# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

**Consolidated Financial Statements**
for the year ended 31 December 2012

# OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

## CONTENT

## OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

### STATEMENT OF MANAGEMENT'S RESPONSOBILITIES FOR THE PREPERATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company "Belagroprombank" (hereinafter - the "Bank") and its subsidiaries (hereinafter - the "Group").

The management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the financial position of the Group as at 31 December 2012, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the International Financial Reporting Standards (hereinafter - "IFRS"). The management of the Bank confirms that appropriate accounting policies were consistently applied during the reporting period. Prudent and reasonable judgments and estimates were made by the management in the preparation of these consolidated financial statements. The management of the Bank also confirms that the consolidated financial statements are prepared on a going concern basis.

In preparing the consolidated financial statements, management is responsible for:

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

The management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud, errors and other irregularities.

These consolidated financial statements for the year ended 31 December 2012 were authorized for issue on 30 April 2013 and signed on behalf of the management of the Bank by the Chairman of the Management Board and the Chief Accountant of the Bank.

**On behalf of the management:**

| | |
|---|---|
| Podkovyrov V.I.<br>*Chairman of the Management Board* | Shapovalova M.A.<br>*Chief Accountant* |

30 April 2013

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# Independent Auditors' Report

*To the Shareholders of Open Joint Stock Company "Belagroprombank"*

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Belagroprombank" ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated income statement and the consolidated 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, as set out on pages 6 to 73.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

*Opinion*

In our opinion, the consolidated financial statements of Open Joint Stock Company "Belagroprombank" and its subsidiaries present fairly, in all material aspects, the consolidated financial position of the Group as at 31 December 2012, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to the fact that, as described in Note 2, in 2011 and 2012 the economy of the Republic of Belarus was classified as a hyperinflationary economy under International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29). The functional currency of the Bank is Belarusian Ruble and accordingly the financial statements for the year ended 31 December 2012, including corresponding information for the year ended 31 December 2011, have been adjusted in accordance with IAS 29.

Irina Vereschagina
Partner
KPMG LLC
Minsk, Belarus
3 May 2013

## OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|---|
| Interest income | 5 | 11,535,542 | 10,412,174 |
| Interest expenses | 5 | (8,664,291) | (7,330,067) |
| Net interest income before allowances for impairment of interest bearing assets and effect of initial recognition of financial instruments at fair value | | 2,871,251 | 3,082,107 |
| Net effect of initial recognition of financial instruments at fair value | 5 | 240,004 | 1,203,893 |
| Net effect of early repayment/de-recognition of subsidized financial instruments | | (140,098) | - |
| Allowances for impairment of interest bearing assets | 6 | (902,103) | (2,016,219) |
| NET INTEREST INCOME | | 2,069,054 | 2,269,781 |
| Fee and commission income | 7 | 994,708 | 917,612 |
| Fee and commission expenses | 7 | (159,313) | (144,223) |
| NET FEE AND COMMISSION INCOME | | 835,395 | 773,389 |
| Net (loss)/gain from foreign exchange operations and derivative financial instruments | 8 | (1,376) | 461,747 |
| Net gain on investments available for sale | | 184 | 2,298 |
| Other income | 9 | 473,414 | 477,552 |
| NET NON-INTEREST INCOME | | 1,307,617 | 1,714,986 |
| OPERATING INCOME | | 3,376,671 | 3,984,767 |
| Operating expenses | 10 | (1,840,505) | (1,645,581) |
| Other provisions | 6 | (81,334) | (153,588) |
| PROFIT BEFORE INCOME TAXES AND LOSS ON NET MONETARY POSITION | | 1,454,832 | 2,185,598 |
| Current income tax expenses | 11 | (241,326) | (261,277) |
| Deferred income tax expenses | 11 | (149,383) | (247,839) |
| PROFIT BEFORE LOSS ON NET MONETARY POSITION | | 1,064,123 | 1,676,482 |
| Loss on net monetary position | 12 | (1,627,114) | (7,132,478) |
| NET LOSS FOR THE PERIOD | | (562,991) | (5,455,996) |
| Net (loss)/income attributable to: | | | |
| Shareholders of the Bank | | (577,960) | (5,482,000) |
| Non-controlling interest | | 14,969 | 26,004 |

**On behalf of the management:**

Podkovyrov V.I.
*Chairman of the Management Board*
30 April 2013

Shapovalova M.A.
*Chief Accountant*

Notes on pages 12-73 form an integral part of these consolidated financial statements.

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

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| NET LOSS FOR THE PERIOD | (562,991) | (5,455,996) |
| OTHER COMPREHENSIVE INCOME | | |
| Change in fair value of securities available for sale | 60,458 | (37,942) |
| TOTAL OTHER COMPREHENSIVE INCOME/(LOSS) | 60,458 | (37,942) |
| TOTAL COMPREHENSIVE LOSS | (502,533) | (5,493,938) |
| TOTAL COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO: | | |
| Shareholders of the Bank | (517,502) | (5,519,942) |
| Non-controlling interest | 14,969 | 26,004 |

**On behalf of the management:**

Podkovyrov V.I.
*Chairman of the Management Board*

Shapovalova M.A.
*Chief Accountant*

30 April 2013

Notes on pages 12-73 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012
*(in millions of Belarusian Rubles)*

| | Notes | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|---|
| ASSETS: | | | |
| Cash and accounts in the National Bank of the Republic of Belarus | 13 | 2,158,439 | 2,696,929 |
| Due from banks | 14 | 902,445 | 1,079,121 |
| Precious metals and stones | | 4,411 | 4,441 |
| Derivative financial instruments | 15 | 2,201,495 | 4,719,435 |
| Loans to customers | 16 | 42,803,587 | 40,664,419 |
| Investments in securities available for sale | 17 | 5,116,094 | 3,294,949 |
| Property, equipment and intangible assets | 18 | 2,697,629 | 2,296,641 |
| Current income tax assets | | 24,682 | 7,831 |
| Deferred income tax assets | 11 | 18,345 | - |
| Other assets | 19 | 595,568 | 667,473 |
| TOTAL ASSETS | | 56,522,695 | 55,431,239 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Due to the National Bank of the Republic of Belarus | 20 | - | 170,372 |
| Due to banks | 21 | 10,391,639 | 11,108,244 |
| Derivative financial instruments | 15 | - | 8,536 |
| Customer accounts | 22 | 27,022,897 | 21,480,361 |
| Debt securities issued | 23 | 6,558,220 | 9,369,601 |
| Current income tax liabilities | | 133,896 | 88,488 |
| Deferred income tax liabilities | 11 | 342,077 | 418,540 |
| Commitments to provide loans at below market rates | 16 | - | 118,984 |
| Other liabilities | 24 | 850,419 | 435,081 |
| Total liabilities | | 45,299,148 | 43,198,207 |
| EQUITY: | | | |
| Share capital | 25 | 20,868,682 | 20,868,682 |
| Treasury shares | | (169) | (169) |
| Fair value reserve for investments available for sale | | 11,156 | (49,302) |
| Retained earnings (accumulated deficit) | | (9,712,639) | (8,626,155) |
| Total equity attributable to shareholders of the Bank | | 11,167,030 | 12,193,056 |
| Non-controlling interest | | 56,517 | 39,976 |
| Total equity | | 11,223,547 | 12,233,032 |
| TOTAL LIABILITIES AND EQUITY | | 56,522,695 | 55,431,239 |

**On behalf of the management:**

Podkovyrov V.I.
*Chairman of the Management Board*

Shapovalova M.A.
*Chief Accountant*

30 April 2013

Notes on pages 12-73 form an integral part of these consolidated financial statements.

## OPEN JOINT STOCK COMPANY "BELAGROPROMBANK"

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

| | Notes | Share capital | Treasury shares | Fair value reserve for investments available for sale | Retained earnings (accumulated deficit) | Total equity attributable to shareholders of the Bank | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2010 (restated)** | | 18,899,309 | (169) | (11,360) | (3,098,284) | 15,789,496 | 13,197 | 15,802,693 |
| **Transactions with shareholders** | | | | | | | | |
| Issue of ordinary shares | 25 | 1,969,373 | - | - | - | 1,969,373 | - | 1,969,373 |
| Dividends paid | | - | - | - | (45,096) | (45,096) | - | (45,096) |
| Change in ownership interests in subsidiaries without the loss of control | | - | - | - | (775) | (775) | 775 | - |
| **Comprehensive (loss)/income:** | | | | | | | | |
| Net loss for the period | | - | - | - | (5,482,000) | (5,482,000) | 26,004 | (5,455,996) |
| **Other comprehensive loss:** | | | | | | | | |
| Change in fair value of securities available for sale | | - | - | (37,942) | - | - | - | (37,942) |
| **Total comprehensive (loss)/income (restated)** | | - | - | (37,942) | (5,482,000) | (5,519,942) | 26,004 | (5,493,938) |
| **Balance as at 31 December 2011 (restated)** | | 20,868,682 | (169) | (49,302) | (8,626,155) | 12,193,056 | 39,976 | 12,233,032 |
| **Transactions with shareholders** | | | | | | | | |
| Dividends paid | 25 | - | - | - | (322,174) | (322,174) | (163) | (322,337) |
| Capital distribution to the state due to purchase of interest-free securities issued by state agencies | 25 | - | - | - | (184,615) | (184,615) | - | (184,615) |
| Change in ownership interests in subsidiaries without the loss of control | | - | - | - | (1,735) | (1,735) | 1,735 | - |
| **Comprehensive (loss)/income:** | | | | | | | | |
| Net loss for the period | | - | - | - | (577,960) | (577,960) | 14,969 | (562,991) |
| **Other comprehensive income:** | | | | | | | | |
| Change in fair value of securities available for sale | | - | - | 60,458 | - | - | - | 60,458 |
| **Total comprehensive (loss)/income** | | - | - | 60,458 | (577,960) | (517,502) | 14,969 | (502,533) |
| **Balance as at 31 December 2012** | | 20,868,682 | (169) | 11,156 | (9,712,639) | 11,167,030 | 56,517 | 11,223,547 |

**On behalf of the management:**

Podkovyrov V.I.
*Chairman of the Management Board*

Shapovalova M.A.
*Chief Accountant*

20 April 2013

Notes on pages 12-73 form an integral part of these consolidated financial statements.

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

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income taxes and loss on net monetary position | | 1,454,832 | 2,185,599 |
| Adjustments for: | | | |
| Allowance for impairment losses on interest bearing assets | | 902,103 | 2,016,219 |
| Net effect of early repayment / derecognition of subsidized financial instruments | | 140,098 | - |
| Other provisions | | 81,334 | 153,588 |
| Effect of initial recognition of financial instruments at fair value | | (240,004) | (1,203,893) |
| Amortization of discount on financial instruments with non- market terms | | 301,033 | 234,379 |
| Depreciation of property and equipment and amortization of intangible assets | | 186,952 | 162,949 |
| Loss from disposal of property and equipment and intangible assets | | 19,238 | 4,388 |
| Profit from disposal of securities available for sale | | (184) | (2,298) |
| Write-down of inventory to net realizable value | | 7,881 | (5,367) |
| Change in commission accruals, net | | (48,304) | (21,014) |
| Net effect of changes in fair value of derivative financial instruments | | 2,033,631 | (6,315,803) |
| Net effect of translation differences | | 19,667 | 6,563,645 |
| Change in interest accruals, net | | (189,515) | (761,429) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 4,668,762 | 3,010,963 |
| Change in operating assets and liabilities | | | |
| (Increase)/decrease in operating assets: | | | |
| Due from the National Bank of the Republic of Belarus | | (149,445) | (68,718) |
| Due from banks | | 61,004 | (249,314) |
| Precious metals | | (841) | (1,771) |
| Loans to customers | | (12,095,406) | (11,070,266) |
| Other assets | | 111,882 | 291,710 |
| Increase/(decrease) in operating liabilities: | | | |
| Due to the National Bank of the Republic of Belarus | | (154,441) | (6,574,006) |
| Due to banks | | 1,438,308 | 1,021,056 |
| Customer accounts | | 11,577,381 | 8,662,631 |
| Other liabilities | | 319,638 | (216,336) |
| Cash inflow/(outflow) from operating activities before taxation | | 5,776,842 | (5,194,051) |
| Income taxes paid | | (363,541) | (140,862) |
| Net cash inflow/(outflow) from operating activities | | 5,413,301 | (5,334,913) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property, equipment and intangible assets | | (627,063) | (446,419) |
| Proceeds from sale of property, equipment and intangible assets | | 23,651 | 40,837 |
| Proceeds from sales and paying off of investments available for sale | | 6,346,906 | 857,768 |
| Net purchase of investments available for sale | | (9,673,041) | (2,719,825) |
| Net cash outflow from investing activities | | (3,929,547) | (2,267,639) |

(continued on next page)

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

| | Notes | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Dividends paid | | (322,337) | (45,096) |
| Issue of ordinary shares | | - | 1,969,373 |
| Net cash (outflow)/inflow from repayment of debt securities | | (1,745,287) | 6,644,220 |
| Net cash (outflow)/inflow from financing activities | | (2,067,624) | 8,568,497 |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | (583,870) | 965,945 |
| EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS | | 14,832 | 420,315 |
| EFFECT OF INFLATION ON MONETARY ASSETS AND LIABILITIES | | (138,287) | (1,785,485) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 13 | 3,312,821 | 3,712,046 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | 13 | 2,605,496 | 3,312,821 |

**On behalf of the management:**

Podkovyrov V.I.
*Chairman of the Management Board*

Shapovalova M.A.
*Chief Accountant*

30 April 2013

Notes on pages 12-73 form an integral part of these consolidated financial statements

***(in millions of Belarusian Rubles unless otherwise stated)***

## 1. ORGANIZATION

Open Joint Stock Company "Belagroprombank" ("the Bank") was registered in the Republic of Belarus by the National Bank of the Republic of Belarus on 3 September 1991.

The address of the Bank's registered office is 3 Zhukova Avenue, Minsk, Republic of Belarus.

The Bank provides a wide range of banking services to its clients, which are mainly Belarusian enterprises. The Bank's primary areas of operations include granting loans to the agricultural and other sectors, to individuals, processing customer accounts and customer payments, securities and currency operations. The Bank participates in the realization of various Government programs including financing of agricultural sector and subsidized construction of housing in rural areas.

The Bank has a special permit (license) for banking activities No. 2 issued on 22 July 2009 by the National Bank of the Republic of Belarus, which allows it to maintain current accounts and attract demand and time deposits from private and corporate customers, to place the attracted funds, to issue guarantees and carry out other banking operations as stipulated by the Banking Code of the Republic of Belarus. The Bank also has a license for securities trading.

