans to customers	1	5
Total assets repossessed by the Bank	**24,278**	**26,334**

Currently the contractor which carries out the construction of residential real estate repossessed by the Bank is in financial difficulties; the state has arrested the mentioned objects. The construction is ceased till the arrest is removed. The Bank believes that the construction will be finalised and the residential real estate will be sold.

As at 31 December 2012 repossessed assets in the amount of BYR 22,039 million were recognized at net realizable value which is the net present value of expected future cash flows from sale of the property after completion of construction, and assets in the amount of BYR 2,239 million were recognised at cost restated in order to be presented in monetary units current as at 31 December 2012. As at 31 December 2011 all repossessed assets are presented in the statement of financial position at cost restated in order to be presented in monetary units current as at 31 December 2012.

The information about the assets write down in 2012 and recovery of write down caused by increase in net realizable value due to growth in prices for real estate denominated in BYR due to national currency devaluation in 2011 is presented in the income statement line “Write-down/(recovery) of repossessed assets cost”.

(b) Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2012:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Other receivables**	**Total**
Neither past due nor impaired	**915**	**-**	**164**	**1,079**
Past due not impaired				
Overdue less than 1 month	22	87	1	110
Overdue from 1 to 3 months	8	215	2	225
Overdue from 3 to 6 months	12	150	2	164
Overdue from 6 months to 1 year	58	124	-	182
Overdue more than 1 year	32	170	1	203
Total past due not impaired	**132**	**746**	**6**	**884**
Assets individually determined to be impaired				
Current	-	-	277	277
Overdue more than 1 year	337	-	51	388
Total assets individually determined to be impaired	**337**	**-**	**328**	**665**
Total other financial assets	**1,384**	**746**	**498**	**2,628**
Allowance on other assets	(719)	-	(328)	(1,047)
Total other financial assets net of allowance	**665**	**746**	**170**	**1,581**

The following tables provide information on the credit quality of other financial assets as at 31 December 2011:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Other receivables**	**Total**
Neither past due nor impaired	**21**	**-**	**144**	**165**
Past due not impaired				
Overdue less than 1 month	146	125	6	277
Overdue from 1 to 3 months	167	39	-	206
Overdue from 3 to 6 months	195	54	-	249
Overdue from 6 months to 1 year	301	38	-	339
Overdue more than 1 year	821	135	-	956
Total past due nor impaired	**1,630**	**391**	**6**	**2,027**
Assets individually determined to be impaired				
Overdue more than 1 year	-	-	52	52
Total assets individually determined to be impaired	**-**	**-**	**52**	**52**
Total other financial assets	**1,651**	**391**	**202**	**2,244**
Allowance on other assets	-	-	(52)	(52)
Total other financial assets net of allowance	**1,651**	**391**	**150**	**2,192**

The main factors which the Bank takes into account while considering impairment of other financial assets are existence and duration of overdue debt and the possibility of collateral sale if any. Based on these factors the above analysis of assets individually determined to be impaired has been prepared.

The maximum exposure to credit risk of other financial assets equals to net carrying amounts as reported in the statement of financial position.

(c) Movements in the impairment allowance for other financial assets

The movement in allowance for impairment of other financial assets for the year ended 31 December 2012 is presented below:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2012	**-**	**-**	**52**	**52**
Charge for the year	727	-	298	1,025
Write-off	-	-	(6)	(6)
Monetary gain	(8)	-	(16)	(24)
Balance as at 31 December 2012	**719**	**-**	**328**	**1,047**

The movement in allowance for impairment of other financial assets for the year ended 31 December 2011 is presented below:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2011	**-**	**-**	**109**	**109**
Charge for the year	-	-	-	-
Monetary gain	-	-	(57)	(57)
Balance as at 31 December 2011	**-**	**-**	**52**	**52**

16. Due to other banks

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Loans and deposits from other banks	3,771	111,136
Temporary accounts of banks	-	35,589
Correspondent accounts of banks	660	168
Total due to other banks	**4,431**	**146,893**

As at 31 December 2012 the Bank didn't have balances from other banks which represented significant concentration. As at 31 December 2011 the Bank had balances of four banks whose balances exceeded 10% of the Bank's equity. The total carrying value of these balances as at 31 December 2011 amounted to BYR 109,931 million.

17. Customer accounts

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Corporate customers		
Term deposits	308,579	243,290
Current accounts	85,831	73,843
Total corporate customers' accounts	**394,410**	**317,133**
Individuals		
Term deposits	295,652	258,682
Current accounts	6,773	3,814
Total individuals' accounts	**302,425**	**262,496**
Total customer accounts	**696,835**	**579,629**

The analysis of customer accounts by industry is presented below:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Individuals	302,425	262,496
Trade	124,569	85,482
Industry	108,226	101,007
Science and education	59,333	38,182
Real estate	40,701	12,069
Insurance	15,151	22,077
Transport	8,419	7,608
Construction	8,217	31,648
Data-processing service	5,214	282
Auto service	5,158	48
Non-commercial organisations	3,917	5,147
Consultation services	2,959	1,604
Publishing	2,316	1,673
Technical services	1,262	261
Tourism	944	701
Lease	807	2,824
Other	7,217	8,520
Total customer accounts	**696,835**	**579,629**

As at 31 December 2012 and 2011 the Bank had five and three customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2012 and 2011 were BYR 178,753 million and BYR 123,265 million, respectively.

18. Debt securities in issue

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Debt securities issued to corporate customers	31,088	49,183
Total debt securities issued	**31,088**	**49,183**

As at 31 December 2012 and 2011 debt securities in issue were presented by USD bonds of the second issue at coupon interest rate of 8% maturing at 26 August 2013.

19. Subordinated debts

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Subordinated debt from European Bank for Reconstruction and Development ("EBRD")	1,571	1,732
Subordinated debt from Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	45,482	52,806
Total subordinated debt	**47,053**	**54,538**

The subordinated debt from EBRD was received in 2008 in the amount of USD 4,009 thousand with a maturity on 6 October 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as additional capital contributions in the amount of BYR 26,213 million.

In 2010the Bank received the subordinated debt from DEG of EUR 4,000 thousand which has a maturity on 21 May 2016 and a floating interest rate of 12 months EUR LIBOR+6%.

According to subordinated debt agreements, in the case of liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

20. Preference shares

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Number of preference shares	6,886,084	6,886,084
Face value of 1 share, BYR	785	785
Face value of preference shares	5,406	5,406
Accrued dividends on preference shares	822	244
Inflation effect for opening balance	-	1,177
Total preference shares	**6,228**	**6,827**

Preference shares do not have voting rights and give a right to participate in net assets. Annual minimum fixed dividend income on each preference share amounts to USD 0.01394 per share.

In the year 2011 the General meeting of shareholders made a decision about interim payment of compulsory dividends for preference shares. In the year 2012 the decision about interim payment of compulsory dividends was not made.

In the year 2012 the Bank didn't declare and didn't pay dividends on preference shares exceeding the amount of minimum fixed dividend. In the year 2011 the Bank declared and paid dividends exceeding the amount of minimum fixed dividends in the amount of BYR 2 million. These dividends were accounted for as the profit distribution in the statement of changes in equity.

21. Income tax

The Bank provides for tax based on the tax accounting maintained and prepared in accordance with the tax regulations of the Republic of Belarus.

During the years 2012 and 2011 the head office and the branch of the Bank calculated and paid income tax and other taxes and duties independently, at the local level.

For the year ended 31 December 2012 the income tax rate for Belarusian banks was 18%, for the year ended 31 December 2011 - 24%. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 18%.

Income tax expense is presented as follows:

In millions of Belarusian Roubles	**2012**	**2011**
Current income tax expense	2,014	6,468
Deferred income tax expense/ (Recovery of deferred tax expense)	5,770	(12,566)
Income tax expense/(Recovery of income tax expense)	**7,784**	**(6,098)**

Relationships between actual tax expense and the theoretical tax expense for the years ended 31 December 2012 and 2011 are explained as follows:

In millions of Belarusian Roubles	**2012**	**2011**
Profit/(loss) before income tax	22,569	(129,856)
Theoretical tax at the statutory tax rate (18% and 24% respectively)	**4,062**	**(31,165)**
Tax effect of permanent differences:		
Tax incentives on capital expenditure and securities	(1,036)	(3,169)
Tax effect of non-taxable expenses	262	425
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(393)	(3,782)
Tax effect of change in income tax rate	-	114
Loss on tax base of assets and liabilities	4,640	33,485
Inflation effect on current income tax	214	(3,080)
Tax effect of other permanent differences	35	1,074
(Recovery of income tax expense)/income tax expense	**7,784**	**(6,098)**

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for tax purposes.

Information on each type of temporary differences on deferred tax asset and liability recognized in statement of financial position and on amounts of deferred tax income and expense recognized in profit and loss is presented below:

In millions of Belarusian Roubles	**1 January 2011**	**Recognised in profit/ loss in 2011**	**31 December 2011**	**Recognised in profit/ loss in 2012**	**31 December 2012**
Deductible temporary differences:					
Derivative financial instruments	-	8,737	8,737	(5,333)	3,404
Other assets and liabilities	1,614	(1,614)	-	-	-
Total deferred tax asset	**1,614**	**7,123**	**8,737**	**(5,333)**	**3,404**
Taxable temporary differences:					
Derivative financial instruments	(6,942)	6,942	-	-	-
Loans to banks and customers	(1,196)	850	(346)	(1,041)	(1,387)
Property, equipment and intangible assets	(1,227)	(190)	(1,417)	682	(735)
Accrued income	(2,549)	2,322	(227)	(69)	(296)
Other assets and liabilities	-	(1,134)	(1,134)	(786)	(1,920)
Subordinated debt	(1,924)	(3,347)	(5,271)	777	(4,494)
Total deferred tax liability	**(13,838)**	**5,443**	**(8,395)**	**(437)**	**(8,832)**
Total net tax asset/(liability)	**(12,224)**	**12,566**	**342**	**(5,770)**	**(5,428)**

22. Other liabilities

In millions of Belarusian Roubles	31 December 2012	31 December 2011
Other non-financial liabilities		
Payments to the Individuals' Deposit Guarantee Fund	906	779
Deferred income	790	674
Accruals on taxes, other than income tax	260	246
Total other non-financial liabilities	**1,956**	**1,699**
Other financial liabilities		
Accrual of unused vacations and other payables to employees	798	504
Payables to suppliers	415	327
Provision for loan commitments	365	346
Unsettled transit accounts	190	4
Other	39	41
Total other financial liabilities	**1,807**	**1,222**
Total other liabilities	**3,763**	**2,921**

Movements in the allowance for loan commitments is presented in Note 31.

23. Equity

As at 31 December 2012 and 2011 issued and paid share capital consisted of 64,157,307 shares.

As at 31 December 2012 and 2011 the share capital was represented as follows:

In millions of Belarusian Roubles	31 December 2012	31 December 2011
Number of ordinary shares	64,157,307	64,157,307
Face value of 1 share, BYR	785	785
Face value of ordinary shares	50,363	50,363
Effect of inflation	175,092	175,092
Total share capital	**225,455**	**225,455**

All ordinary shares are fully paid, carry one vote and give the right to receive dividends and participate in net assets. All ordinary shares rank equally with regard to the Bank's residual assets.

In accordance with the Belarusian legislation the Bank distributes its profits in the form of dividends or transfers profits to the reserves based on the accounting data prepared in accordance with the Belarusian accounting legislation. As at 31 December 2012 and 2011 retained earnings of the Bank according to the national accounting rules amounted to BYR 54,411 million and BYR 42,040 million, respectively.

As at 31 December 2012 and 2011 the reserve fund of BYR 3,521 million was recorded in equity under the national accounting legislation. The reserve fund represents amounts reserved in accordance with the legislation of the Republic of Belarus to cover losses on the Bank operations and to increase share capital and is not subject to distribution to the shareholders. The size of the fund shall amount to not less than 5% of share capital in accordance with the requirements of the National Bank of the Republic of Belarus effective in 2012 and 2011, respectively.

24. Interest income and expense

In millions of Belarusian Roubles	**2012**	**2011**
Interest income		
Loans to customers	145,175	156,232
Due from other banks	8,453	15,309
Due from the National Bank of Republic of Belarus	1,666	-
Interest income on financial assets available for sale	3,182	1,356
Interest income on financial assets held to maturity	74	-
Total interest income	**158,550**	**172,897**
Interest expense		
Customer accounts	(67,030)	(61,808)
Due to other banks	(5,264)	(14,494)
Subordinated debt	(3,759)	(4,194)
Debt securities in issue	(2,864)	(4,238)
Preference shares	(822)	(995)
Other	(21)	(19)
Total interest expense	**(79,760)**	**(85,748)**
Net interest income	**78,790**	**87,149**

Interest income includes interest income on impaired loans to customers totalling BYR 111,404 million in 2012 and BYR 126,728 million in 2011, respectively.

25. Fee and commission income and expense

In millions of Belarusian Roubles	**2012**	**2011**
Fee and commission income		
Settlement and cash transactions fees	10,336	12,796
Foreign exchange fees	2,263	3,211
Agent fee	594	1,003
Collateral verification fee income	298	710
Other	519	837
Total fee and commission income	**14,010**	**18,557**
Fee and commission expense		
Plastic cards transactions fees	(1,783)	(1,068)
Settlement transactions fees	(400)	(351)
Cash and other asset transactions fees	(272)	(463)
Foreign exchange fees	(252)	(2,180)
Other	(207)	(161)
Total fee and commission expenses	**(2,914)**	**(4,223)**
Net fee and commission income	**11,096**	**14,334**

26. Net gain/(loss) on foreign exchange operations

In millions of Belarusian Roubles	**2012**	**2011**
Net (loss)/gain on foreign exchange operations	15,125	(43,090)
Net loss from revaluation of assets and liabilities	(12,826)	(440,847)
Net (loss)/gain on foreign exchange operations	**2,299**	**(483,937)**

During the year 2012 the devaluation of Belarusian Rouble against US dollar, Euro and Russian Rouble comprised 2.6%, 5.0% and 8.0%, respectively (2011: 178.3%, 171.9% and 165.1% respectively) which explains the change in 'Net gain/(loss) on foreign exchange operations' in the Income Statement.