The Bank's organizational structure includes the head office and 66 (2011: 73) branches: 6 regional offices, Minsk city directorate, 59 (2011: 66) local branch offices throughout the Republic of Belarus and a Representative office in the Italian Republic.

As at 31 December 2012 and 2011 the share capital was distributed between the shareholders as follows:

| **Shareholder** | **31 December 2012** | **31 December 2011** |
|---|---|---|
| State Property Committee of the Republic of Belarus | 81.90% | 81.90% |
| RUE "Belgosstrakh" | 9.84% | 9.84% |
| RUE "Belarusian National Reinsurance Organization" | 5.30% | 5.30% |
| PUE "Beleximgarant" | 0.76% | 0.76% |
| Other | 2.20% | 2.20% |
| **Total** | 100.00% | 100.00% |

The Bank is a parent company of the Group, which consists of the following enterprises consolidated in these financial statements:

| **Name** | **Country of registration and operation** | **Bank's ownership interest, %** 31 December 2012 | 31December 2011 | **Type of operation** |
|---|---|---|---|---|
| PUE "Ozeritskiy-Agro" | Republic of Belarus | 100% | 100% | Agriculture |
| PE "Agrobusinessconsult" | Republic of Belarus | 100% | 100% | Consulting services |
| OJSC "Turovschina" | Republic of Belarus | 95.87% | 95.03% | Agriculture |
| OJSC "Agroleasing" | Republic of Belarus | 66.7% | 66.7% | Finance leases |

*(in millions of Belarusian Rubles unless otherwise stated)*

## 2. BASIS OF PRESENTATION

***Statement of Compliance***

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

***Basis of Measurement***

These consolidated financial statements were prepared on the assumption that the Group is a going concern and will continue its operation for the foreseeable future. The Management believes that the going concern assumption is appropriate for the Group due to sufficient capital adequacy and based on historical experience  short-term obligations will be refinanced in the normal course of business.

The financial statements are prepared on the historical cost basis except for financial instruments at fair value through profit or loss that are measured at fair value. The financial statements were adjusted for hyperinflation in accordance with International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

*Hyperinflation*

In 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29. IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date. Therefore application of IAS 29 results in an adjustment to the statement of comprehensive income for the gain or loss of purchasing power of the Belarusian Ruble under the caption “Loss on net monetary position”. This gain or loss on net monetary position is calculated as a difference resulting from the restatement of non-monetary assets, non-monetary liabilities, equity and items of the statement of comprehensive income.

The corresponding figures for the year ended 31 December 2011 were restated for the changes in the general purchasing power of the Belarusian ruble as at 31 December 2012. The items of the consolidated income statement for 2012 and 2011 are restated by quarter using quarterly average indexes.

The restatement was calculated using the conversion factors derived from the Consumer Price Index (CPI) published by the National Committee of Statistics of the Republic of Belarus. The CPIs for the seven years ended 31 December 2012 are the following:

| **Year** | **%** |
|---|---|
| 2006 | 6.6% |
| 2007 | 12.1% |
| 2008 | 13.3% |
| 2009 | 10.1% |
| 2010 | 9.9% |
| 2011 | 108.7% |
| 2012 | 21.8% |

These consolidated financial statements for the year ended 31 December 2012 were authorized for issue on 30 April 2013 and signed on behalf of the management by the Chairman of the Management Board and the Chief Accountant.

***Use of Estimates and Judgments***

The preparation of the consolidated financial statements in accordance with the IFRS requires management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the end of reporting period, and the reported amount of income and expenses during the period ended.

The management evaluates its estimates and judgments on an ongoing basis. The management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the current circumstances. Although those estimates are based on the most recent information available to the management on current actions and events, actual results may differ from these estimates under different assumptions or conditions.

*Fair value on initial recognition of loans to customers, customer accounts and debt securities issued*

Key area of estimate uncertainties having the greatest effect on the amounts recognized in the consolidated financial statements includes accounting at amortized cost adjusted for nominal interest rate of loans for housing construction granted under governmental programs, as such loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment (Note 16).

Loans issued under Government programs, other that loans for housing construction, are considered to be issued at below market rates. The Group initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques (Note 16).

During the years ended 31 December 2012 and 2011 the Group received long-term BYR denominated deposits from government bodies at below market rates. The Group initially measures deposits at below market rates at approximate fair value using appropriate discounting techniques (Note 21).

In 2012 and 2011 the Group issued long-term bonds denominated in BYR at below market interest rate. The Group initially measures securities issued at below market rates at approximate fair value determined using discounting techniques (Note 23).

*Fair value of securities available for sale*

Securities available for sale represent investments in debt and equity securities (Note 17).

To determine the fair value of investments available for sale, the Group uses quoted market prices. In the absence of an active market for certain financial instruments the Group measures their fair value using appropriate valuation techniques. Valuation techniques include the use of data on market transactions between independent, knowledgeable and willing parties, the use of the current fair value of another instrument similar in nature, discounted cash flow analysis and other applicable methods. When there is a valuation technique commonly used by market participants for determining the price of the instrument and it has been demonstrated that such method provides a reliable estimate obtained in actual market transactions, the Group uses this method.

Unquoted equity investments are stated at cost less impairment losses (if any), when their fair value cannot be reliably identified.

*Allowance for impairment*

The Group regularly analyses its loans issued for impairment. The Group considers accounting estimates related to allowance for impairment of loans to be a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions of potential losses relating to impaired loans are based on recent quality of loan portfolio, and (b) any significant difference between the Group's estimated losses and actual losses would have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical or macroeconomic data relating to similar borrowers or forecasting data relating to a borrower's business. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data and forecasts indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group.

The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Approaches to identification and recording of an impairment on an individual and aggregate basis for financial assets are disclosed in Section 3 "Significant accounting policies" of these consolidated financial statements.

The specific counterparty component of the total allowances for impairment applies to loans evaluated individually for impairment and 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 a counterparty's financial position, solvency and the net realizable value of any underlying collateral.

The allowance for impairment of loans, which are assessed collectively for impairment, is based on available information, which evidences the decrease of the expected future cash flows on the loan group. The Group's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recently underwritten business and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and allowances, the Group applies the same estimates and judgments to loan commitments as to loans.

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

*Derivative financial instruments*

Derivative financial instruments, represented by currency forward contracts, do not have active market and are valued using interest rates parity model. The fair value of the derivatives is determined on the basis of the risk-free interest rates applicable to respective currencies, default margins of counterparties and exchange rates effective in the Republic of Belarus. The calculation is based on the assumption that these factors represent reasonable basis for determination of fair forward rate. The main assumptions in determination of fair value of derivatives are described in Note 28.

*Restatement for hyperinflation*

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

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

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

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

*Recognition of deposits due from/to the financial institutions*

The Bank places deposits in the National Bank of the Republic of Belarus (“NBRB”) and attracts deposits from the NBRB in back to back transactions in different currencies with maturities on the same date.

These back to back transactions should be accounted for as derivative transactions as this approach gives more reliable and relevant information about substance of these financial instruments.

*Segment analysis*

Operating segment is a component of the Group, representing operations, including revenues and expenditures and for which there is financial information evaluated regularly by senior management personnel (one person or group of persons) responsible for making operational decisions in the allocation of resources and analysis of financial performance. Financial information should be presented on the same basis on which it is used by the Group in evaluating segment performance and deciding how to allocate resources to operating segments.

At each reporting date the Group examines the quantitative thresholds specified in IFRS 8 “Operating Segments”, at which it is necessary to allocate the operating segments and disclose corresponding information in the consolidated financial statements. In preparing financial statements for the year ended 31 December 2012, no quantitative threshold (exceeding of 10% threshold on total assets, revenue, net profit) was reached, and the approach of segments’ combination was recognized inappropriate, as a result as at the reporting date the Group was presented as a single operating segment. More than 90% of revenue, assets and net profit of the Group represent results of operation of corporate banking business. If the Group prepared the information by segments, the segments would be represented by corporate banking business and retail banking business.

***Functional and presentation currency***

The functional currency of the Bank and each of its subsidiaries and the presentation currency of these consolidated financial statements is the currency of the Republic of Belarus - Belarusian ruble. The financial statements are presented, unless otherwise stated, in millions of Rubles.

## 3. SIGNIFICANT ACCOUNTING POLICIES

***Basis of Consolidation***

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (its subsidiaries) prepared as at 31 December each year. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The financial statements of subsidiaries were adjusted, where necessary to bring the accounting policies used into line with those used by the Group.

When preparing consolidated financial statements all significant balances on settlements and transactions within the Group, as well as income and expenses resulted from these transactions are eliminated.

Business combinations are accounted using the acquisition method as at acquisition date. The identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition including the recognized amount of any non-controlling interest.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Profit or loss of subsidiaries for the reporting period is attributed to the Group and non-controlling interest even if this results in the non-controlling interests having a deficit balance. Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Bank.

*Non-controlling interest acquisition accounting*

Acquisition of non-controlling interest without loss of control by the Group is recorded as transactions with owners acting as owners, consequently these transactions do not result in goodwill recognition. Adjustments of non-controlling interest are made based on proportional amount of subsidiary's net assets.

*Loss of control*

When control over subsidiary is lost, the Group ceases to recognize its assets and liabilities, as well as non-controlling interest and other equity components related to that subsidiary. Any positive or negative difference resulted from loss of control shall be recognized in profit or loss for the period. If the Group reserves an equity contribution in former subsidiary, this contribution shall be assessed at fair value as at the date of loss of control. Later this contribution shall be recorded as investment in associated company (using equity method) or financial asset available for sale, depending on the degree of influence of the Group on the company.

***Recognition and measurement of financial instruments***

Financial assets and liabilities are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual obligation of the instrument. Regular purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

*Initial recognition*

Financial assets and liabilities are initially recognized at fair value, financial assets or financial liabilities which are not classified as assessable at fair value through profit or loss, are recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Financial assets of the Group are classified into one of the following categories on initial recognition:

a) Financial assets at fair value through profit or loss;
b) Investments held to maturity;
c) Loans and receivables;
d) Financial assets available for sale.

Financial liabilities of the Group are classified into one of the following categories on initial recognition:

a) Financial liabilities at fair value through profit or loss;
b) Financial liabilities at amortized cost.

The accounting principles for subsequent measurement of financial instruments are disclosed in the respective accounting policies.

*Financial assets and liabilities at fair value through profit or loss*

Financial assets and liabilities at fair value through profit or loss are financial assets and liabilities acquired principally for the purpose of sale / redemption in a short period, or form part of a portfolio of identifiable financial instruments that are managed together and the structure of which actually indicates the intention of making a profit in the short term, as well as financial assets and liabilities, which at initial recognition are classified by the Group as at fair value through profit or loss, or are derivative financial instruments, except when they are effective hedging instruments. Financial assets and liabilities at fair value through profit or loss are measured initially and subsequently at fair value. Fair value movements on financial assets and liabilities at fair value through profit or loss are recognized in the consolidated income statement for corresponding period.

*Investments held to maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity if the Group intends and is able to hold them to maturity. Investments that the Group intends to hold for an indefinite period of time are not included in this category. Investments held to maturity are subsequently accounted for at amortized cost, using the effective interest method. Income and expenses are recognized in the consolidated profit and loss on impairment of investments, as well as through the amortization process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable cash flows that do not have a quoted market price, except for assets that are classified in other categories of financial assets.

Loans with fixed maturities and receivables are initially recognized at fair value plus transaction costs directly attributable to the acquisition or creation of such financial assets.

The difference between the nominal amount of cash transferred and the fair value of loans granted at a rate below the market rate, is recognized in the period of origination as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of granting the loan, the adjustment is reflected in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

The fair value of commitments to extend credit facilities at rates below the market rates is calculated as the difference between the nominal amount of obligations and the discounted future cash flows from borrowers as at the intended date of facility release. Subsequently the difference, if any, between the fair value of credit commitments and adjustments on initial recognition is recognized in the consolidated profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value ".

Subsequently loans to customers are recorded at amortized cost using the effective interest rate method. Loans to customers are accounted for net of impairment losses, if any. Income and expenses on such assets are recognized in the consolidated statement of profit and loss on their disposal or impairment, as well as through the amortization process.

In the normal course of business, the Group 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. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

*Financial assets available for sale*

Securities available for sale represent investments in debt and equity securities, which are not classified in any of the other categories. Such securities are initially recognized at fair value. Subsequently securities are measured at fair value attributing the fair value gain or loss  directly to other comprehensive income until the securities are sold and the accumulated profit / loss previously recognized in other comprehensive income is recognized in the consolidated profit and loss. Impairment losses, positive and negative exchange rate differences, as well as accrued interest income, calculated on the basis of the effective interest rate method are recognized in the consolidated profit and loss. If there is objective evidence of impairment of these securities, the cumulative loss previously recognized in other comprehensive income is transferred to the consolidated statement of profit and loss for the reporting period and under account "Allowances for impairment of securities available for sale”.

To determine the fair value of investments available for sale, the Group uses quoted market prices. Accrued income to be received is included in the market value of securities. In the absence of an active market for certain financial instruments the Group measures their fair value using appropriate valuation techniques. Valuation techniques include the use of data on market transactions between independent, knowledgeable and willing parties, the use of the current fair value of another instrument similar in nature, discounted cash flow analysis and other applicable methods. When there is a valuation technique commonly used by market participants for determining the price of the instrument and it has been demonstrated that such method provides a reliable estimate obtained in actual market transactions, the Group uses this method.

Unquoted equity investments are stated at cost less impairment losses (if any), when their fair value cannot be reliably identified.

Dividends received are included in other income in the consolidated income statement.

*Financial liabilities at amortized cost*

Financial liabilities at amortised cost include mainly balances due to banks, customers and debt securities in issue. Debt securities in issue represent bonds issued by the Bank.

Balances due to banks and customers and debt securities issued are initially recognized at fair value. Subsequently amounts due at fixed maturities are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest rate method. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

The difference between the amount of cash consideration received and the fair value of deposits from banks and customers and debt securities in issue at a below market interest rate is recognized in the period the deposit is drawn or debt security is issued as initial recognition adjustment. Discounting is performed using approximate market rates at inception and the adjustment is recognized in the consolidated income statement under account "Net effect of initial recognition of financial instruments at fair value".

*Reclassification of financial assets*

Financial asset classified as available for sale if it meets the definition of loans and receivables, may be reclassified to the category of loans and receivables, if the Group has the intention and ability to hold such asset for the foreseeable future or until maturity. Financial assets are reclassified at fair value at the date of reclassification. Gains and losses previously recognized in profit or loss are not reversed. The fair value of financial assets at the date of reclassification becomes its new initial or amortized cost, which is applicable.

*Offset of financial assets and liabilities*

Financial assets and liabilities are offset and reported net in the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for write-off, the Group does not offset the transferred asset and the associated liability.

***Cash and cash equivalents***

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus ("National Bank") with original maturity within 90 days, loans and advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD") with original maturity within 90 days, which may be converted to cash within a short period of time, except for guarantee deposits and other restricted balances. For purposes of consolidated statement of cash flows, the minimum obligatory reserve deposit required by the National Bank is not included as a cash equivalent due to restrictions on its availability.

***Precious metals***

The Group performs transaction with precious metals for trading purposes. Precious metals are recognized and measured in these consolidated financial statements at fair value, which is determined based on prices set monthly by the National Bank of the Republic of Belarus.

### *Repurchase and reverse repurchase agreements*

The Group enters into sale and purchase back agreements ("REPOs") and purchase and sale back agreements ("reverse REPOs") in the normal course of its business. REPOs and reverse REPOs are utilized by the Group as an element of its treasury management and trading business.

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

Assets purchased under reverse REPOs are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

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, only if the counterparty fails to meet its obligations per the agreement on the lending transaction.

### *Derivative financial instruments*

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments entered into by the Group include foreign currency forward and swap contracts.

The Group also places to and attracts from the National Bank of the Republic of Belarus back to back deposits in equivalent amounts, in different currencies with maturity on the same day. The placements represent in substance foreign exchange swaps and are concluded to hedge foreign exchange risk and lack of liquidity in the Belarusian ruble.

Derivative financial instruments that are entered into by the Group do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivatives fair values are determined using interest rate parity model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Gains and losses are recognized in the income statement for the period in which they arise, under account “Net gain on foreign exchange operations and derivative financial instruments”.

### *Write off of loans and advances*

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and to sell all available collateral. Uncollectible accounts are written off against allowance upon decision of the management of the Group.

Subsequent recoveries of amounts previously written off are recognized in other income.

***Impairment***

At each reporting date the Group assesses whether there is objective evidence of impairment of the financial asset or group of financial assets, including net investments in lease and excluding financial assets at fair value through profit or loss. Impairment losses are recognized when incurred as a result of one or more events ("loss events") that occurred after initial recognition of financial asset and that impact the amount or timing of the estimated future cash flows associated with financial asset or group of financial assets, which can be reliably evaluated.

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and collateral discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the impairment allowance account. The value of the asset should not exceed its amortized cost, which would have been, excluding impairment, as at the same reporting date. The value of recovery is recognized in the consolidated income statement.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is reclassified from other comprehensive income to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

If in a subsequent period the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

For unquoted financial assets carried at cost, the impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Impairment allowances are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or group evaluation of financial assets not being material individually. In the absence of objective evidence that a financial asset is impaired, the asset is allocated in a group of financial assets with similar credit risk characteristics for evaluation for impairment on an aggregate basis.

The change in the impairment is recognized in the consolidated income statement using the impairment allowance account Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the end of reporting period, although it is probable that in certain periods the Group can incur losses greater than recorded impairment. With the likelihood of discrepancies between actual losses and their assessment, the methodologies and assumptions used to estimate the impairment of financial assets are reviewed regularly to reduce these disparities.

***Derecognition of financial assets and liabilities***

*Financial assets*

A financial asset (or a part of a financial asset or part of a group of similar financial assets, where applicable) is derecognized where the rights to receive cash flows from the asset have expired.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Group either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

*Financial liabilities*

A financial liability is derecognized when the obligation is discharged, cancelled, or expired.

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

***Finance leases***

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.
The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently net investments in the lease are recognized in the statement of financial position net of allowance for possible impairment of their value.

The Group recognizes the finance income based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

***Operating leases***

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

Lease payments/income under operating leases are recognized as expenses/income on a straight-line basis over the lease term and included in operating expenses/income.

### *Property, equipment and intangible assets*

Property, equipment and intangible assets are carried at historical cost restated for inflation less accumulated depreciation and recognized impairment loss, if any. Depreciation of assets under construction and those not placed in service commences from the date the assets are ready for their intended use.
Depreciation of property, equipment and intangible assets is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

| | |
|---|---|
| Buildings | 1 –2.5% |
| Computer equipment | 10 –25% |
| Vehicles | 10 –14% |
| Furniture, other equipment and intangible assets | 5 –33% |
| Intangible assets | 10%-50% |

Leasehold improvements are amortized over the shorter of the lease period and the life of the related leased asset. Expenses related to repairs and renewals are recognized in the consolidated income statement when incurred and are included in operating expenses unless they qualify for capitalization.

The carrying amounts of property, equipment and intangible assets are reviewed at the end of each reporting period to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and value in use. Impairment is recognized in the respective period and is included in operating expenses.

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

### *Taxation*

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

The current tax expense is based on taxable profit for the year and is computed in accordance with legislation. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax represents future income tax assets or liabilities arising for temporary differences between accounting records and records kept for tax purposes. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax is recognized for temporary differences between the carrying amounts of assets and liabilities determined in order to be recorded in the consolidated financial statements and their tax bases. Deferred tax is not recognized for:

- Temporary differences arising from initial recognition of assets and liabilities in a transaction other than a business combination, that affects neither the accounting profit, tax profit nor the tax loss;

- Temporary differences related to the investments to subsidiaries and jointly controlled entities, if it is probable that these temporary differences won't be reversed in the foreseeable future; and
- Taxable temporary differences from initial recognition of goodwill.

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

Deferred income tax assets and deferred income tax liabilities are offset if there is a legal right to offset current tax assets against current tax liabilities and these assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity, or different taxable entities which have intention to settle current tax liabilities and assets on net basis, or disposal of tax assets will be performed simultaneously with repayment of their tax liabilities.
Deferred tax is calculated at the rates that are expected to be applied in the period when the liability is settled or the asset is sold. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The Republic of Belarus has various requirements for other taxes to be charged and paid, which are applicable to the Group's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

***Other provisions***

Other provisions are recognized when the Group has current liabilities (legal or implied) resulted of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the liabilities and the value of these liabilities can be reliably assessed.

***Government grants***

Government grants are recognized by the Group when there is reasonable assurance that:

- the Group will be able to fulfill the terms of grants provision;
- grants will be received.

The grant is recognized on the accrual basis. Confidence in obtaining the grant is supported by the decision, notice or similar document. If the grant notification is received prior to the date of actual receipt of funds, the amount is recognized as a receivable.

The Group recognizes government grants received as income of the Group over the period in which the group recognizes the related expenses. Grants related to assets are recognized in the consolidated statement of financial position as deferred income and recognized as income on a systematic basis over the useful life of the related asset.

***Financial guarantees contracts issued and letters of credit***

Financial guarantees contracts and letters of credit issued by the Group are credit guarantees that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument.

Financial guarantees contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the present value of any expected payment when a payment under the guarantee has become probable and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

***Contingencies***

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

***Share capital***

Contributions to share capital are recognized at their cost restated for inflation. Non-cash contributions are included into the share capital at fair value of the contributed assets.

Treasury shares are recognized at cost restated for inflation.

Dividends are recognized in equity as a reduction in the period in which they are declared at their cost restated for inflation. Dividends that are declared after the end of reporting period are treated as a subsequent event and disclosed accordingly.

***Retirement and other benefit obligations***

In accordance with the requirements of Belarusian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the pension fund. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus.

The Group also provides for the payment of various forms of financial aid to idle pensioners, former employees of the Bank. The Group establishes an allowance for these payments, based on the best estimates. Discounting of such reserves is made only if the effect of such discounting is material.

***Interest income and expenses***

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash 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. Discounting is performed for a period of expected life of the financial instrument or, if applicable, for a shorter period.

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

*(in millions of Belarusian Rubles unless otherwise stated)*

***Fee income and expenses***

Loan origination fees together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. All other commissions are recognized when services are provided.

***Recognition of back to back deposits in financial institutions/of financial institutions***

The Bank places deposits in the National Bank and in other Belarusian banks and attracts deposits from the National Bank and other Belarusian banks in back to back transactions in different currencies with maturities on the same date.

These back to back transactions should be accounted for as derivative transactions and netted off in the statement of financial position as this treatment gives more reliable and relevant information about substance of these financial instruments in accordance with the guidance of IAS 39 “Financial instruments: recognition and measurement”.

***Other income***

Other income is recognized in the consolidated statement of profit and loss upon completion of the corresponding transactions.

***Foreign currency translation***

The consolidated financial statements of the Group are presented in Belarusian rubles, currency of the primary economic environment in which the Bank and its subsidiaries operate (their functional currency). Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) of the entity are translated into Belarusian Rubles at the exchange rate of the National Bank of Belarus at the end of reporting period. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses from these translations are included in net gain on foreign exchange transactions.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost (cost restated for inflation) are translated into Belarusian rubles at the exchange rate of the National Bank at the date of acquisition. Non-monetary assets and liabilities in foreign currencies that are measured at fair value are translated into Belarusian rubles at the exchange rate of the National Bank at the date of fair value determination.

***Rates of exchange***

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

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

***New standards and interpretations not yet effective***

The following new Standards and Interpretations are not yet effective for the year ended 31 December 2012 and have not been early adopted in preparing these consolidated financial statements.

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

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

The new standard is not expected to have a significant influence on the consolidated financial statements of the Group.

- *IFRS 9 Financial Instruments (2009) (effective for annual periods beginning on or after 1 January 2015; to be applied prospectively. Earlier application is permitted).*

This Standard replaces the guidance in IAS 39 *“Financial Instruments: Recognition and Measurement"* about classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivable. Financial assets will be classified into one of two categories on initial recognition:

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

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

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

Gains and losses on remeasurement of financial assets measured at fair value are recognized in profit or loss, except that for an investment in an equity instrument which is not held for trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. No amount recognized in OCI is ever reclassified to profit or loss at a later date.

The amendments to the standard are expected to have a significant influence on the financial statements when initially applied, as they have to be applied retrospectively. However the Bank is not able to analyze the influence on the financial statements before the date of first application. The Bank has not fixed the date of standard application yet.

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

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

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

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

The Bank believes that the amendments to IFRS 9 made in 2010 will not have a significant influence on the financial statements. Classification and measurement of the Bank's financial liabilities won't be changed under IFRS 9 due to the nature of the Bank's transactions and types of financial liabilities.

- *IFRS 13 Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013. Earlier application is permitted.)* - IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance.

It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

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

IFRS 13 is not expected to have a significant influence on the consolidated financial statements as the management of the Bank believes that the methods and assumptions currently used for determination of fair value of assets meet the requirements of IFRS 13.

- *Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (*effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively. Earlier application is permitted.*)

The amendments:

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

The amendments are not applicable to the Bank's financial statements as the Bank has no other comprehensive income.

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

The amendments are not expected to have influence on the financial statements as the Bank does not offset financial assets and liabilities, and is not a party of offset agreement.

- *IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements* **(***effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively when there is a change in the control conclusion. Earlier application is permitted if IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011) are also applied early.)* **–**

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

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

The Group has not analyzed yet probable consequences of the new standard application and its influence on the financial position and results of operation of the Group.

- *IFRS 12 Disclosure of Interests in Other* Entities will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted.

The Group has not analyzed yet probable consequences of the new standard application and its influence on the financial position and results of operation of the Group.

## 4. RESTATEMENTS OF CORRESPONDING AMOUNTS

*Hyperinflation*

As described in Note 2 the corresponding figures for the year ended 31 December 2011 were restated for changes in the general purchasing power of the Belarusian ruble for 2012.

Monetary items were restated by applying the general price index for 2012, so that the corresponding figures are presented in terms of the measuring unit current at the end of the reporting period.

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

Items of the statement of comprehensive income for the year ended 31 December 2011 were restated to reflect the effect of inflation from the dates when the items of income and expenses were initially recorded in the financial statements until the end of the reporting period.

*(in millions of Belarusian Rubles unless otherwise stated)*

## 5. NET INTEREST INCOME

Net interest income is represented as follows:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011 (restated)** |
|---|---|---|
| Interest income on financial assets recorded at amortized cost: | | |
| Interest on loans to customers | 10,777,080 | 9,791,034 |
| Interest on due from banks | 161,303 | 113,257 |
| Other interest income | 21,284 | 26,188 |
| Total interest income on financial assets recorded at amortized cost | 10,959,667 | 9,930,479 |
| Interest income on financial assets recorded at fair value: | | |
| Interest on investments available for sale | 575,875 | 481,695 |
| **Total interest income** | 11,535,542 | 10,412,174 |
| Interest expense on financial liabilities recorded at amortized cost: | | |
| Interest on customer accounts | (5,040,186) | (3,513,116) |
| Interest on debt securities in issue | (2,166,805) | (1,062,084) |
| Interest on due to banks | (1,267,460) | (2,689,429) |
| Interest on REPO transactions | (189,410) | (60,830) |
| Other interest expense | (430) | (4,608) |
| **Total interest expense** | (8,664,291) | (7,330,067) |
| **Net interest income before allowance for impairment on interest bearing assets and effect of initial recognition** | 2,871,251 | 3,082,107 |

For the years ended 31 December 2012 and 2011 the interest income on impaired assets consisted of interest on loans to customers in the amount of BYR 381,182 million and BYR 273,589 million respectively.

***(in millions of Belarusian Rubles unless otherwise stated)***

Net effect of initial recognition of financial instruments at fair value issued at non-market rates is presented as follows:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011 (restated)** |
|---|---|---|
| Initial recognition at fair value of: | | |
| Loans to corporate customers | (1,465,823) | (646,817) |
| Debt securities in issue | 87,856 | 1,604,533 |
| Due to banks | 369,474 | - |
| Commitments to issue loans at below market rates | - | (183,740) |
| Customer accounts | 1,248,497 | 429,917 |
| Total effect of initial recognition of financial instruments | 240,004 | 1,203,893 |

## 6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

| | **Due from banks** | **Loans to customers** | **Investments available for sale** | **Total** |
|---|---|---|---|---|
| 31 December 2010 (restated) | - | 2,098,621 | 6,953 | 2,105,574 |
| Write-off | - | (267,328) | - | (267,328) |
| Allowance (recovery) | - | 2,022,055 | (5,836) | 2,016,219 |
| Effect of restatement for hyperinflation | | (1,686,115) | (1,117) | (1,687,232) |
| 31 December 2011 (restated) | - | 2,167,233 | - | 2,167,233 |
| Write-off | - | (154,502) | - | (154,502) |
| Allowance | 1,152 | 900,951 | - | 902,103 |
| Effect of restatement for hyperinflation | (47) | (468,961) | - | (469,008) |
| 31 December 2012 | 1,105 | 2,444,721 | - | 2,445,826 |

***(in millions of Belarusian Rubles unless otherwise stated)***

The movements in provisions for off-balance sheet commitments and other liabilities were as follows:

| | **Off-balance sheet commitments and other liabilities** |
|---|---|
| 31 December 2010 (restated) | 92,991 |
| Provisions | 153,588 |
| Effect of restatement for hyperinflation | (89,065) |
| 31 December 2011 (restated) | 157,514 |
| Provisions | 81,334 |
| Effect of restatement for hyperinflation | (39,540) |
| 31 December 2012 | 199,308 |

Provisions for off-balance sheet commitments and other liabilities are recorded in other liabilities (Note 24).