27. Other income

In millions of Belarusian Roubles	**2012**	**2011**
Penalties and fines received	2,181	4,001
Repayment of loans earlier written off	1,950	4,456
Rental income from operating lease	693	325
Gain/(loss) on sale of property and equipment	120	(308)
Other income	(36)	293
Total other income	**4,908**	**8,767**

28. Operating expenses

In millions of Belarusian Roubles	**2012**	**2011**
Staff costs	(23,010)	(24,568)
Rental expenses	(15,790)	(16,113)
Payroll related taxes	(7,513)	(7,885)
Depreciation and amortisation	(3,526)	(3,180)
Repairs and maintenance	(3,343)	(3,515)
Payments to the Individuals' Deposits Security Fund	(3,104)	(2,663)
Software expenses	(3,103)	(2,910)
Communication and information services	(2,739)	(2,594)
Security expenses	(1,491)	(1,362)
Advertising and marketing	(1,392)	(1,901)
Delivery and encashment services	(993)	(1,058)
Taxes other than income tax	(835)	(791)
Professional services (consulting, audit, legal, etc.)	(768)	(695)
Insurance	(603)	(523)
Transport expenses	(486)	(611)
Other	(2,200)	(2,172)
Total operating expenses	**(70,896)**	**(72,541)**

29. Net provision for interest-bearing financial assets

In millions of Belarusian Roubles	**2012**	**2011**
Net allowance for impairment of loans to customers	(6,160)	(32,894)
Allowance for securities impairment	(2,457)	-
Allowance for impairment of due from other banks	(55)	-
Net provision for interest-bearing financial assets	**(8,672)**	**(32,894)**

In the year 2012 the Bank has acquired discount bonds issued by a Belarusian company in the amount of 22 840 bonds with face value of BYR 100 thousand. These bonds were classified as held to maturity. Due to non-payment by the issuer on time, the bonds were impaired, and an allowance totalling 100% of the bonds value was included in the statement of financial position, which as at 31 December 2012 comprised BYR 2,457 million. At the end of the period, the cost of the bonds was written off against the allowance created. Information on movement in allowance for impairment for due from other banks and loans to customers is presented in Notes 10 and 11, respectively.

30. Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents are presented as following:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Cash in hand and balances with the National Bank of the Republic of Belarus	130,675	125,390
Nostro accounts	70,906	57,649
Loans and deposits with other banks with original maturity less than 90 days	-	8,208
Less mandatory reserve deposits with the National Bank of the Republic of Belarus	(7,104)	(3,997)
Total cash and cash equivalents	**194,477**	**187,250**

31. Contingencies

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

Taxation. Belarusian tax and other legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period.

The management of the Bank believes that as at 31 December 2012 and 31 December 2011 they have accrued all tax amounts due and that tax positions and interpretations of the Bank may be proved. However, there is a possibility of resources outflow due to payments if the tax positions and interpretations will be disputed by the tax authorities. The effect of such disputable situations cannot be measured reliably; however it may be material for the financial position and/or activity of the Bank.

Operating lease commitments. The future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented below:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Less than 1 year	13,735	15,141
From 1 to 5 years	33,986	51,195
More than 5 years	-	1,307
Total operating lease commitments	**47,721**	**67,643**

Loan commitments. In the normal course of business, the Bank uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit risk under contingent liabilities and commitments for credit lines, in the event of non-performance by the other party provided that all counterclaims, collateral or security prove impairment, is represented by the contractual amounts of those instruments.

Loan commitments of the Bank were as follows:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Unused credit lines	37,662	40,485
Guarantees issued	2,390	5,330
Secured letters of credit	1,480	288
Unsecured letters of credit	-	412
Total loan commitments	**41,532**	**46,515**
Allowance on loan commitments	(365)	(346)
Total loan commitments less allowance	**41,167**	**46,169**

Movement in allowance on loan commitments for the periods ended 31 December 2012 and 31 December 2011 was as follows:

In millions of Belarusian Roubles	**2012**	**2011**
Loan commitment allowance		
As of 1 January	346	1,198
Recovery during the period	(11)	(527)
Monetary gain	30	(325)
As of 31 December	**365**	**346**

32. Capital management

The Bank manages its capital to ensure compliance with prudential requirements, the capital maintenance on the level necessary to ensure the compliance of the capital adequacy ratio at 8% with the Basel agreement, and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management assesses the amount of capital required to achieve the strategic aims of the Bank and providing the necessary assets growth for the planned perspective, as well as the optimum relationship between profitability and capital adequacy ratio taking into account requirements of the shareholders, Bank's partners and regulating authorities. The Bank's management considers weighted average cost of capital and risks associated with each class of assets, and balances its overall capital structure through the attraction of additional and redemption of existing debt.

Under the current capital requirements set by the National Bank of Belarus, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level (8%). Regulatory capital is based on the Bank's reports prepared under the Belarusian accounting standards and comprises the following:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Basic capital	98,465	84,721
Additional capital	77,145	74,146
Total capital	**175,610**	**158,867**
Total risk weighted assets	655,487	556,483
Statutory capital ratio (%)	**26.8**	**28.5**

The composition of resources of the Bank's regulatory capital calculated in accordance with Basel Accord is as follows:

In millions of Belarusian Roubles	**31 December 2012**	**31 December 2011**
Tier 1 capital		
Share capital	225,455	225,455
Treasury shares	(2)	(2)
Accumulated loss	(92,743)	(107,528)
Total tier 1 capital	**132,710**	**117,925**
Tier 2 capital		
Subordinated debt	28,860	43,977
Additional capital contribution	26,213	26,213
Preference shares	6,228	6,827
Total tier 2 capital	**61,301**	**77,017**
Total capital	**194,011**	**194,942**
Total risk weighted assets	**778,943**	**823,643**
Capital adequacy ratios		
Tier 1 capital	**17.0%**	**14.3%**
Total capital	**24.9%**	**23.7%**

As of 31 December 2012 and 2011 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 19). In the last 5 years remaining to maturity the subordinated debt is included into capital calculation with the cost recorded in the statement of financial position less 20% for each full calendar year. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors. As of 31 December 2012 and 2011 the Bank included in the computation of total capital preference shares (Note 20) with undefined maturity and fixed dividend. Default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation.

33. Risk management

Bank manages its financial risks (credit, liquidity, geographical, market including currency and interest rate risk), as well as operational and legal risks.

The Board of Directors controls the proper functioning of the risk management system. The Management Board is responsible for evaluation of the effectiveness of the risk management system. The Finance and Credit Committees monitor and analyse the level of risks.

The Control and Risk Management Department is charged with responsibilities to organise an effective risk management system, control of timely detection, identification, measurement, monitoring and limitation of bank risks level. This department monitors compliance with procedures for managing each type of risk. In order to manage and control critical situations which may have unobjectionable consequences for the Bank, the Risk Manager performs stress-testing, which involves assessing effects of external and internal factors of the related risk on the Bank's activities.

The Internal Audit Department is charged with responsibilities to implement audit functions via organization of the overall system of internal controls in the Bank, as well as control of compliance with procedures for managing each of the major types of risks. Other departments of the Bank carry out the current management of banking risks within their authorities.

Credit risk. The Bank assumes credit risk, i.e. the risk that one party to a financial instrument will fail to settle an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.

Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank's interests system of crediting legal entities and sole traders, individuals, the system of fixing limits on banks-counterparties;
- organization of a system to ensure fair evaluation of collateral on credit operations;
- organization of independent primary and secondary examinations of lending projects and drafts of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the loan portfolio state and dynamics, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;

- development of the Bank's action plan in case of force majeure related to credit risk.

Detection, identification and assessment of credit risk level is performed via primary and secondary examinations of lending projects (drafts of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis, evaluation) of the bank-counterparty's financial position and development of the limit for conducting active transactions with the bank-counterparty is performed by the economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a draft limit on active operations with the bank-counterparty is developed. Secondary examination is performed by risk manager when considering and monitoring the limit for bank-counterparty. Acceptable level of credit risk with respect to a borrower is the limit on loan amount established by the decision of the Credit Committee of the Bank.

For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect of internal and external credit risk factors. The Bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 11 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 10 and Note 11);
- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount resented in the statement of financial position (Note 9);
- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on, and is presented in Note 31;
- issuing an uncancellable loan commitment or loan commitment cancellable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 31.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving loans issuance, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash disbursement, types of transactions, currency and maturity.

Country risk. The country risk is a risk that the Bank incurs losses as a result of internal and external factors, which are not dependent on the financial position of the counterparty of the Bank, e.g. non-compliance of agreements with legislation of foreign countries, non-fulfilment of obligations by counterparties due to economic, political, social and other changes influencing their activities.

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2012 is presented as follows:

In millions of Belarusian Roubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	130,675	-	-	130,675
Derivative financial assets	300,069	-	32	300,101
Due from other banks	10,398	53,891	14,554	78,843
Loans to customers	404,356	-	-	404,356
Other financial assets	1,581	-	-	1,581
Total financial assets	**847,079**	**53,891**	**14,586**	**915,556**
Liabilities				
Derivative financial liabilities	13,241	-	-	13,241
Due to other banks	660	3,771	-	4,431
Customer accounts	680,657	215	15,963	696,835
Debt securities in issue	31,088	-	-	31,088
Other financial liabilities	1,807	-	-	1,807
Subordinated debt	-	47,053	-	47,053
Preference shares	6,228	-	-	6,228
Total financial liabilities	**733,681**	**51,039**	**15,963**	**800,683**
Net position	**113,398**	**2,852**	**(1,377)**	

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2011 is presented as follows:

In millions of Belarusian Roubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with National Bank of the Republic of Belarus	125,390	-	-	125,390
Derivative financial assets	334,719	-	-	334,719
Due from other banks	9,686	53,305	3,588	66,579
Loans to customers	413,484	-	-	413,484
Other financial assets	2,192	-	-	2,192
Total financial assets	**885,471**	**53,305**	**3,588**	**942,364**
Liabilities				
Derivative financial liabilities	15,471	-	-	15,471
Due to other banks	133,486	13,407	-	146,893
Customer accounts	564,612	522	14,495	579,629
Debt securities in issue	49,183	-	-	49,183
Other financial liabilities	1,216	6	-	1,222
Subordinated debt	-	54,538	-	54,538
Preference shares	6,827	-	-	6,827
Total financial liabilities	**770,795**	**68,473**	**14,495**	**853,763**
Net position	**114,676**	**(15,168)**	**(10,907)**	

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintenance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of duties and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and forecasting the future liquidity trends;
- organisation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of force majeure associated with increase in liquidity risk.

The Bank aims to maintain the stable financing base comprising mainly due to other banks, including long-term loans from EBRD, current accounts and deposits of corporate customers and individuals, a long-term subordinated debt from EBRD and DEG, and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity ratio* is calculated as the ratio of the demand assets to demand and overdue liabilities (minimum 20%). As at 31 December 2012 the ratio amounted to 1320.5%, as at 31 December 2011 – 901.8%.
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%). As at 31 December 2012 the ratio amounted to 226.4%, as at 31 December 2011 – 193.2%.
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1year to liabilities with the maturities of less than 1 year (minimum 1). As at 31 December 2012 the ratio amounted to 1.8, as at 31 December 2011 – 1.4.
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%). As at 31 December 2012 the ratio amounted to 47.2%, as at 31 December 2011 – 47.6%.

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows from financial liabilities (both interest and principal cash flows) and inflows/outflows from derivative financial instruments.

The table below represents analysis of financial liabilities by maturities as at 31 December 2012:

In millions of Belarusian Roubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Non-derivative financial liabilities								
Due to other banks	4,435	-	-	-	-	-	-	4,435
Customer accounts	242,920	42,935	115,882	128,854	193,537	-	-	724,128
Debt securities in issue	-	31,473	-	-	-	-	-	31,473
Other financial liabilities	1,573	14	217	-	2	1	-	1,807
Subordinated debt	-	-	1,468	1,493	52,434	42,752	-	98,147
Preference shares	-	822	-	-	3,291	-	5,406	9,519
Loan commitments (less secured letters of credit)	37,569	672	1,162	30	187	67	-	39,687
Total expected future cash outflows from non-derivative financial liabilities	**286,497**	**75,916**	**118,729**	**130,377**	**249,451**	**42,820**	**5,406**	**909,196**
Derivative financial liabilities gross settled								
Outflow	-	-	1,842	-	199,815	-	-	201,657
Inflow	-	-	(724)	-	(498,231)	-	-	(498,955)
Total expected future cash outflows from financial liabilities	**286,497**	**75,916**	**119,847**	**130,377**	**(48,965)**	**42,820**	**5,406**	**611,898**

The table below represents analysis of financial liabilities as described above by maturities as at 31 December 2011:

In millions of Belarusian Roubles	**Up to 1 month**	**1 month to 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Non-derivative financial liabilities								
Due to other banks	143,776	3,360	-	-	-	-	-	147,136
Customer accounts	180,232	158,409	74,529	119,456	80,597	-	-	613,223
Debt securities in issue	12,203	37,579	-	-	-	-	-	49,782
Other financial liabilities	776	423	1	18	4	-	-	1,222
Subordinated debt	-	-	2,121	2,145	67,025	50,727	-	122,018
Preference shares	-	244	-	-	3,904	-	6,583	10,731
Loan commitments (less secured letters of credit)	42,945	2, 515	-	-	421	-	-	45,881
Total expected future cash outflows from non-derivative financial liabilities	**379,932**	**202,530**	**76,651**	**121,619**	**151,951**	**50,727**	**6,583**	**989,993**
Derivative financial liabilities gross settled								
Outflow	141,404	-	-	5,888	185,924	59,056	-	392,272
Inflow	(141,949)	-	-	(13,152)	(438,164)	(154,422)	-	(747,687)
Total expected future cash outflows from financial liabilities	**379,387**	**202,530**	**76,651**	**114,355**	**(100,289)**	**(44,639)**	**6,583**	**634,578**

The preference shares are financial liabilities without defined term of maturity. The maximum period the Bank considers for undiscounted cash flows calculation on preference shares obligatory dividend payment is 5 years.

The table presented above includes payments on derivative financial instruments gross settled as these settlements will be followed by corresponding cash outflows and inflows.

Customer accounts are stated by maturities in the table above. However, in accordance with the Bank Code of the Republic of Belarus, individuals have the right to withdraw their cash ahead of time.

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms and expected liquidity gaps based on the analysis of financial assets and liabilities as described in the tables below:

In millions of Belarusian Roubles	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Overdue**	**Maturity undefined**	**Total 31 December 2012**
Assets									
Cash and balances with the National Bank of the Republic of Belarus	123,571	-	-	-	-	-	-	7,104	130,675
Derivative financial assets	32	-	-	-	300,069	-	-	-	300,101
Due from other banks	70,906	6,686	-	-	-	-	-	1,251	78,843
Loans to customers	14,286	42,603	32,595	55,435	255,947	160	3,330	-	404,356
Other financial assets	225	5	-	15	-	-	1,336	-	1,581
Total financial assets	**209,020**	**49,294**	**32,595**	**55,450**	**556,016**	**160**	**4,666**	**8,355**	**915,556**
Liabilities									
Derivative financial liabilities	-	-	1,186	-	12,055	-	-	-	13,241
Due to other banks	4,431	-	-	-	-	-	-	-	4,431
Customer accounts	239,118	37,391	109,783	121,458	189,085	-	-	-	696,835
Debt securities in issue	-	31,088	-	-	-	-	-	-	31,088
Other financial liabilities	1,573	14	217	-	2	1	-	-	1,807
Subordinated debt	-	-	122	-	45,360	1,571	-	-	47,053
Preference shares	-	822	-	-	-	-	-	5,406	6,228
Total financial liabilities	**245,122**	**69,315**	**111,308**	**121,458**	**246,502**	**1,572**	**-**	**5,406**	**800,683**
Liquidity gap	(36,102)	(20,021)	(78,713)	(66,008)	309,514	(1,412)			
Cumulative interest liquidity gap	**(36,102)**	**(56,123)**	**(134,836)**	**(200,844)**	**108,670**	**107,258**			