## 7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | **Year ended 31 December 2012** | **Year ended 31 December 2011 (restated)** |
|---|---|---|
| **Fee and commission income:** | | |
| Commission for transactions on customer accounts and other customer service fees | 851,624 | 818,506 |
| Commission on foreign exchange transactions | 89,266 | 56,113 |
| Commission on transactions with banks | 37,322 | 28,580 |
| Commissions on transactions with securities | 1,678 | 1,833 |
| Other fee and commission income | 14,818 | 12,580 |
| **Total fee and commission income** | 994,708 | 917,612 |
| **Fee and commission expense:** | | |
| Commission on transactions with plastic cards | (81,652) | (59,692) |
| Commission on documentary transactions | (50,761) | (40,665) |
| Commission on cash collection | (5,593) | (5,364) |
| Commission on foreign exchange transactions | (5,411) | (25,493) |
| Commission on transactions with banks | (2,512) | (1,049) |
| Commission on transactions with securities | (1,297) | (932) |
| Other fee and commission expense | (12,087) | (11,028) |
| **Total fee and commission expense** | (159,313) | (144,223) |

*(in millions of Belarusian Rubles unless otherwise stated)*

## 8. NET GAIN/(LOSS) FROM FOREIGN EXCHANGE OPERATIONS AND DERIVATIVE FINANCIAL INSTRUMENTS

Net gain/(loss) from foreign exchange operations and derivative financial instruments comprises:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| Translation differences, net | 382,328 | 1,132,178 |
| Dealing with foreign currencies, net | (19,667) | (6,563,645) |
| Gain on derivatives operations | (364,037) | 5,893,214 |
| **Total net gain on foreign exchange and derivative financial instruments** | (1,376) | 461,747 |

## 9. OTHER INCOME

Other income comprises:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| Revenue on sale of agricultural products and other non-banking activities of subsidiaries | 284,490 | 305,975 |
| Recovery of loans and receivables previously written off | 132,051 | 107,084 |
| Fines and penalties received | 43,827 | 26,215 |
| Gratis property received | 3,475 | 9,635 |
| Net income from disposal of property and equipment and other assets | 3,393 | 14,698 |
| Income from operating leases | 549 | 712 |
| Other | 5,629 | 13,233 |
| **Total other income** | 473,414 | 477,552 |

## 10. OPERATING EXPENSES

Operating expenses comprise:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| Staff costs | 739,271 | 620,283 |
| Social security contributions | 217,153 | 190,172 |
| Depreciation and amortization | 186,952 | 162,949 |
| Contributions to deposits protection fund | 131,705 | 90,263 |
| Utilities, rentals and maintenance | 104,387 | 77,081 |
| Raw materials and inventory consumed in non-banking activities of subsidiaries | 97,531 | 84,877 |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | | |
|---|---|---|
| Security expenses | 53,271 | 47,400 |
| Expenses on payments processing and transmission | 49,358 | 42,729 |
| Vehicles maintenance and fuel | 44,519 | 31,210 |
| Taxes, other than income tax | 42,745 | 63,017 |
| Stationery and other office expenses | 39,771 | 34,970 |
| Loss on disposal of property and equipment and other assets | 22,631 | 19,087 |
| Professional services | 22,043 | 19,031 |
| Other expenses | 89,168 | 162,512 |
| **Total operating expenses** | 1,840,505 | 1,645,581 |

## 11. INCOME TAXES

The Group provides for current tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the years ended 31 December 2012 and 31 December 2011 the tax rate was 18% and 24%, respectively.

OJSC "Turovschina" and PUE "Ozeritskiy-Agro" were not subject to income taxes in 2012. The Bank's branches are separate taxpayers of income tax.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and tax exemptions for certain income. Major sources of non-deductible expenses include expenses over prescribed norms, fines and penalties, branches losses. Major amounts of non-taxable income relate to operations with securities issued by the Government, state local authorities and commercial companies.

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

Temporary differences as at 31 December 2012 and 2011 comprise:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| **Deductible temporary differences:** | | |
| Other liabilities | 31,683 | 7,057 |
| **Total deductible temporary differences** | 31,683 | 7,057 |
| **Taxable temporary differences:** | | |
| Property, plant and intangible assets | (330,212) | (1,054,791) |
| Loans to customers | (968,518) | (491,489) |
| Investments in securities available for sale | (403,860) | (487,411) |
| Derivative financial instruments | (53,033) | (197,400) |
| Due to banks | (5,504) | (12,397) |
| Other assets | (69,071) | (88,793) |
| **Total taxable temporary differences** | (1,830,198) | (2,332,281) |
| **Net temporary differences** | (1,798,515) | (2,325,224) |
| **Net temporary differences resulting in deferred tax asset:** | 101,916 | - |
| **Net temporary differences resulting in deferred tax liability:** | (1,900,431) | (2,325,224) |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | | |
|---|---|---|
| Deferred tax assets at the statutory rate of 18% | 18,345 | - |
| Net of unrecognized deferred tax assets | - | - |
| **Net deferred tax assets** | 18,345 | - |
| Deferred tax liabilities at the statutory rate of 18% | (342,077) | (418,540) |
| **Net deferred tax liabilities position** | **(323,732)** | **(418,540)** |

The relationships between tax expenses and accounting profit for the years ended 31 December 2012 and 2011 are presented as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| **Loss before taxation** | (172,282) | (4,946,880) |
| Tax at the statutory rate (18% and 24% respectively) | (31,011) | (1,187,251) |
| Effect of accounting for transactions under government lending programs and government deposits | (13,727) | (230,343) |
| Tax effect of non-deductible expenses and losses not carried forward in accordance with the legislation | 82,202 | 99,211 |
| Tax effect of non-taxable income and other tax benefits | (71,464) | (122,177) |
| Effect of change in tax base of property and equipment due to revaluation performed under Belarusian statutory accounting rules | (95,294) | (26,462) |
| Hyperinflation effect | 520,003 | 1,976,138 |
| Effect of change in income tax rate | - | (25,113) |
| **Income tax expense** | 390,709 | 509,116 |
| Current income tax expense | 241,326 | 261,277 |
| Deferred income tax expense | 149,383 | 247,839 |

Movement of deferred tax liability is presented as follows:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| **Deferred tax liability as at the beginning of the period** | 418,540 | 356,209 |
| Decrease /Increase in deferred tax liability | 149,383 | 247,839 |
| Inflation effect | (225,846) | (185,508) |
| **Deferred tax liability as at the end of the period** | 342,077 | 418,540 |

*(in millions of Belarusian Rubles unless otherwise stated)*

## 12. LOSS ON NET MONETARY POSITION

Loss on net monetary position resulted from the restatement of the following items for hyperinflation:

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| Effect of restatements of equity | (2,300,124) | (8,670,400) |
| Effect of restatement property and equipment and intangible assets | 455,781 | 1,211,624 |
| Effect of restatement of equity securities | 88,200 | 250,509 |
| Effect of restatement of other non-monetary items | 129,029 | 75,789 |
| **Total loss on net monetary position** | (1,627,114) | (7,132,478) |

## 13. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

Cash and balances with the National Bank comprise:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Balances with the National Bank | 1,040,507 | 1,782,272 |
| Cash | 1,117,932 | 914,657 |
| **Total cash and balances with the National Bank** | 2,158,439 | 2,696,929 |

The balances with the National Bank as at 31 December 2012 and 2011 included minimum reserve deposit in the amount of BYR 225,541 million and BYR 109,610 million, respectively. The Bank is required to maintain the minimum reserve deposit with the National Bank at all times.

Minimum reserve deposit with the National Bank is excluded from financial assets for the purpose of disclosures in relation to financial instruments.

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

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Cash and balances with the National Bank | 2,158,439 | 2,696,929 |
| Due from banks in OECD countries with original maturities up to 90 days | 672,598 | 725,502 |
| Total cash and cash equivalents | 2,831,037 | 3,422,431 |
| Less minimum reserve deposit with the National Bank | (225,541) | (109,610) |
| **Total cash and cash equivalents** | 2,605,496 | 3,312,821 |

***(in millions of Belarusian Rubles unless otherwise stated)***

## 14. DUE FROM BANKS

Due from banks comprise:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Correspondent accounts and other demand deposits with banks | 903,550 | 686,365 |
| Loans and term deposits from banks | - | 392,756 |
| Total due from banks | 903,550 | 1,079,121 |
| Net of allowance for impairment | (1,105) | - |
| **Total due from banks** | 902,445 | 1,079,121 |

As at 31 December 2012 and 2011 due from banks included guarantee deposits on letters of credit, operations with plastic cards and settlements with international payment systems for fixed amounts of BYR 11,475 million and BYR 83,313 million respectively.

## 15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments as at 31 December 2012 comprised the following:

| Foreign currency purchase contracts (forwards and swaps) | Notional amount (in units of currency to be purchased) | Fair value | |
|---|---|---|---|
| | | Asset | Liability |
| USD/BYR | 358,018,963 USD | 2,009,933 | - |
| EUR/BYR | 25,436,944 EUR | 190,790 | - |
| EUR/RUB | 5,000,000 EUR | 69 | - |
| USD/RUB | 9,000,000 USD | 29 | - |
| EUR/USD | 30,000,000 EUR | 674 | - |
| **Total derivative financial instruments** | | 2,201,495 | - |

Derivative financial instruments as at 31 December 2011 comprised the following:

| Foreign currency purchase contracts (forwards and swaps) | Notional amount (in units of currency to be purchased) | Fair value (restated) | |
|---|---|---|---|
| | | Asset | Liability |
| USD/BYR | 640,243,818 USD | 4,075,941 | (3,273) |
| EUR/BYR | 96,890,358 EUR | 643,374 | (4,615) |
| EUR/USD | 10,000,000 EUR | 120 | - |
| USD / EUR | 12,923,650 USD | - | (106) |
| EUR/RUB | 2,000,000 EUR | - | (117) |
| USD/RUB | 6,000,000 USD | - | (425) |
| **Total derivative financial instruments** | | 4,719,435 | (8,536) |

*(in millions of Belarusian Rubles unless otherwise stated)*

## 16. LOANS TO CUSTOMERS

Loans to customers comprise:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Loans granted | 44,748,393 | 42,383,261 |
| Finance lease receivables | 499,915 | 448,391 |
| | 45,248,308 | 42,831,652 |
| Net of allowance for impairment | (2,444,721) | (2,167,233) |
| **Total loans to customers** | 42,803,587 | 40,664,419 |

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2012 and 2011 are disclosed in Note 6.

Loans and finance lease receivables grouped by the type of collateral and sectors are presented in the following tables. Grouping by collateral is based on carrying amount of the loan and finance lease receivables rather than on fair value or otherwise adjusted value of collateral.

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Loans and finance lease receivables collateralized by: | | |
| - guarantees of the Government and local authorities | 17,694,260 | 19,302,838 |
| - property and goods for sale | 13,081,847 | 9,940,581 |
| - property and receivables rights | 6,444,100 | 5,733,658 |
| - real estate | 5,163,529 | 4,333,172 |
| - cash | 769,561 | 659,030 |
| - other collateral | 2,095,011 | 2,862,373 |
| | 45,248,308 | 42,831,652 |
| Net of allowance for impairment | (2,444,721) | (2,167,233) |
| **Total loans to customers** | **42,803,587** | **40,664,419** |

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| **Analysis by sector:** | | |
| Agriculture | 19,697,070 | 18,432,541 |
| Manufacturing | 16,078,551 | 13,353,086 |
| Trade | 5,426,873 | 5,690,062 |
| Individuals | 1,371,474 | 1,950,432 |
| Construction | 537,682 | 583,505 |
| Government bodies | 5,641 | 45,274 |
| Other | 2,131,017 | 2,776,752 |
| | 45,248,308 | 42,831,652 |
| Net of allowance for impairment | (2,444,721) | (2,167,233) |
| **Total loans to customers** | **42,803,587** | **40,664,419** |

***(in millions of Belarusian Rubles unless otherwise stated)***

As at 31 December 2012 and 2011 all loans were provided to the residents of the Republic of Belarus, which represents a significant geographical concentration in one region.

Loans to individuals by types of lending comprise the following:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Consumer loans | 922,872 | 1,699,664 |
| Loans for purchase/construction of property | 448,602 | 250,768 |
| | 1,371,474 | 1,950,432 |
| Net of allowance for impairment | (1,131) | (7,908) |
| **Total loans to individuals** | 1,370,343 | 1,942,524 |

The table below summarizes an analysis of loans to customers by impairment:

| | **31 December 2012** | | | **31 December 2011 (restated)** | | |
|---|---|---|---|---|---|---|
| | **Carrying value before allowance for impairment** | **Allowance for impairment** | **Carrying value** | **Carrying value before allowance for impairment** | **Allowance for impairment** | **Carrying value** |
| Loans to customers individually assessed for impairment | 4,942,483 | (633,763) | 4,308,720 | 6,358,841 | (459,991) | 5,898,850 |
| Loans to customers collectively assessed for impairment | 40,305,825 | (1,810,958) | 38,494,867 | 36,472,811 | (1,707,242) | 34,765,569 |
| **Total** | 45,248,308 | (2,444,721) | 42,803,587 | 42,831,652 | (2,167,233) | 40,664,419 |

As at 31 December 2012 and 31 December 2011 loans to customers included loans in the amount of BYR 47,368 million and BYR 13,939 million whose final maturity has been renegotiated. Otherwise these loans would be past due or impaired.

***(in millions of Belarusian Rubles unless otherwise stated)***

Finance lease receivables as at 31 December 2012 and 31 December 2011 comprised the following:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Up to one year | 500,376 | 325,189 |
| One to five years | 184,063 | 238,608 |
| Minimum lease payments | 684,439 | 563,797 |
| Net of unearned finance income | (184,524) | (115,406) |
| **Net investment in finance lease** | 499,915 | 448,391 |
| Net of allowance for impairment | (1,349) | (1,047) |
| **Total finance lease receivables** | 498,566 | 447,344 |
| Current portion | 365,722 | 258,715 |
| Long-term portion | 134,193 | 189,676 |
| **Net investment in finance lease** | 499,915 | 448,391 |
| Net of allowance for impairment | (1,349) | (1,047) |
| **Total net investments in finance lease** | 498,566 | 447,344 |

### *Participation in the Government lending programs*

The Bank participates in the Government programs on granting beneficial loans to the agricultural sector and related industries. Under the major programs since 1996 the Bank granted loans for housing construction, since 2003 - loans for the acquisition of agricultural machinery, and since 2008 - loans for milk farms construction and for current assets financing of certain categories of agricultural and related enterprises. Several other Government lending programs are also carried out by the Bank. Part of the loans was issued from the funds received by the Bank from Government as contributions to share capital, part - from special-purpose funds of the Government and the Development Bank of the Republic of Belarus, and part from borrowed funds. For the loans issued from borrowed funds the Government provided compensation to the Bank to compensate for the fact that several loan programs are issued at non market beneficial rates to the borrower. Generally the compensation equals to the deference between the refinance rate of the National Bank plus 3% and the loan interest rate.