In millions of Belarusian Roubles	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Overdue**	**Maturity undefined**	**Total 31 December 2011**
Assets									
Cash and balances with the National Bank of the Republic of Belarus	121,393	-	-	-	-	-	-	3,997	125,390
Derivative financial assets	-	-	-	8,481	247,682	78,556	-	-	334,719
Due from other banks	62,177	3,680	-	-	-	-	-	722	66,579
Loans to customers	13,578	51,544	33,806	47,266	259,896	1,304	6,090	-	413,484
Other financial assets	155	10	-	-	-	-	2,027	-	2,192
Total financial assets	**197,303**	**55,234**	**33,806**	**55,747**	**507,578**	**79,860**	**8,117**	**4,719**	**942,364**
Liabilities									
Derivative financial liabilities	-	-	-	-	15,471	-	-	-	15,471
Due to other banks	134,842	3,335	-	4,358	4,358	-	-	-	146,893
Customer accounts	172,762	149,098	67,040	112,203	78,526	-	-	-	579,629
Debt securities in issue	12,203	36,980	-	-	-	-	-	-	49,183
Other financial liabilities	776	423	1	18	4	-	-	-	1,222
Subordinated debt	-	-	198	-	52,608	1,732	-	-	54,538
Preference shares	-	244	-	-	-	-	-	6,583	6,827
Total financial liabilities	**320,583**	**190,080**	**67,239**	**116,579**	**150,967**	**1,732**	**-**	**6,583**	**853,763**
Liquidity gap	(123,280)	(134,846)	(33,433)	(60,832)	356,611	78,128			
Cumulative interest liquidity gap	**(123,280)**	**(258,126)**	**(291,559)**	**(352,391)**	**4,220**	**82,348**			

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have undefined maturity and different nature. Non-coincidence of these positions potentially raises profitability and at the same time the risk of losses. Maturity of assets and liabilities and a possibility to substitute interest liabilities at an acceptable cost as they mature are an important factor in assessment of Bank's liquidity risks in case of changes of interest rates and currency exchange rates.

The management of the Bank also believes that notwithstanding the sufficient share of customer account balances, which are demand, the diversification of such funds according to the quantity and type of customers as well as the previous experience of the Bank evidence that these funds form a long-term and stable source of finance.

Market risk. Market risk is related to open interest rate, currency positions, positions on debt and equity instruments, which are subject to general and specific market changes.

The identification and assessment of market risk is performed regularly and is based on the information received from respective departments for the preparation of reports to the National Bank.

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

Currency risk management is carried out using the following methods:

- organisation of a system for tracking the status and dynamics of the open foreign currency position - total and by types of currencies, as well as of the first response system aimed at minimizing foreign currency risk;
- implementation of the limit policy;
- assessment of the currency risk level and the currency risk management quality.

The Bank determines risk limits by currencies and the aggregated currency position limits. Limits are set and monitored for compliance at the end of each day as well as during the day. The Treasury Department controls the state of open currency position and its actual size based on the accounting data for balance and off-balance assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2012 is presented in the table below:

In millions of Belarusian Roubles	**BYR**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	98,213	13,344	12,900	6,147	71	130,675
Derivative financial assets	300,101	-	-	-	-	300,101
Due from other banks	6,000	46,393	18,664	7,773	13	78,843
Loans to customers	335,932	13,544	49,093	5,787	-	404,356
Other financial assets	1,309	171	101	-	-	1,581
Total financial assets	**741,555**	**73,452**	**80,758**	**19,707**	**84**	**915,556**
Liabilities						
Derivative financial liabilities	13,241	-	-	-	-	13,241
Due to other banks	-	3,952	473	6	-	4,431
Customer accounts	170,827	392,802	87,607	45,599	-	696,835
Debt securities in issue	-	31,088	-	-	-	31,088
Other financial liabilities	1,557	17	230	3	-	1,807
Subordinated debt	-	1,571	45,482	-	-	47,053
Preference shares	6,228	-	-	-	-	6,228
Total financial liabilities	**191,853**	**429,430**	**133,792**	**45,608**	**-**	**800,683**
Net open currency position	**549,702**	**(355,978)**	**(53,034)**	**(25,901)**	**84**	**114,873**
Claims on derivative contracts	7,223	440,702	51,030	25,380	-	524,335
Obligations on derivative contracts	(182,717)	(44,248)	-	-	-	(226,965)
Net position on derivatives	**(175,494)**	**396,454**	**51,030**	**25,380**	**-**	**297,370**
Claims on foreign currency contracts	-	6,303	-	-	-	6,303
Obligations on foreign currency contracts	-	(7)	-	-	-	(7)
Net position on foreign currency contracts	**-**	**6,296**	**-**	**-**	**-**	**6,296**
Total net open currency position	**374,208**	**46,772**	**(2,004)**	**(521)**	**84**	**418,539**

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2011 is presented in the table below:

In millions of Belarusian Roubles	**BYR**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	99,780	8,093	13,493	3,972	52	125,390
Derivative financial assets	334,719	-	-	-	-	334,719
Due from other banks	8,208	52,509	3,286	2,555	21	66,579
Loans to customers	373,322	11,297	28,865	-	-	413,484
Other financial assets	1,793	180	219	-	-	2,192
Total financial assets	**817,822**	**72,079**	**45,863**	**6,527**	**73**	**942,364**
Liabilities						
Derivative financial liabilities	15,471	-	-	-	-	15,471
Due to other banks	-	105,165	41,721	7	-	146,893
Customer accounts	223,527	247,756	66,565	41,781	-	579,629
Debt securities in issue	-	49,183	-	-	-	49,183
Other financial liabilities	887	153	6	176	-	1,222
Subordinated debt	-	1,732	52,806	-	-	54,538
Preference shares	6,827	-	-	-	-	6,827
Total financial liabilities	**246,712**	**403,989**	**161,098**	**41,964**	**-**	**853,763**
Net open currency position	**571,110**	**(331,910)**	**(115,235)**	**(35,437)**	**73**	**88,601**
Claims on derivative contracts	66,146	524,605	121,656	35,280	-	747,687
Obligations on derivative contracts	(228,396)	(154,670)	(9,206)	-	-	(392,272)
Net position on derivatives	**(162,250)**	**369,935**	**112,450**	**35,280**	**-**	**355,415**
Total net open currency position	**408,860**	**38,025**	**(2,785)**	**(157)**	**73**	**444,016**

As at 31 December 2012 and 2011 the Bank had net long currency position in US dollars, the significant influence on which was made by initial recognition of subordinated debt from EBRD at fair value (Note 19). The Bank calculates the ratio of open currency position and regulates it based on the nominal value of financial instruments according to the requirements of the National Bank.