As at 31 December 2012 the Bank had no contractual commitments to disburse loans at below market rate.

As at 31 December 2011 the Bank had contractual commitments to disburse loans at below market rate for the purposes of agricultural machines purchase, financing of investment loans in accordance with the Order of the President of the Republic of Belarus and development of meat and dairy sector and Pripyat Polesye region in the amount of BYR 598,496 million. These commitments were recognized as financial liabilities at estimated fair value of BYR 118,984 million.

*(in millions of Belarusian Rubles unless otherwise stated)*

The information on total loans issued under the major Government programs is presented in the following table:

| | Interest rate fixed for borrower | Term of loan, years | Nominal amount as at | | Amortized cost as at | |
|---|---|---|---|---|---|---|
| | | | 31 December 2012 | 31 December 2011 (restated) | 31 December 2012 | 31 December 2011 (restated) |
| Housing loans – non-compensated | 3% | 40 | 2,759,471 | 3,229,570 | 2,759,471 | 3,229,570 |
| Housing loans – compensated | 3% | 40 | 3,368,526 | 4,082,713 | 3,368,526 | 4,082,713 |
| Machinery loans – non-compensated | 2% | Up to 8 | 112,543 | 139,476 | 73,696 | 96,059 |
| Dairy sector development loans – compensated | 1,5% | Up to 10 | 912,026 | 2,346,633 | 865,600 | 2,221,101 |
| Other beneficial loans – non-compensated | 1-35% | Up to 15 | 6,554,904 | 2,203,655 | 5,118,364 | 1,487,966 |
| Other beneficial loans – compensated | 0-15% | Up to 6 | 12,938 | 38,380 | 5,775 | 33,781 |
| **Total loans under Government programs** | | | 13,720,408 | 12,040,427 | 2,191,432 | 11,151,190 |

The interest rates on housing and machinery loans are significantly lower than inflation rates in the Republic of Belarus and refinance rate of the National Bank. Housing loans have a 3 year grace period for principal repayment.

Loans for housing construction do not have similar financial instruments in the market and due to their unique nature as well as the specifics of Government program loans and the borrowers' category and represent a separate market segment. Therefore management believes that the contractual interest rate of 3% per annum is the market rate for such loans.

Loans issued under other Government programs are considered as issued at a below market rates.

The Bank initially measures loans originated at other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. The market interest rate is estimated by the Group by reference to the refinancing rate of the National Bank plus the average profitability margin used by the Group for loans granted under non-preferential terms. On initial recognition an adjustment is recorded under item "Net effect of initial recognition of financial instruments at fair value" (Note 3).

***(in millions of Belarusian Rubles unless otherwise stated)***

## 17. INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in securities available for sale comprise:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| **Debt securities available for sale:** | | |
| Bonds issued by JSC "Development Bank of the Republic of Belarus" | 1,995,018 | - |
| Bonds issued by local authorities | 954,952 | 1,141,719 |
| Long-term Government bonds | 721,050 | 1,144,258 |
| Eurobonds | 729,329 | 257,395 |
| Bond issued by legal entities | 224,449 | 261,562 |
| | 4,624,798 | 2,804,934 |
| Shares available for sale | 491,296 | 490,015 |
| **Total investments in securities** | 5,116,094 | 3,294,949 |

Long-term Government bonds are BYR denominated Government securities with original maturity of 1 to 9 years and coupon or discount income, issued by the Ministry of Finance of the Republic of Belarus.

Bonds issued by local authorities are BYR denominated coupon securities issued by regional executive committees with maturities of 2 to 10 years.

Bond issued by legal entities are BYR denominated coupon securities issued by Belarusian enterprises with original maturity of 3 months to 3 years.

Bonds issued by JSC "Development Bank of the Republic of Belarus" are BYR denominated coupon securities issued by JSC "Development Bank of the Republic of Belarus" with maturities of 2 months to 9 years.

Eurobonds - USD denominated coupon securities issued by the Ministry of finance of the Republic of Belarus with original maturity of 3 to 7 years.

As at 31 December 2011 long-term Government bonds with fair value of BYR 171,816 million were pledged as collateral for loans on REPO agreements with Belarusian banks (Note 21).

As at 31 December 2012 and 2011 shares available for sale included shares of Belarusian leasing company in the amount of BYR 473,889 million. The Group's share in the capital of the company amounted to 12.5%. These investments do not have a quoted market price and were recorded in the consolidated financial statements at cost.

***(in millions of Belarusian Rubles unless otherwise stated)***

## 18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

The movements in property, equipment and intangible assets were as follows:

| | Buildings | Computer equipment | Vehicles | Furniture, other equipment, and intangible assets | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Original cost restated for inflation** | | | | | | |
| As at 31 December 2010 (restated) | 1,223,878 | 221,672 | 124,546 | 676,623 | 245,700 | 2,492,419 |
| Additions | 35,074 | 10,646 | 49,190 | 191,324 | 179,851 | 466,085 |
| Putting into operation and transfers | 115,323 | 246 | - | 19,131 | (134,700) | - |
| Disposals | (8,434) | (5,446) | (3,541) | (29,125) | (940) | (47,486) |
| As at 31 December 2011 (restated) | 1,365,841 | 227,118 | 170,195 | 857,953 | 289,911 | 2,911,018 |
| Additions | 39,997 | 133,504 | 13,634 | 173,886 | 271,996 | 633,017 |
| Putting into operation and transfers | 197,698 | 180 | - | 30,464 | (228,342) | - |
| Disposals | (11,995) | (7,909) | (3,159) | (38,292) | (4,128) | (65,483) |
| As at 31 December 2012 | 1,591,541 | 352,893 | 180,670 | 1,024,011 | 329,437 | 3,478,552 |
| **Accumulated depreciation** | | | | | | |
| As at 31 December 2010 (restated) | 108,862 | 118,167 | 43,430 | 194,534 | - | 464,993 |
| Charge for the year | 36,589 | 26,207 | 16,771 | 87,893 | - | 167,460 |
| Disposals | (904) | (5,258) | (3,086) | (8,828) | - | (18,076) |
| As at 31 December 2011 (restated) | 144,547 | 139,116 | 57,115 | 273,599 | - | 614,377 |
| Charge for the year | 21,775 | 19,312 | 15,098 | 132,955 | - | 189,140 |
| Disposals | (3,261) | (7,826) | (3,039) | (8,468) | - | (22,594) |
| As at 31 December 2012 | 163,061 | 150,602 | 69,174 | 398,086 | - | 780,923 |
| **Net carrying value** | | | | | | |
| As at 31 December 2012 | 1,428,480 | 202,291 | 111,496 | 625,925 | 329,437 | 2,697,629 |
| As at 31 December 2011 | 1,221,294 | 88,002 | 113,080 | 584,354 | 289,911 | 2,296,641 |

A part of depreciation charged for the years ended 31 December 2012 and 2011 in the amount of BYR 2,188 million and BYR 4,511 million, respectively, is included in carrying amount of inventory and work in progress from agricultural activities.

***(in millions of Belarusian Rubles unless otherwise stated)***

## 19. OTHER ASSETS

Other assets comprise:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| **Other financial assets:** | | |
| Accrued commissions receivable | 62,924 | 23,289 |
| Accounts receivable on non-banking activities | 49,886 | 6,986 |
| Settlements with Belarusian stock exchange on foreign currency transactions | 17,637 | - |
| Other accounts receivable | 15,034 | 3,319 |
| **Total other financial assets** | 145,481 | 33,594 |
| **Other non-financial assets:** | | |
| Works in progress in agricultural sector and materials | 250,070 | 218,888 |
| Tax settlements, other than income taxes | 113,393 | 28,226 |
| Equipment for transfer to finance lease | 40,300 | 245,637 |
| Prepayments for property, equipment and intangible assets | 23,628 | 35,930 |
| Other prepayments | 6,470 | 82,605 |
| Other non-financial assets | 16,226 | 22,593 |
| **Total non-financial assets** | 450,087 | 633,879 |
| **Total other assets** | 595,568 | 667,473 |

## 20. DUE TO THE NATIONAL BANK OF THE REPUBLIC OF BLARUS

Balances due to the National Bank of the Republic of Belarus are presented as follows:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Short-term loans | - | 170,372 |
| Total due to National Bank | - | 170,372 |

## 21. DUE TO BANKS

Due to banks are presented as follows:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Loans from banks | 10,223,609 | 10,582,786 |
| Loans under repurchase agreements | 97,081 | 488,259 |
| Correspondent accounts of banks | 70,949 | 37,199 |
| **Total due to banks** | 10,391,639 | 11,108,244 |

As at 31 December 2012 the balances due to banks of BYR 4,747,049 million were due to three banks (resident of the Republic of Belarus, resident of the Russian Federation and resident of an OECD country), amount due to each exceeding 10% of the total due to banks.

*(in millions of Belarusian Rubles unless otherwise stated)*

As at 31 December 2011 the balances due to banks of BYR 4,560,635 million were due to two banks (resident of the Republic of Belarus, resident of the Russian Federation and resident of an OECD country), amount due to each exceeding 10% of the total due to banks.

As at 31 December 2012 and 2011 loans under repurchase agreements are represented by short-term loans granted by Belarusian banks with maturity of up to 30 days and from 31 to 90 days which are collateralized by long-term Government bonds at fair value of BYR 171,816 million (Note 15).

During the period ended 31 December 2012 the Group raised deposits from one of the Belarusian financial institutions in Belarusian rubles at below-market rates. The funds received were used for granting of special purpose loans to customers within financing of Government programs on construction and reconstruction of dairy farms (Note 16).

The Bank initially measures deposits received on other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as at the date of relevant instrument's inception. Adjustment on initial recognition is recorded under the caption "Net effect of initial recognition of financial instruments at fair value".

The information on these deposits is presented in the following table:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Par value | 1,770,963 | - |
| Amortised cost | 1,587,889 | - |

| | **Year ended 31 December 2012** | **Year ended 31 December 2011 (restated)** |
|---|---|---|
| Adjustment on initial recognition | 369,474 | - |

***(in millions of Belarusian Rubles unless otherwise stated)***

## 22. CUSTOMER ACCOUNTS

Customer accounts are presented as follows:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Term deposits | 22,649,112 | 18,079,353 |
| Current accounts and demand deposits | 4,373,785 | 3,401,008 |
| **Total customer accounts** | 27,022,897 | 21,480,361 |

During periods ended 31 December 2012 and 31 December 2011 the Group received from government agencies short-term and long-term deposits in Belarusian rubles at below-market rates. Funds received were used for granting special purpose loans to customers including within financing Government programs (Note 16).

The Bank initially measures deposits from the state received on other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as at the date of relevant instrument's inception. Adjustment on initial recognition is recorded under the caption "Net effect of initial recognition of financial instruments at fair value".

The information on these deposits is presented in the following table:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| Par value | 3,994,283 | 799,296 |
| Amortised cost | 3,086,846 | 393,570 |

| | Year ended 31 December 2012 | Year ended 31 December 2011 (restated) |
|---|---|---|
| Adjustment on initial recognition | 1,248,497 | 429,917 |

As at 31 December 2012 and 2011 customer accounts amounting to BYR 616,245 million and BYR 137,984 million, respectively, were pledged as collateral for letters of credit issued by the Group.

As at 31 December 2012 and 2011 customer accounts amounting to BYR 44,244 million and BYR 78,148 million, respectively, were pledged as collateral for clients' obligations to the Group.

As at 31 December 2012 customer accounts amounting to BYR 4,268,582 million (16% of all customer accounts) belonged to 2 clients (state governing bodies).

As at 31 December 2011 customer accounts amounting to BYR 4,858,821 million (23% of all customer accounts) belonged to 3 clients (2 state governing bodies and 1 non-banking financial institution).

*(in millions of Belarusian Rubles unless otherwise stated)*

| **Analysis by sector:** | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Individuals | 11,528,956 | 8,355,252 |
| Government bodies | 6,749,555 | 5,936,014 |
| Insurance and finance | 2,427,614 | 2,051,627 |
| Manufacturing | 1,829,763 | 1,959,074 |
| Trade | 1,750,875 | 1,617,815 |
| Agriculture | 1,123,565 | 759,848 |
| Construction | 812,256 | 380,399 |
| Mail service | 258,751 | - |
| Production and distribution of electricity, gas and water | 93,186 | 140,926 |
| Transport | 64,708 | 36,463 |
| Other | 383,668 | 242,943 |
| **Total customer accounts** | 27,022,897 | 21,480,361 |

## 23. DEBT SECURITIES IN ISSUE

Debt securities in issue are presented as follows:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Interest bearing bonds | 6,556,696 | 9,289,923 |
| Bonds issued with a discount | 1,524 | 79,678 |
| **Total debt securities in issue** | 6,558,220 | 9,369,601 |

Interest bearing bonds are BYR and foreign currency denominated debt securities with original maturity ranging from one month to forty years and interest income that are issued by the Bank for individuals and legal entities.

Bonds issued with a discount are foreign currencies denominated debt securities with original maturity ranging from one to two years that are issued by the Bank for individuals.

The Bank initially measures issued debt securities with other than market terms at approximate fair value using appropriate discounting techniques and subsequently measures them at amortized cost using the effective interest rate method. Fair value is estimated as the present value of all future cash inflows, discounted using refinancing rate of the National Bank as of the date of relevant instrument's inception. Adjustment on initial recognition is recorded under caption "Net effect of initial recognition of financial instruments at fair value" (Note 5).

The information on these debt securities in issue is presented in the following table:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Par value | 1,182,521 | 1,646,749 |
| Amortised cost | 341,059 | 332,161 |

*(in millions of Belarusian Rubles unless otherwise stated)*

## 24. OTHER LIABILITIES

Other liabilities are presented as follows:

| | 31 December 2012 | 31 December 2011 (restated) |
|---|---|---|
| **Other financial liabilities:** | | |
| Accounts payable on non-banking activities | 320,728 | 50,749 |
| Other creditors | 87,631 | 50,390 |
| **Total other financial liabilities** | 408,359 | 101,139 |
| **Other non-financial liabilities:** | | |
| Provision for guarantees and other commitments | 199,308 | 157,514 |
| Advances and prepayments received | 181,679 | 154,953 |
| Accruals on unused vacations | 47,435 | 13,310 |
| Taxes payable other than income tax | 3,123 | 7,971 |
| Other | 10,515 | 194 |
| **Total other non-financial liabilities** | 442,060 | 333,942 |
| **Total other liabilities** | 850,419 | 435,081 |

Movements in provisions for guarantees and other commitments for the years ended 31 December 2012 and 2011 are disclosed in Note 6.

## 25. SHARE CAPITAL

As at 31 December 2012 and 31 December 2011 the authorized, issued and fully paid share capital amounted to 3,301,810,642 ordinary shares, respectively, with a par value of BYR 2,000 each and 6,881 preference shares with a par value of BYR 2,000 each (all amounts are stated at historical cost before restatement for hyperinflation). All ordinary shares are ranked equally and carry one vote. Preference shares are not redeemable and non-voting except for participation in limited range of decisions stated in the Bank's Charter; amount of dividends for preference shares is determined annually by shareholders meeting.

On 30 December 2011 the Bank's main shareholder - the State increased share capital by transferring funds, part of which (amounting to BYR 700,000 million) was encumbered by liabilities to buy government securities at a rate of 0%, issued for one year with the fair value of BYR 515,185 million. The difference between the cash amount and the fair value, in the amount of BYR 184,615 million was recognized as capital allocation in favor of the state relating to obtaining financing at interest rate lower than the market one.

The Bank's reserves distributable to shareholders are limited to the amount of accumulated earnings in the Bank’s financial statements prepared in accordance with Belarusian statutory accounting rules. As per those audited financial statements as at 31 December 2012 and 2011 the accumulated earnings amounted to BYR 1,370,504 million and BYR 708,684 million, respectively. Non-distributable funds comprise the reserve fund and tangible assets revaluation fund. The reserve fund was created under Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities.

When preparing the financial statements in accordance with IFRS the Bank records accumulated loss in equity, but in the financial statements prepared in accordance with Belarusian accounting standards it records the accumulated profit. This difference is mainly due to recording the effect of hyperinflation through loss on net monetary position.

*(in millions of Belarusian Rubles unless otherwise stated)*

Dividends declared and paid in 2012 for 2011 amounted to BYR 5.75 per each ordinary share and BYR 300 per each preference share (all amounts are stated at historical cost before restatement for hyperinflation). The total amount of paid dividends comprised BYR 322,174 million including advance payment of dividends for 2012 in the amount of BYR 300,000 million (after restatement for hyperinflation).

Dividends declared and paid in 2011 for 2010 amounted to BYR 7.46 per each ordinary share and BYR 300 per each preference share (all amounts are stated at historical cost before restatement for hyperinflation). The total amount of dividends comprised BYR 45,096 million (after restatement for hyperinflation).

## 26. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments, which are not reflected in the statement of financial position, in order to meet the needs of its customers. These instruments include commitments on loans and unused credit lines, letters of credit issued, guarantees and other commitments, involving varying degrees of credit risk.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking commitments as it does for financial instruments in the statement of financial position.

As at 31 December 2012 and 31 December 2011 the provision on guarantees and other commitments amounted to BYR 199,308 million and BYR 157,514 million, respectively (Note 24).

As at 31 December 2012 and 31 December 2011 the nominal or contract amounts were the following:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| Commitments on loans and unused credit lines | 2,076,527 | 2,953,652 |
| Letters of credit issued | 1,766,710 | 1,706,326 |
| *- covered* | *468,810* | *131,662* |
| *- uncovered* | *1,297,900* | *1,574,664* |
| Guarantees issued and similar commitments | 262,134 | 479,720 |
| *- financial* | *177,711* | *450,916* |
| *- non-financial* | *84,423* | *28,804* |
| **Total contingent liabilities and credit commitments** | 4,105,371 | 5,139,698 |

As at 31 December 2012 and 31 December 2011 the Bank had commitments to issue loans at rates below market ones. Information about these commitments is disclosed in Note 16.

***Operating lease commitments*** **-** The Group had no material commitments on operating leases outstanding as at 31 December 2012 and 31 December 2011.

***(in millions of Belarusian Rubles unless otherwise stated)***

***Legal proceedings*** **-** From time to time in the normal course of business claims against the Group are received from customers and counterparties. Management believes that no material unaccrued losses will be incurred and accordingly no provision was created in these consolidated financial statements.

***Pensions and retirement plans*** **-** Employees are entitled for pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2012 and 31 December 2011 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

## 27. TRANSACTIONS WITH RELATED PARTIES

### (a) Control

A majority stake is owned by the State Committee on Property of the Republic of Belarus on behalf of the State, and the state has ultimate control over the Bank.

### (b) Transactions with related parties

Group's related parties' balances as at 31 December 2012 and 2011 are as follows:

| | 31 December 2012 | | 31 December 2011 (restated) | |
|---|---|---|---|---|
| | Related party balances | Total category as per financial statements caption | Related party balances | Total category as per financial statements caption |
| **Due from the National Bank of the Republic of Belarus** | **1,040,507** | **1,040,507** | **1,782,272** | **1,782,272** |
| **Due from banks** | **59,092** | **902,445** | **143,541** | **1,079,121** |
| - state entities (under common control of the State) | 59,092 | | 143,541 | |
| **Derivative financial instruments (assets)** | **2,200,723** | **2,201,495** | **4,719,315** | **4,719,435** |
| - National Bank (under common control of the State) | 2,200,723 | | 4,719,315 | |
| **Loans to customers before deduction of impairment allowance** | **29,812,970** | **45,248,308** | **26,940,468** | **42,831,652** |
| - state entities (under common control of the State) | 29,804,896 | | 26,889,630 | |
| - Government bodies | 5,641 | | 45,274 | |
| - key management personnel | 2,433 | | 5,564 | |
| **Allowance for impairment losses on loans to customers** | **(1,792,718)** | **(2,444,721)** | **(1,363,638)** | **(2,167,233)** |
| - state entities (under common control of the State) | (1,792,648) | | (1,362,123) | |
| - Government bodies | (70) | | (1,515) | |
| **Investments in securities available for sale** | **4,860,889** | **5,116,094** | **3,118,209** | **3,294,949** |
| - Government bodies | 2,591,760 | | 2,544,482 | |
| - state entities (under common control of the State) | 2,269,129 | | 573,727 | |
| **Current income taxes asset** | **24,682** | **24,682** | **7,831** | **7,831** |
| **Other assets** | **142,616** | **595,568** | **31,145** | **667,473** |
| - Government bodies | 113,525 | | 28,243 | |
| - state entities (under common control of the State) | 29,091 | | 2,902 | |
| **Due to the National Bank of the Republic of Belarus** | **-** | **-** | **170,372** | **170,372** |

***(in millions of Belarusian Rubles unless otherwise stated)***

| | 31 December 2012 | | 31 December 2011 (restated) | |
|---|---|---|---|---|
| | **Related party balances** | **Total category as per financial statements caption** | **Related party balances** | **Total category as per financial statements caption** |
| **Due to banks** | **3,424,967** | **10,391,639** | **1,416,713** | **11,108,244** |
| - state entities (under common control of the State) | 3,424,967 | | 1,416,713 | |
| **Derivative financial instruments (liabilities)** | **-** | **-** | **3,272** | **8,536** |
| - National Bank (under common control of the State) | - | | 3,272 | |
| **Customer accounts** | **11,483,908** | **27,022,897** | **11,289,704** | **21,480,361** |
| - Government bodies | 6,749,555 | | 5,936,014 | |
| - state entities (under common control of the State) | 4,380,933 | | 5,082,732 | |
| - shareholders of the Bank | 345,056 | | 261,128 | |
| - key management personnel | 8,364 | | 9,830 | |
| **Debt securities issued** | **4,710,108** | **6,558,220** | **8,255,934** | **9,369,601** |
| - Government bodies | - | | 3,260,658 | |
| - state entities (under common control of the State) | 4,506,998 | | 4,969,416 | |
| - shareholders of the Bank | 203,110 | | 25,860 | |
| **Current income taxes liability** | **133,896** | **133,896** | **88,488** | **88,488** |
| **Commitments to provide loans at below market rates** | **-** | **-** | **118,984** | **118,984** |
| - state entities (under common control of the State) | - | | 118,984 | |
| **Other liabilities** | **7,127** | **850,419** | **8,364** | **435,081** |
| - Government bodies | 3,484 | | 8,231 | |
| - state entities (under common control of the State) | 3,620 | | 133 | |
| - shareholders of the Bank | 23 | | - | |
| **Guarantees issued and similar commitments** | **169,624** | **262,134** | **397,480** | **479,720** |
| - Government bodies | - | | 7,584 | |
| - state entities (under common control of the State) | 169,624 | | 389,896 | |
| **Letters of credit issued** | **1,145,915** | **1,766,710** | **1,149,734** | **1,706,326** |
| - state entities (under common control of the State) | 1,145,008 | | 1,146,499 | |
| - Government bodies | 907 | | 3,235 | |
| **Commitments on loans and unused credit lines** | **1,335,669** | **2,076,527** | **1,725,331** | **2,953,652** |
| - state entities (under common control of the State) | 1,335,064 | | 1,723,847 | |
| - Government bodies | - | | 748 | |
| - key management personnel | 605 | | 736 | |
| **Provision for guarantees and other commitments** | **106,339** | **199,308** | **112,032** | **157,514** |
| - state entities (under common control of the State) | 106,339 | | 112,032 | |

*(in millions of Belarusian Rubles unless otherwise stated)*

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

| | Year ended 31 December 2012 | | Year ended 31 December 2011 (restated) | |
|---|---|---|---|---|
| | Related party transactions | Total category as per financial statements caption | Related party transactions | Total category as per financial statements caption |
| **Interest income** | **6,640,753** | **11,535,542** | **5,061,412** | **10,412,174** |
| -state entities (under common control of the State) – customers | 5,534,256 | | 4,423,586 | |
| -Government bodies | 586,935 | | 637,106 | |
| -state entities (under common control of the State) - banks | 519,306 | | 361 | |
| -key management personnel | 256 | | 359 | |
| **Fee and commission income** | **377,935** | **994,708** | **349,118** | **917,612** |
| -state entities (under common control of the State) | 368,811 | | 338,375 | |
| -Government bodies | 5,358 | | 6,671 | |
| -shareholders of the Bank | 3,764 | | 4,071 | |
| -key management personnel | 2 | | 1 | |
| **Fee and commission expenses** | **18,178** | **159,313** | **13,807** | **144,223** |
| -state entities (under common control of the State) | 17,671 | | 13,562 | |
| -Government bodies | 500 | | 236 | |
| -key management personnel | 5 | | 7 | |
| -shareholders of the Bank | 2 | | 2 | |
| **Net gain on investments available for sale** | **66** | **184** | **1,896** | **2,298** |
| - Government bodies | 66 | | 1,896 | |
| **Interest expenses** | **5,373,490** | **8,664,291** | **4,776,873** | **7,330,067** |
| -Government bodies | 1,469,629 | | 1,778,887 | |
| -National Bank (under common control of the State) | 196,163 | | 2,125,266 | |
| -state entities (under common control of the State) - banks | 2,667,218 | | 453,657 | |
| -state entities (under common control of the State) - customers | 959,197 | | 366,541 | |
| -shareholders of the Bank | 79,965 | | 331 | |
| -key management personnel | 1,318 | | 52,191 | |
| **Allowance for impairment for interest bearing assets** | **752,309** | **902,103** | **1,124,080** | **2,016,219** |
| -state entities (under common control of the State) | 753,696 | | 1,122,193 | |
| -Government bodies | (1,387) | | 1,887 | |
| **(Writing off) / formation of other provisions** | **(18,007)** | **81,334** | **(63,915)** | **153,588** |
| - state entities (under common control of the State) | (18,007) | | (63,915) | |
| **Other income** | **27,064** | **473,414** | **37,108** | **477,552** |
| -state entities (under common control of the State) | 26,745 | | 36,946 | |
| -Government bodies | 217 | | 127 | |
| -shareholders of the Bank | 102 | | 35 | |
| **Operating expenses** | **506,287** | **1,840,505** | **574,670** | **1,645,581** |
| -Government bodies | 488,754 | | 556,875 | |
| -key management personnel (remuneration) | 17,098 | | 16,688 | |
| -state entities (under common control of the State) | 219 | | 1,107 | |
| - shareholders of the Bank | 216 | | - | |
| **Income tax expense** | **390,709** | **390,709** | **509,116** | **509,116** |

*(in millions of Belarusian Rubles unless otherwise stated)*

During the years ended 31 December 2012 and 2011 key management personnel remuneration included in operating expenses caption in the table above comprised of short-term employee benefits.

Transactions with related parties are carried out by the Bank on terms consistent with market ones.

## 28. 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 estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities of the Group compared with the corresponding carrying amount is presented below:

| | 31 December 2012 | | 31 December 2011 (restated) | |
|---|---|---|---|---|
| | **Carrying value** | **Fair value** | **Carrying value** | **Fair value** |
| **FINANCIAL ASSETS:** | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 1,932,898 | 1,932,898 | 2,587,319 | 2,587,319 |
| Due from banks | 902,445 | 902,445 | 1,079,121 | 1,079,121 |
| Loans to customers | 42,803,587 | 42,694,768 | 40,664,419 | 40,166,609 |
| Derivative financial instruments | 2,201,495 | 2,201,495 | 4,719,435 | 4,719,435 |
| Investments in debt securities available for sale | 5,116,094 | 4,624,798 | 3,294,949 | 2,804,934 |
| Other financial assets | 145,481 | 145,481 | 33,594 | 33,594 |
| **FINANCIAL LIABILITIES:** | | | | |
| Due to the National Bank of the Republic of Belarus | - | - | 170,372 | 170,372 |
| Due to banks | 10,391,639 | 10,411,719 | 11,108,244 | 11,108,244 |
| Derivative financial instruments | - | - | 8,536 | 8,536 |
| Customer accounts | 27,022,897 | 27,000,203 | 21,480,361 | 21,337,826 |
| Debt securities issued | 6,558,220 | 6,646,014 | 9,369,601 | 9,369,601 |
| Other financial liabilities | 408,359 | 408,359 | 101,139 | 101,139 |

The methods and assumptions used for determination of fair value of financial instruments that are not carried at fair value in these financial statements are presented below.

*Financial instruments, which fair value approximates the carrying value*

When the financial instruments are liquid or have short-term maturities (less than 3 months) it is assumed that their fair value approximates their carrying value. This assumption is applied also to due from/to banks, demand deposits and deposits with no maturity.

*Financial instruments with fixed and floating rates*

The fair value of financial instruments with fixed interest rates (loans to corporate customers, corporate customer accounts), which are measured at amortised cost, is calculated as a net present value of cash flows by applying the prevailing market rates on similar instruments.