The Bank granted 16.9% of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

The following table details the sensitivity of the Bank's profit before tax and equity to possible fluctuations of exchange rates used as at 31 December 2012 against the Bank's functional currency with all other variables held constant:

	31 December 2012		31 December 2011	
In millions of Belarusian Roubles	**Effect on profit before income tax expense**	**Effect on equity (with 18% tax effect)**	**Effect on profit before income tax expense**	**Effect on equity (with 18% tax effect)**
Strengthening of US Dollar by 10% (in the year 2011 by 30%)	4,677	3,835	11,408	9,355
Weakening of US Dollar by 15% (in the year 2011 by 10%)	(4,677)	(3,835)	(3,803)	(3,118)
Strengthening of Euro by 15% (in the year 2011 by 30%)	(301)	(247)	(836)	(686)
Weakening of Euro by 15% (in the year 2011 by 10%)	301	247	279	229
Strengthening of RUB by 15% (in the year 2011 by 30%)	(78)	(64)	(47)	(39)
Weakening of RUB by 15% (in the year 2011 by 10%)	78	64	16	13
Strengthening of other currencies by 15% (in the year 2011 by 30%)	13	11	22	18
Weakening of other currencies by 15% (in the year 2011 by 10%)	(13)	(11)	(7)	(6)

The sensitivity analysis to variation of exchange rates was calculated for all the articles nominated in currencies other then the Bank's functional currency. Actually a correlation between suggestions and other factors exists. It should also be noted that these sensitivities are non-linear, and any impacts should not be interpolated or extrapolated from these results.

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

The Bank is subject to interest rate risk mainly due to loan granting at fixed interest rates in amounts and for the periods, which differ from the amounts and periods of fund raising at floating interest rates. In practice fixed interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities are often reviewed on the basis of mutual agreement in accordance with a current market situation.

Detection, identification and evaluation of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (projected statement of financial position and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return on financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

The table below represents general analysis of the Bank's interest rate risk. It includes total amounts of financial assets and financial liabilities sensitive to interest rate fluctuations as reflected in the statement of financial position with maturity analysis:

In millions of Belarusian Roubles	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
31 December 2012							
Total financial interest-bearing assets	45,014	48,603	32,595	55,435	255,947	160	437,754
Total financial interest-bearing liabilities	225,149	67,041	109,905	121,249	234,445	1,571	759,360
Interest rate gap as at 31 December 2012	**(180,135)**	**(18,438)**	**(77,310)**	**(65,814)**	**21,502**	**(1,411)**	**(321,606)**
31 December 2011							
Total financial interest-bearing assets	48,355	55,224	33,806	47,266	259,896	1,304	445,851
Total financial interest-bearing liabilities	260,401	189,392	67,238	116,193	135,492	1,732	770,448
Interest rate gap as at 31 December 2011	**(212,046)**	**(134,168)**	**(33,432)**	**(68,927)**	**124,404**	**(428)**	**(324,597)**

During such monitoring the Bank analyses the structure and dynamics of financial assets and financial liabilities, the interest rates valid earlier and current interest rates in the money market in the Republic of Belarus and countries of the Bank's main counterparties and their influence on interest rate risk.

As at 31 December 2012 and 2011 the balances of financial instruments carried at floating rates were as follows:

	31 December 2012		**31 December 2011**	
In millions of Belarusian Roubles	**BYR**	**USD/EUR/ RUB**	**BYR**	**USD/EUR /RUB**
Assets				
Due from other banks	6,000	21,948	-	28,878
Loans to customers	45,626	-	71,899	-
Total assets at floating rates	**51,626**	**21,948**	**71,899**	**28,878**
Liabilities				
Due to other banks	-	3,771	-	13,406
Customer accounts	6,648	-	26,232	
Subordinated debt	-	45,482	-	52,806
Total liabilities at floating rates	**6,648**	**49,253**	**26,232**	**66,212**

The table below shows sensitivity analysis of profit before taxation and equity to the possible change of the floating interest rates used at the reporting date, assuming that all other estimates remain unchanged:

	31 December 2012		31 December 2011	
In millions of Belarusian Roubles	**Effect on profit before income tax expense**	**Effect on equity (18% income tax rate)**	**Effect on profit before income tax expense**	**Effect on equity (18% income tax rate)**
Increase of interest rates on financial instruments nominated in BYR by 1000 basis points (in 2012 – by 3000 basis points)	4,498	3,688	13,700	11,234
Decrease of interest rates on financial instruments nominated in BYR by 1000 basis points (in 2011 – by 3000 basis points)	(4,498)	(3,688)	(13,700)	(11,234)
Increase of interest rates on financial instruments nominated in other currencies by 100 basis points (in 2011 – by 70 basis points)	(273)	(224)	(261)	(214)
Decrease of interest rates on financial instruments nominated in other currencies by 100 basis points (in 2011– by 70 basis points)	273	224	261	214

Operational risk. Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with the Belarusian legislation or violation of these procedures by personnel, incompetence and errors of the personnel, inadequacy or failures of bank systems (including informational), as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Bank's Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank's departments.

34. Fair value of financial instruments

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

The Bank measures fair value breaking it down into levels based on the observability of inputs as follows:

- Level 1: Unadjusted quoted prices for analogous financial instruments.
- Level 2: Valuations techniques for which all significant inputs are observable, either directly (e.g. prices) or indirectly (e.g. derivative from prices). This level includes financial instruments assessed based on quoted prices in active markets for similar instruments; or based on quoted prises for similar or analogous instruments in markets that are considered less active; or based on other valuation methods applying input data directly or indirectly observable in markets.
- Level 3: Valuations based on inputs that are unobservable. This level includes all financial instruments assessed based on unobservable input data having a significant impact on the overall fair value measurement.

The table below presents analysis of financial instruments recognized at fair value at reporting date by the fair value level to which the recognition at fair value relates to:

In millions of Belorussian Roubles

31 December 2012	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	9	-	32	300,069	**300,101**
Derivative financial liabilities	9	-	13,241	-	**13,241**

31 December 2011	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	9	-	-	334,719	**334,719**
Derivative financial liabilities	9	-	15,471	-	**15,471**

The reconciliation of balances related to level 3 in the hierarchy of fair value recognition included into the statement of financial position as at 31 December 2012 is presented below:

In millions of Belorussian Roubles	2012	2011
Fair value as at 1 January	**334,719**	**-**
Settlement at the end of transaction	(8,481)	-
Transfer from Level 2	-	30,697
Income recognized in the income statement for the year	32,173	319,908
Monetary income	(58,342)	(15,886)
Fair value as at 31 December	**300,069**	**334,719**

During period ended 31 December 2011, the Bank has transferred some of the financial instruments recognized at fair value through profit and loss from level 2 to level 3 in the hierarchy of the fair value due to the fact that input data needed for valuation has become not observable in the market. Till the transfer the fair value of financial instruments was determined using analogue market transactions or brokers' quotes. From the moment of transfer this financial instruments have been valued using valuation models that include material input data not observable in the market.

In case of change of significant input data used for determination of fair value of instruments related to level 3 in reasonable probable alternative assumptions, the fair value of these instruments may change significantly. To evaluate the impact of the probable alternative assumptions, the Bank considers the following options:

- Decrease in interest rate used for discounting of cash flows in Belarusian Roubles by 1000 basis points;
- Simultaneous decrease in interest rate used for discounting of cash flows in Belarusian Roubles by 1000 basis points and decrease in interest rate used for discounting of cash flows in USD by 100 basis points.