Loans to individuals are granted mainly at fixed interest rates, though the Bank uses the opportunity to unilaterally review interest rates, based on market conditions, which are provided for in standard loan contracts. The fair value of loans to individuals as at the reporting date approximates their value in the statement of financial position.

The fair value of customer accounts with floating interest rates as at the reporting date approximates their value in the statement of financial position.

The fair value of unquoted debt securities of the Group is based on the discounted cash flows by applying interest rates for similar debt securities based on the remaining maturities.

The fair value of equity investments of the Group cannot be reliably measured, as it is impossible to obtain market information or apply any other valuation technique for such financial instruments.

***Measurement of financial instruments***

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

*Determination of fair value for financial instruments*

The fair value of the short-term financial assets and liabilities at fair value through profit or loss been calculated using valuation techniques (interest rate parity model), where significant model inputs are observable in the market (Level 2).

The fair value of the long-term financial assets and liabilities such as back to back deposits with the National Bank, recognized as transactions with derivative financial instruments, is calculated using valuation techniques (interest rate parity model), where significant model inputs are not observable in the market or require significant adjustments to observable data (Level 3). The rates for foreign currency used in calculation were determined based on observable risk-free interest rates with significant adjustments on default margins based on the counterparty ratings, which were non observable due to lack of active markets of similar long-term instruments. The rates for the Belarusian Ruble used in calculation were determined based on rate of refinancing set by the NBRB with adjustments on default margins, which were non observable due to lack of active markets of similar long-term instruments.

The amounts of gains and losses recognized in gain and loss on foreign currency derivatives in 2012 and 2011 for financial assets and liabilities measured at Level 3 were BYR 2,686,645 million and BYR 6,352,097 million, respectively.

For financial assets and liabilities measured at Level 3 the Bank monitors the sensitivity of the Bank's financial assets and liabilities to volatility of interest rates which are used in the calculation of their fair value. The scenario used for this analysis supposes a percent change in interest rates and assumes that all other variables remain constant. Thus, a 3 percent increase in interest rate on foreign currencies operations as at 31 December 2012 would have decrease the profit before income tax and loss on net monetary position by BYR 106,810 million (for the year ended 31 December 2011: BYR 413,560 million), and a 1 percent decrease in interest rate on foreign currencies operations would have increase the profit before income tax and loss on net monetary position by BYR 37,940 million (for the year ended 31 December 2011: BYR 148,834 million).

A 10 percent increase in interest rate on the Belarusian Ruble operations as at 31 December 2012 would have increase, respectively, profit before income tax and loss on net monetary position by BYR 56,956 million (for the year ended 31 December 2011: BYR 138,612 million) and a 5 percent decrease in interest rate on the Belarusian Ruble operations would have decrease, respectively, profit before income tax and loss on net monetary position by BYR 72,469 million (for the year ended 31 December 2011: BYR 84,321 million).

***(in millions of Belarusian Rubles unless otherwise stated)***

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| **31 December 2012** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | |
| Derivative financial instruments | - | 772 | 2,200,723 | 2,201,495 |
| Investments in debt securities available for sale | 1,450,379 | - | 3,174,419 | 4,624,798 |
| Total | 1,450,379 | 772 | 5,375,142 | 6,826,293 |
| **FINANCIAL LIABILITIES:** | | | | |
| Derivative financial instruments | - | - | - | - |
| Total | - | - | - | - |

| **31 December 2011 (restated)** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | |
| Derivative financial instruments | - | 120 | 4,719,315 | 4,719,435 |
| Investments in debt securities available for sale | 1,401,653 | - | 1,403,281 | 2,804,934 |
| Total | 1,401,653 | 120 | 6,122,596 | 7,524,369 |
| **FINANCIAL LIABILITIES:** | | | | |
| Derivative financial instruments | - | 8,536 | - | 8,536 |
| Total | - | 8,536 | - | 8,536 |

During the year ended 31 December 2012 the Bank did not change the levels of the fair value hierarchy for financial instruments.

## 29. CAPITAL MANAGEMENT AND REGULATORY MATTERS

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

The Bank reviews the capital structure on a monthly basis. As a part of this review, the equity capital adequacy ratio is determined by comparing the Bank' own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The management of the Bank considers weighted average cost of capital and risks associated with each class of capital, and balances its overall capital structure through dividend policy, issues of new shares and debt as well as the redemption thereof.

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

As at 31 December 2012 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 11,223,547 million and BYR 11,212,391 with ratio of 22.7%.

*(in millions of Belarusian Rubles unless otherwise stated)*

As at 31 December 2011 the Group's total capital amount for capital adequacy purposes and tier 1 capital amount were BYR 12,233,032 million and BYR 12,282,334 with ratios of 25.7% and 25.8%, respectively.

Capital structure is presented as follows:

| | **31 December 2012** | **31 December 2011 (restated)** |
|---|---|---|
| **TIER 1 CAPITAL:** | | |
| Share capital | 20,868,682 | 20,868,682 |
| Treasury shares | (169) | (169) |
| Accumulated loss | (9,712,639) | (8,626,155) |
| Non-controlling share | 56,517 | 39,976 |
| **TOTAL TIER 1 CAPITAL** | **11,212,391** | **12,282,334** |
| | | |
| **TIER 2 CAPITAL:** | | |
| Revaluation reserve | 11,156 | (49,302) |
| **TOTAL TIER 2 CAPITAL** | **11,223,547** | **12,233,032** |

## 30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. The Group follows approved documented risk management policy. This policy provides for a range of interconnected measures and steps in order to prevent and minimize losses which can be caused by risks inherent to bank's activity. A description of the Group's risk management policies in relation to those risks follows.

The Group manages the following risks

***Credit risk***

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

To minimize credit risk the Group pursues the following principles of lending process:

- collective decision making;
- segregation of lending decision authority based on the amount of risk to be taken;
- decision making based on weighted risk assessment;
- monitoring of lending operations until complete discharge of obligations by counterparty to the Group;
- overall valuation of risk to be taken at the stage of discussion and decision-making;
- optimization of decision-making system and concentration on individuals' loan portfolio at the branches and head office level.

Risk management of credit risk is carried out in three main directions: strategic management of credit risk, risk management of a specific credit transaction, the Bank's loan portfolio management.

Strategic management is principally the development and maintenance of the actual state of the methodological framework for the implementation of active banking operations.

Risk management of a specific credit transaction is a process aimed at minimizing risks for each credit transaction, including:

- credit ranking of organizations based on assessment of credit history and financial performance, to determine their ability to timely and fully fulfill the current and future obligations and determine the degree of risk that the Bank accepts while carrying out active banking operations;
- determination and review of limits for the total amount of claims to one borrower (a group of related borrowers), including the individual limits, which allows the Bank to monitor the financial condition of major borrowers;
- review of business plans for significant investment projects by specialized subdivisions, monitoring of borrowers' compliance with indicators of financial and operational activities set in business plans for investment projects.

The Bank's loan portfolio management is a process of determining direct actions on generated loan portfolio management, which includes: monitoring of the Bank's loan portfolio, dealing with bad debts, formation and management of reserves for impairment losses on assets (contingent liabilities), subject to credit risk.

Monitoring of the Bank's loan portfolio is carried out by means of control over each credit line, industry, as well as through analysis and determination of individual limits for the total amount of claims to one borrower (a group of related borrowers) at the Bank's Credit Committee level. The control of compliance with the established limits is carried out for each borrower.

To deal with bad debts the Bank approves and informs its bank branches about the monthly schedule of the bad debts level in Bank's loans; and strict control of compliance with this schedule is established. Bank branches receive methodical and practical assistance in recovery of overdue loans, sale of collateral, work with judicial and executive authorities. A database of the realizable property was created and work on its sale is carried out.

The Group obtains collateral and guarantees from corporate customers and individuals. The required amount and quality of collateral under each loan agreement is determined based on the credit rating of organizations. Credit risk and the level of collateral are constantly monitored.

The banking sector organizations are generally exposed to credit risk in respect of financial instruments and contingent liabilities. The Group's credit risk is concentrated in the Republic of Belarus.

The following table presents the maximum exposure to credit risk of financial assets and off-balance sheet commitments. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees, off-balance sheet commitments and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on:

***(in millions of Belarusian Rubles unless otherwise stated)***

| | 31 December 2012<br>Maximum credit risk exposure | 31 December 2011<br>Maximum credit risk exposure (restated) |
|---|---|---|
| **Maximum credit risk exposure on financial assets** | | |
| Balances with the National Bank | 814,966 | 1,672,662 |
| Due from banks | 902,445 | 1,079,121 |
| Derivatives | 2,201,495 | 4,719,435 |
| Loans to customers | 42,803,587 | 40,664,419 |
| Securities available for sale | 5,116,094 | 3,294,949 |
| Other financial assets | 145,481 | 33,594 |
| **Maximum credit risk exposure on off-balance sheet commitments** | | |
| Guarantees issued and similar commitments not secured by cash | 177,711 | 450,916 |
| Letters of credit not collateralized by customer deposits | 1,297,900 | 1,574,664 |
| Commitments on loans and unused credit lines | 2,076,527 | 2,953,652 |

Financial assets are graded according to the current credit rating of the issuer, assigned by an internationally regarded agency Fitch Ratings Ltd as of the end of respective reporting period. Balances with the National Bank and state securities are graded according to the sovereign rating of the Republic of Belarus.

The following table details the counterparty credit ratings of financial assets held by the Group:

| | AA | A | BBB | Below BBB | Not rated | 31 December 2012 Total |
|---|---|---|---|---|---|---|
| Balances with the National Bank | - | - | - | 814,966 | - | 814,966 |
| Due from banks | 9,311 | 632,293 | 136,136 | 77,502 | 47,203 | 902,445 |
| Derivatives | - | - | 772 | 2,200,723 | - | 2,201,495 |
| Loans to customers | - | - | - | - | 42,803,587 | 42,803,587 |
| Securities available for sale | - | - | - | 1,450,719 | 3,665,375 | 5,116,094 |
| Other financial assets | - | - | - | - | 145,481 | 145,481 |

| | AA | A | BBB | Below BBB | Not rated | 31 December 2011 (restated) Total |
|---|---|---|---|---|---|---|
| Balances with the National Bank | - | - | - | 1,672,662 | - | 1,672,662 |
| Due from banks | 45,749 | 690,826 | 150,354 | 157,300 | 34,892 | 1,079,121 |
| Derivatives | - | 120 | - | 4,719,315 | - | 4,719,435 |
| Loans to customers | - | - | - | - | 40,664,419 | 40,664,419 |
| Securities available for sale | - | - | - | 1,402,066 | 1,892,883 | 3,294,949 |
| Other financial assets | - | - | - | - | 33,594 | 33,594 |

***(in millions of Belarusian Rubles unless otherwise stated)***

### *Geographical concentration*

The Group monitors and assesses the exposure to country risks. Appropriate procedures have beed developed and implemented to identify, assess, monitor, limit and control country risk. The geographical concentration of financial assets and liabilities is set out below:

| | Belarus | Other CIS countries | OECD countries | Other countries - non-OECD | 31 December 2012 Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 1,932,898 | - | - | - | 1,932,898 |
| Due from banks | 68,141 | 149,949 | 684,076 | 279 | 902,445 |
| Derivative financial instruments | 2,200,723 | 772 | - | - | 2,201,495 |
| Loans to customers | 42,803,587 | - | - | - | 42,803,587 |
| Securities available-for-sale | 5,116,021 | - | 73 | - | 5,116,094 |
| Other financial assets | 145,472 | - | 9 | - | 145,481 |
| **TOTAL FINANCIAL ASSETS** | 52,266,842 | 150,721 | 684,158 | 279 | 53,102,000 |
| **FINANCIAL LIABILITIES:** | | | | | |
| Due to banks | 3,936,142 | 2,430,990 | 4,024,507 | - | 10,391,639 |
| Customer accounts | 25,936,384 | 120,503 | 950,091 | 15,919 | 27,022,897 |
| Debt securities issued | 6,558,220 | - | - | - | 6,558,220 |
| Other financial liabilities | 385,518 | 14 | 22,827 | - | 408,359 |
| TOTAL FINANCIAL LIABILITIES | 36,816,264 | 2,551,507 | 4,997,425 | 15,919 | 44,381,115 |
| **OPEN POSITION** | 15,450,578 | (2,400,786) | (4,313,267) | (15,640) | |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | Belarus | Other CIS countries | OECD countries | Other countries - non-OECD | 31 December 2011 (restated) Total |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 2,587,319 | - | - | - | 2,587,319 |
| Due from banks | 186,009 | 84,950 | 807,658 | 504 | 1,079,121 |
| Derivative financial instruments | 4,719,315 | - | 120 | - | 4,719,435 |
| Loans to customers | 40,664,419 | - | - | - | 40,664,419 |
| Securities available-for-sale | 3,294,860 | - | 89 | - | 3,294,949 |
| Other financial assets | 33,594 | - | - | - | 33,594 |
| TOTAL FINANCIAL ASSETS | 51,485,516 | 84,950 | 807,867 | 504 | 52,378,837 |
| **FINANCIAL LIABILITIES:** | | | | | |
| Due to the National Bank of the Republic of Belarus | 170,372 | - | - | - | 170,372 |
| Due to banks | 2,959,829 | 3,305,133 | 4,843,282 | - | 11,108,244 |
| Derivative financial instruments | 7,888 | 542 | 106 | - | 8,536 |
| Customer accounts | 20,525,986 | 87,890 | 852,755 | 13,730 | 21,480,361 |
| Debt securities issued | 9,369,601 | - | - | - | 9,369,601 |
| Commitments to provide loans at below market rates | 118,984 | - | - | - | 118,984 |
| Other financial liabilities | 97,163 | - | 3,769 | 207 | 101,139 |
| TOTAL FINANCIAL LIABILITIES | 33,249,823 | 3,393,565 | 5,699,912 | 13,937 | 42,357,237 |
| **OPEN POSITION** | 18,235,693 | (3,308,615) | (4,892,045) | (13,433) | |

### *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities or repayment of deposits that are settled by delivering cash or another financial asset

In order to minimize liquidity risk Treasury, Department of Strategic Development, Finance and Economic Department, Department of Active Banking Operations, Securities Department, Foreign Trade Finance Department, Corporate Business Department, Foreign Currency Regulation and Control Department, Settlement Center perform planning and analysis of the Bank’s liquidity.

The Bank's liquidity planning is carried out through the following instruments: budgeted statement of financial position, payments calendar, a daily forecast of liquidity position, establishment of differentiated limits on active and passive operations.