The table below presents the effect of each of the probable assumptions on fair value of financial instruments related to level 3:

	31 December 2012			31 December 2011		
In millions of Belarusian Roubles	**Cost in the statement of financial position**	**Impact of alternative assumptions (variant 1)**	**Impact of alternative assumptions (variant 2)**	**Cost in the statement of financial position**	**Impact of alternative assumptions (variant 1)**	**Impact of alternative assumptions (variant 2)**
Derivative financial instruments	300,069	(22,450)	(11,776)	334,719	(8,067)	4,256

The comparison of the value stated in the statement of financial position and fair value of financial instruments of the Bank as at 31 December 2012 and 2011 is presented in the table below:

	31 December 2012		31 December 2011	
In millions of Belarusian Roubles	**Amount presented in the statement of financial position**	**Fair value**	**Amount presented in the statement of financial position**	**Fair value**
Financial assets				
Cash and balances with the National Bank of the Republic of Belarus	130,675	130,675	125,390	125,390
Derivative financial assets	300,101	300,101	334,719	334,719
Due from other banks	78,843	78,843	66,579	66,579
Loans to customers				
Loans to corporate clients	*121,994*	*121,994*	*118,222*	*117,653*
Loans to individuals	*282,362*	*282,362*	*295,262*	*295,262*
Other financial assets	1,581	1,581	2,192	2,192
Total financial assets	**915,556**	**915,556**	**942,364**	**941,795**
Financial liabilities				
Derivative financial liabilities	13,241	13,241	15,471	15,471
Due to other banks	4,431	4,431	146,893	146,893
Customer accounts	696,835	696,835	579,629	579,629
Debt securities issued	31,088	31,088	49,183	49,183
Other financial liabilities	1,807	1,807	1,222	1,222
Subordinated debt	47,053	47,053	54,538	54,538
Preference shares	6,228	6,228	6,827	6,827
Total financial liabilities	**800,683**	**800,683**	**853,763**	**853,763**

The main methods and assumptions applied by the Bank for assessment of fair value of the financial instruments which are not presented at fair value in the statement of financial position are indicated further.

Instruments with fair value approximating their carrying value presented in the statement of financial position. It is assumed that the fair value of financial assets and liabilities which are highly liquid or have a short maturity (less than 3 months) is approximately equal to their carrying value. This assumption is also applied to demand deposits and current accounts with undefined maturity.

Due from other banks, ***due to other banks, customer accounts, subordinated debt***. The fair value of balances placed at floating interest rates equals to their value stated in the statement of financial position. The estimated fair value of balances placed/received under fixed interest rates is based on the calculation of discounted cash flows by applying interest rates of the financial instruments with similar credit risk and maturities. The Bank's management believes that the carrying value of due to and from other banks and customer accounts as at 31 December 2012 and 2011 did not significantly differ from their fair value.

As at 31 December 2012 and 2011 the fair value of subordinated debt approximated its carrying value as effective interest rate on subordinated debt approximated market rates.

Loans to customers. Loans to customers are measured less allowance for impairment. The fair value of loans to customers represents the discounted estimated cash flows. In order to determine the fair value, estimated cash flows are discounted at current interest rates. The Bank's management believes that the carrying value of loans to customers as at 31 December 2012 and 2011 did not significantly differ from their fair value. This fact is evidenced by the existing practice to review interest rates to reflect current market conditions. As a result interest on the major part of balances is accrued at the rates that are approximately equal to market interest rates. The exception as at 31 December 2011 is the loan issued to the related party at interest rate below the market rate. This loan was issued in 2011 in Belarusian Roubles at a fixed rate. As of 31 December 2012 this loan was fully repaid.

35. Operating segments

The Bank operates in two main business segments:

- services to individuals - maintenance of current accounts, receipt of deposits, granting of loans, performance of settlements on behalf of individuals, servicing of bank cards, custody services;
- services to legal entities - cash management services to enterprises and organizations (both residents and non residents of the Republic of Belarus), attraction of deposits, placing of own debt securities issued, granting of loans and other types of financing, implementation of documentary transactions and transactions with securities.

The Bank also performs foreign exchange operations both with individuals and legal entities but financial result from these operations is not analysed by segments.

The structure of interest and commission income and expense by lines of business is disclosed in Notes 24, 25.

Below is the information on operating segments for 2012:

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Other/Not distributed**	**Inflation effect**	**Total**
Interest income	105,637	26,948	11,689	14,276	158,550
Interest expense	(29,558)	(36,832)	(5,762)	(7,608)	(79,760)
Net interest income	**76,079**	**(9,884)**	**5,927**	**6,668**	**78,790**
Fee and commission income	2,396	8,310	934	2,370	14,010
Fee and commission expense	(144)	(122)	(2,395)	(253)	(2,914)
Net fee and commission income	**2,252**	**8,188**	**(1,461)**	**2,117**	**11,096**
Net gain on derivative financial instruments	-	-	29,919	(36)	29,883
Net gain on foreign exchange operations	-	-	310	1,989	2,299
Net loss on derivative financial instruments available for sale	-	-	(44)	(4)	(48)
Loss on change in fair value of investment property	-	-	(2,218)	-	(2,218)
Other expenses	3,444	84	711	669	4,908
Operating income	**81,775**	**(1,612)**	**33,144**	**11,403**	**124,710**
Operating expenses	(2,830)	-	(62,069)	(5,997)	(70,896)
Write down/(recovery) of cost of other non-financial assets	-	-	(2,052)	-	(2,052)
Provision for impairment losses on interest bearing financial assets, net	(3,990)	(3,162)	(51)	(1,469)	(8,672)
Provision for impairment losses on other financial assets, net	(382)	(337)	(291)	(15)	(1,025)
Recovery of provision for loan commitments, net	(40)	15	-	36	11
The financial result of the segment before income tax and loss on net monetary position	**74,533**	**(5,096)**	**(31,319)**	**3,958**	**42,076**
Loss on net monetary position	-	-	-	-	(19,507)
Profit before income tax					**22,569**
Income tax expense	-	-	-	-	(7,784)
Net profit for the year					**14,785**
Segment assets	282,362	121,994	562,634	-	966,990
Segment liabilities	302,425	425,498	80,144	-	808,067
Other segment information					
Loans to customers	282,362	121,994		-	404,356
Customer accounts	302,425	394,410	-		696,835
Debt securities issued	-	31,088	-		31,088

Below is the information on operating segments for 2011:

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Other/Not distributed**	**Inflation effect**	**Total**
Interest income	88,079	18,952	12,549	53,317	172,897
Interest expense	(21,568)	(30,190)	(11,397)	(22,593)	(85,748)
Net interest income	**66,511**	**(11,238)**	**1,152**	**30,724**	**87,149**
Fee and commission income	1,834	6,967	1,094	8,662	18,557
Fee and commission expense	(100)	(55)	(2,434)	(1,634)	(4,223)
Net fee and commission income	**1,734**	**6,912**	**(1,340)**	**7,028**	**14,334**
Net gain on derivative financial instruments	-	-	338,027	139,010	477,037
Net gain on foreign exchange operations	-	-	(355,779)	(128,158)	(483,937)
Gain on change in fair value of investment property.	-	-	4,877	-	4,877
Other income	4,114	1,234	161	3,258	8,767
Operating income	**72,359**	**(3,092)**	**(12,902)**	**51,862**	**108,227**
Operating expenses	(1,861)	-	(48,205)	(22,475)	(72,541)
Write down/(recovery) of cost of other non-financial assets	-	-	3,577	-	3,577
Provision for impairment losses on interest bearing financial assets, net	(7,192)	(12,984)	-	(12,718)	(32,894)
Recovery of provision for loan commitments, net	(6)	233	-	300	527
The financial result of the segment before income tax and loss on net monetary position	**63,300**	**(15,843)**	**(57,530)**	**16,969**	**6,896**
Loss on net monetary position	-	-	-	-	(136,752)
Loss before income tax					**(129,856)**
Income tax recovery	-	-	-	-	6,098
Net loss for the year					**(123,758)**
Segment assets	295,262	118,222	586,116	-	999,600
Segment liabilities	262,496	366,316	226,650	-	855,462
Other segment information					
Loans to customers	295,262	118,222			413,484
Customer accounts	262,496	317,133			579,629
Debt securities issued		49,183			49,183

36. Related parties transactions

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting and attraction of resources, and other transactions. Based on the Bank's policy transactions with related parties are performed on market terms, except for subordinated debt received under favourable terms from EBRD (Note 19). As of 31 December 2012 interest rates on loans to related parties were 14%, average rates on borrowings in currency were 5.9-6.1% and 30.8-40.5% on borrowings in Belarusian Roubles.

Balances of transactions with related parties as at 31 December 2012 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers			
Balance as at 1 January 2012	3,090	-	298
Loan granted	18,750	5,194	1,195
Loans repaid	(2,860)	-	(1,364)
Foreign exchange rate differences	1,252	8	-
Monetary income	(1,634)	(60)	(68)
Accumulated interest income as at 31 December 2012	72	20	-
Balance as at 31 December 2012	**18,670**	**5,162**	**61**
Allowance for impairment of loans to customers			
Balance as at 1 January 2012	-	-	(4)
Net recovery for the year	-	-	4
Balance as at 31 December 2012	**-**	**-**	**-**
Loans to customers as at 1 January 2012 (less allowance for impairment)	**3,090**	**-**	**294**
Loans to customers as at 31 December 2012 (less allowance for impairment)	**18,670**	**5,162**	**61**
Due to other banks			
Balance as at 1 January 2012	13,406		
Loans and advances received	-	-	-
Loans and advances paid	(8,570)	-	-
Foreign exchange rate differences	152	-	-
Monetary income	(1,316)	-	-
Accumulated interest expense as at 31 December 2012	99	-	-
Balance as at 31 December 2012	**3,771**	**-**	**-**
Subordinated debt			
Balance as at 1 January 2012	54,538	-	-
Subordinated debt received	-	-	-
Foreign exchange rate differences	2,100	-	-
Monetary income	(10,114)	-	-
Accumulated interest expense as at 31 December 2012	529	-	-
Balance as at 31 December 2012	**47,053**	**-**	**-**
Customer accounts			
Balance as at 1 January 2012	2,548	2,767	1,150
Balances on customer accounts received	57,492	71,821	4,739
Balances on customer accounts paid	(56,485)	(71,586)	(4,763)
Foreign exchange rate differences	(19)	3	22
Monetary income	(429)	(230)	(103)
Accumulated interest expense as at 31 December 2012	21	-	66
Balance as at 31 December 2012	**3,128**	**2,775**	**1,111**

Balances of transactions with related parties as at 31 December 2011 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers			
Balance as at 1 January 2011	8,255	3,817	272
Loan granted	7,766	-	3,097
Loans repaid	(9,807)	(3,768)	(2,836)
Foreign exchange rate differences	756	12	-
Monetary income	(3,898)	(61)	(236)
Accrued interest income as at 31 December 2011	18	-	1
Balance as at 31 December 2011	**3,090**	**-**	**298**
Allowance for impairment of loans to customers			
Balance as at 1 January 2011	-	-	-
Net provision charge for the year	-	-	(4)
Balance as at 31 December 2011	**-**	**-**	**(4)**
Loans to customers as at 1 January 2011 (less allowance for impairment)	**8,255**	**3,817**	**272**
Loans to customers as at 31 December 2011(less allowance for impairment)	**3,090**	**-**	**294**
Due to other banks			
Balance as at 1 January 2011	16,781	-	-
Loans and advances received	-	-	-
Loans and advances paid	(7,491)	-	-
Foreign exchange rate differences	12,850	-	-
Monetary income	(9,068)	-	-
Accumulated interest expense as at 31 December 2011	334	-	-
Balance as at 31 December 2011	**13,406**	**-**	**-**
Subordinated debt			
Balance as at 1 January 2011	41,736	-	-
Subordinated debt received	-	-	-
Foreign exchange rate differences	48,253	-	-
Monetary income	(35,999)	-	-
Accumulated interest expense as at 31 December 2011	548	-	-
Balance as at 31 December 2011	**54,538**	**-**	**-**
Customer accounts			
Balance as at 1 January 2011	1,600	106	1,023
Balances on customer accounts received	144,405	42,157	7,928
Balances on customer accounts paid	(143,592)	(45,640)	(8,067)
Foreign exchange rate differences	1,712	7,739	1,154
Monetary income	(1,621)	(1,595)	(904)
Accumulated interest expense as at 31 December 2011	44	-	16
Balance as at 31 December 2011	**2,548**	**2,767**	**1,150**
Debt securities issued by the Bank			
Balance as at 1 January 2011	4,378	-	-
Debt securities, redeemed during the year	(3,982)	-	-
Interest expense for the year	(114)	-	-
Foreign exchange rate differences	147	-	-
Monetary income	(429)	-	-
Balance as at 31 December 2011	**-**	**-**	**-**

The transactions with derivative financial instruments with related parties as at 31 December 2012 and 2011 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
As of 31 December 2012			
Derivative financial instruments			
Swap contracts with foreign currency BYR/USD	13,241	-	-
Nominal amount of purchased currency (BYR)	*7,223*	-	-
Nominal amount of currency to be sold (USD)	*18,940*	-	-

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
As of 31 December 2011			
Derivative financial instruments			
Swap contracts with foreign currency BYR/USD	15,471	-	-
Nominal amount of purchased currency (BYR)	*8,796*	-	-
Nominal amount of currency to be sold (USD)	*22,472*	-	-

Loan commitments with related parties as at 31 December 2012 and 2011 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Unused credit lines as at 31 December 2012	-	-	91
Unused credit lines as at 31 December 2011	-	-	107

The income and expenses on transactions with related parties for 2012 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	384	41	15
Interest expenses	(4,931)	(245)	(170)
Fee and commission income	8	24	-
Rental expenses under operational lease	(469)	(12,145)	-

The income and expenses on transactions with related parties for 2011 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	817	29	67
Interest expenses	(5,946)	(615)	(135)
Rental expenses under operational lease	(692)	(10,871)	-

The information on compensation to key management personnel for 2012 and 2011 is presented below:

In millions of Belarusian Roubles	**2012**	**2011**
Salary and other short-term personnel expenses	2,849	4,183
Remuneration to the members of Board of Directors	928	841

37. Uncertainties

Operating environment

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

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

Economy of the Republic of Belarus

The economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus and still being developed are subject to frequent changes and varying interpretations, which causes difficulties for banks operating in the Republic of Belarus. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of the Republic of Belarus and other actions beyond the Bank's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature as well as future activity of the Bank.

The management of the Bank has made its best estimate on the recoverability and classification of assets and completeness of liabilities. However, the uncertainty described above still exists and the Bank may continue to be affected by it.

Refinancing rate of the National Bank of the Republic of Belarus

During the year 2012 the National Bank of the Republic of Belarus gradually decreased the refinancing rate which was 45% as at 31 December 2011 to 30% as at 31 December 2012. During 2012 the Standard & Poor's Rating Services confirmed long-term credit rating of the Republic of Belarus for national and foreign currency liabilities on "B-" level. The prediction for ratings is set as stable.

38. Subsequent events

Change in key management personnel. In February 2013 the Head of the Board J. G. Martynov was dismissed on expiration of the contract. His deputy, head of Treasury, N. K. Jurkevich was appointed as acting Head of the Board.

***Refinancing rate of the National Bank of the Republic of Belarus*.** The National Bank has gradually decreased refinancing rate to 28.5% starting from 13 March 2013, to 27% starting from 17 April 2013, and to 25% starting from 15 May 2013.