The Bank's liquidity analysis includes:

- factor analysis, which is conducted to determine key factors affecting liquidity and the extent of their influence;
- analysis of assets and liabilities structure;
- preparation of analytical materials and formulation of recommendations on improvement of the structure and quality of assets and liabilities, liquidity indicators.

The Bank's liquidity management policy is determined by the Management Board. Decisions on liquidity operational management are made by the Finance Committee, Credit Committee, Chairman of the Management Board, Deputy Chairman of the Management Board supervising Treasury, Head of Treasury and deputies according to their authority, determined by the local legislative documents of the Bank and job descriptions.

The Treasury manages liquidity risk through performing the operations depending on current and forecasted liquidity position of the Bank (liquidity gap or surplus). Maintenance of liquidity position is achieved through daily forecasts and measures taken by Treasury with regard to optimization of financial result from alternative transactions. Considering "profitability-liquidity" alternative, preference is given to liquidity position.

An analysis of the liquidity and interest rate risks is presented below. It presents the remaining contractual maturity of non-derivative financial liabilities calculated for undiscounted cash flows on financial liabilities (both principal and interest cash flows) based on the earliest date on which the Group can be required to pay.

***(in millions of Belarusian Rubles unless otherwise stated)***

| | Weighted average nominal interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2012 Total | 31 December 2012 Total Carrying value |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES:** | | | | | | | | |
| Due to banks | 7.70% | 807,545 | 1,238,238 | 3,144,402 | 77,362 | 41,245 | 5,308,792 | 5,191,649 |
| Customer accounts | 9.55% | 4,308,727 | 6,420,406 | 6,622,907 | 1,953,132 | 447,205 | 19,752,377 | 17,647,033 |
| Debt securities issued | 4.40% | 21,926 | 387,814 | 857,129 | 721,016 | 454,016 | 2,441,901 | 1,499,486 |
| Total interest bearing liabilities at fixed rates | | 5,138,198 | 8,046,458 | 10,624,438 | 2,751,510 | 942,466 | 27,503,070 | 24,338,168 |
| Due to banks | 12.22% | 675,747 | 210,758 | 1,101,589 | 3,642,666 | 2,150,663 | 7,781,423 | 5,129,041 |
| Customer accounts | 25.29% | 5,156,046 | 843,653 | 878,285 | 3,814,236 | 1,228,216 | 11,920,436 | 8,939,578 |
| Debt securities issued | 29.81% | 321,929 | 251,909 | 1,672,679 | 5,065,331 | 38,496,845 | 45,808,693 | 5,055,419 |
| Total interest bearing liabilities at variable rates | | 6,153,722 | 1,306,320 | 3,652,553 | 12,522,233 | 41,875,724 | 65,510,552 | 19,124,038 |
| Total interest bearing liabilities | | 11,291,920 | 9,352,778 | 14,276,991 | 15,273,743 | 42,818,190 | 93,013,622 | 43,462,206 |
| Due to banks | | 70,949 | - | - | - | - | 70,949 | 70,949 |
| Customer accounts | | 436,074 | - | 4 | 102 | 106 | 436,286 | 436,286 |
| Debt securities issued | | 3,315 | - | - | - | - | 3,315 | 3,315 |
| Other financial liabilities | | 121,689 | 95,046 | 80,188 | 111,431 | 5 | 408,359 | 408,359 |
| Financial guarantee contracts and letters of credit | | 1,039,614 | 13,668 | 249,085 | 173,244 | - | 1,475,611 | 1,475,611 |
| Commitments on loans and unused credit lines | | 2,069,128 | 5,805 | 1,594 | - | - | 2,076,527 | 2,076,527 |
| **TOTAL FINANCIAL LIABILITIES** | | 15,032,689 | 9,467,297 | 14,607,862 | 15,558,520 | 42,818,301 | 97,484,669 | 47,933,253 |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | Weighted average nominal interest rate | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | 31 December 2011 (restated) Total | 31 December 2011 (restated) Total Carrying value |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES:** | | | | | | | | |
| Due to banks | 25.45% | 1,903,437 | 1,268,935 | 1,076,352 | 31,565 | 44,749 | 4,325,038 | 4,231,332 |
| Customer accounts | 11.97% | 3,390,979 | 4,925,324 | 2,392,954 | 2,406,217 | 491,513 | 13,606,987 | 11,947,659 |
| Debt securities issued | 6.32% | 73,369 | 294,904 | 651,295 | 5,099,715 | 801,673 | 6,920,956 | 4,505,514 |
| Total interest bearing liabilities at fixed rates | | 5,367,785 | 6,489,163 | 4,120,601 | 7,537,497 | 1,337,935 | 24,852,981 | 20,684,505 |
| Due to the National Bank of the Republic of Belarus | 69.00% | - | 9,663 | 171,016 | - | - | 180,679 | 170,372 |
| Due to banks | 12.16% | 131,948 | 1,031,930 | 1,279,477 | 5,597,788 | 4,244,277 | 12,285,420 | 6,855,992 |
| Customer accounts | 37.67% | 5,904,610 | 565,102 | 1,550,494 | 4,511,230 | 799,555 | 13,330,991 | 9,438,030 |
| Debt securities issued | 45.26% | 199,199 | 393,734 | 1,833,853 | 8,097,779 | 73,142,301 | 83,666,866 | 4,850,522 |
| Total interest bearing liabilities at variable rates | | 6,235,757 | 2,000,429 | 4,834,840 | 18,206,797 | 78,186,133 | 109,463,956 | 21,314,916 |
| Total interest bearing liabilities | | 11,603,542 | 8,489,592 | 8,955,441 | 25,744,294 | 79,524,068 | 134,316,937 | 41,999,421 |
| Due to banks | | 20,920 | - | - | - | - | 20,920 | 20,920 |
| Customer accounts | | 94,526 | - | - | 17 | 129 | 94,672 | 94,672 |
| Debt securities issued | | 13,565 | - | - | - | - | 13,565 | 13,565 |
| Commitments to provide loans at below market rates | | 108,780 | 534 | 8,640 | 1,030 | - | 118,984 | 118,984 |
| Other financial liabilities | | 61,914 | 13,854 | 19,471 | 5,900 | - | 101,139 | 101,139 |
| Financial guarantee contracts and letters of credit | | 1,533,350 | 211,131 | 135,169 | 142,829 | 3,101 | 2,025,580 | 2,025,580 |
| Commitments on loans and unused credit lines | | 2,466,799 | 12,702 | 159,997 | 314,154 | - | 2,953,652 | 2,953,652 |
| TOTAL FINANCIAL LIABILITIES | | 15,903,396 | 8,727,813 | 9,278,718 | 26,208,224 | 79,527,298 | 139,645,449 | 47,327,933 |

The analysis of financial assets and liabilities of the Group by contractual maturities and interest rate risk is presented in the following table:

***(in millions of Belarusian Rubles unless otherwise stated)***

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2012 Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | | | |
| Due from banks | 809,625 | 8 | - | - | - | - | - | 809,633 |
| Loans to customers | 1,664,720 | 5,944,764 | 14,995,870 | 10,473,929 | 9,461,942 | 262,362 | - | 42,803,587 |
| Investments in securities available for sale | 21,258 | 17,983 | 93,492 | 1,701,952 | 2,790,113 | - | - | 4,624,798 |
| Total interest bearing assets | 2,495,603 | 5,962,755 | 15,089,362 | 12,175,881 | 12,252,055 | 262,362 | - | 48,238,018 |
| Cash and balances with the National Bank of the Republic of Belarus | 1,932,898 | - | - | - | - | - | - | 1,932,898 |
| Derivative financial instruments | 772 | - | 1,242,191 | 958,532 | - | - | - | 2,201,495 |
| Due from banks | 92,812 | - | - | - | - | - | - | 92,812 |
| Investments in securities available for sale | - | - | - | - | - | - | 491,296 | 491,296 |
| Other financial assets | 40,810 | 25,088 | 8,757 | 42,152 | 25,528 | 3,146 | - | 145,481 |
| **TOTAL FINANCIAL ASSETS** | 4,562,895 | 5,987,843 | 16,340,310 | 13,176,565 | 12,277,583 | 265,508 | 491,296 | 53,102,000 |
| **FINANCIAL LIABILITIES:** | | | | | | | | |
| Due to banks | 1,423,359 | 1,296,426 | 3,760,023 | 2,500,050 | 1,340,832 | - | - | 10,320,690 |
| Customer accounts | 9,201,848 | 6,851,580 | 6,180,912 | 3,185,678 | 1,166,593 | - | - | 26,586,611 |
| Debt securities issued | 193,778 | 346,858 | 1,310,712 | 464,591 | 4,238,966 | - | - | 6,554,905 |
| Total interest bearing liabilities | 10,818,985 | 8,494,864 | 11,251,647 | 6,150,319 | 6,746,391 | - | - | 43,462,206 |
| Due to banks | 70,949 | - | - | - | - | - | - | 70,949 |
| Customer accounts | 436,074 | - | 4 | 102 | 106 | - | - | 436,286 |
| Debt securities issued | 3,315 | - | - | - | - | - | - | 3,315 |
| Other financial liabilities | 121,689 | 95,046 | 80,188 | 111,431 | 5 | - | - | 408,359 |
| **TOTAL FINANCIAL LIABILITIES** | 11,451,012 | 8,589,910 | 11,331,839 | 6,261,852 | 6,746,502 | - | - | 44,381,115 |
| Liquidity gap | (6,888,117) | (2,602,067) | 5,008,471 | 6,914,713 | 5,531,081 | | | |
| Interest sensitivity gap | (8,323,382) | (2,532,109) | 3,837,715 | 6,025,562 | 5,505,664 | | | |
| Cumulative interest sensitivity gap | (8,323,382) | (10,855,491) | (7,017,776) | (992,214) | 4,513,450 | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | (16%) | (20%) | (13%) | (2%) | 8% | | | |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined | 31 December 2011 (restated) Total |
|---|---|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | | | |
| Due from banks | 1,055,765 | - | - | - | - | - | - | 1,055,765 |
| Loans to customers | 1,825,267 | 5,275,448 | 11,901,259 | 11,022,891 | 10,511,657 | 127,897 | - | 40,664,419 |
| Investments in securities available for sale | 10,973 | 18,361 | 78,095 | 2,039,759 | 656,316 | 1,430 | - | 2,804,934 |
| Total interest bearing assets | 2,892,005 | 5,293,809 | 11,979,354 | 13,062,650 | 11,167,973 | 129,327 | - | 44,525,118 |
| Cash and balances with the National Bank of the Republic of Belarus | 2,587,319 | - | - | - | - | - | - | 2,587,319 |
| Derivative financial instruments | 120 | - | - | 4,719,315 | - | - | - | 4,719,435 |
| Due from banks | 23,356 | - | - | - | - | - | - | 23,356 |
| Investments in securities available for sale | - | - | - | - | - | - | 490,015 | 490,015 |
| Other financial assets | 12,576 | 7,625 | 2,147 | 8,229 | 2,821 | 196 | - | 33,594 |
| **TOTAL FINANCIAL ASSETS** | 5,515,376 | 5,301,434 | 11,981,501 | 17,790,194 | 11,170,794 | 129,523 | 490,015 | 52,378,837 |
| **FINANCIAL LIABILITIES:** | | | | | | | | |
| Due to the National Bank of the Republic of Belarus | - | 170,372 | - | - | - | - | - | 170,372 |
| Due to banks | 1,940,528 | 2,151,852 | 1,758,285 | 3,100,148 | 2,136,511 | - | - | 11,087,324 |
| Customer accounts | 8,989,215 | 5,140,266 | 2,782,332 | 3,928,736 | 545,140 | - | - | 21,385,689 |
| Debt securities issued | 66,453 | 271,648 | 610,983 | 3,789,017 | 4,617,935 | - | - | 9,356,036 |
| Total interest bearing liabilities | 10,996,196 | 7,734,138 | 5,151,600 | 10,817,901 | 7,299,586 | - | - | 41,999,421 |
| Due to banks | 20,920 | - | - | - | - | - | - | 20,920 |
| Derivative financial instruments | 8,536 | - | - | - | - | - | - | 8,536 |
| Customer accounts | 94,526 | - | - | 17 | 129 | - | - | 94,672 |
| Debt securities issued | 13,565 | - | - | - | - | - | - | 13,565 |
| Commitments to provide loans at below market rates | 108,780 | 534 | 8,640 | 1,030 | - | - | - | 118,984 |
| Other financial liabilities | 61,914 | 13,854 | 19,471 | 5,900 | - | - | - | 101,139 |
| **TOTAL FINANCIAL LIABILITIES** | 11,304,437 | 7,748,526 | 5,179,711 | 10,824,848 | 7,299,715 | - | - | 42,357,237 |
| Liquidity gap | (5,789,061) | (2,447,092) | 6,801,790 | 6,965,346 | 3,871,079 | | | |
| Interest sensitivity gap | (8,104,191) | (2,440,329) | 6,827,754 | 2,244,749 | 3,868,387 | | | |
| Cumulative interest sensitivity gap | (8,104,191) | (10,544,520) | (3,716,766) | (1,472,017) | 2,396,370 | | | |
| Cumulative interest sensitivity gap as a percentage of total financial assets | (15%) | (20%) | (7%) | (3%) | 5% | | | |

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost as they mature are crucial in determining the Group's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

Currently, a considerable part of customer deposits are repayable on demand. However, these deposits are diversified by the number and type of customers.

***Market risk***

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

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

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed.

***Interest rate risk***

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

The Group is exposed to interest rate risk as entities of the Group place and borrow funds at fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate assets and liabilities.

In order to effectively manage interest rate risk, the Bank established the organizational structure aimed at interest rate risk management and headed by the Supervisory Board and Management Board of the Bank; the appropriate tools to identify interest rate risk are used; systems of prudential and local estimates of interest rate risk operate; interest rate risk is monitored by structural divisions and branches of the Bank.

To minimize interest risk the Group uses the following instruments:

- centralized approach on setting interest rates on major types of placed and attracted resources;
- application, where necessary, interest rates on assets and liabilities linked to major financial market indicators (primarily to refinancing rate of the National Bank);
- borrowing and placement of funds preferably on terms that provide the Group with the right to change interest rates in case of change in market situation;
- preferential use of floating interest rates on attraction and allocation of resources;
- predominant use of standard contracts, with conditions, facilitating the reduction of interest rate risk;
- implementation of policy aimed at balanced position of assets and liabilities by maturities;
- permanent monitoring of interest margin, assets and liabilities subject to changes in interest rates;
- stress-testing.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on reasonably possible changes in the risk variable applied to floating rate financial instruments. The level of changes in the interest rate is determined by management. The sensitivity analysis below represents the effect of 15% increase/ 15% decrease in interest rates enacted at the end of reporting period, on the profit after taxation and before loss on net monetary position of the Group and equity assuming that the change took place at the beginning of the financial year and after that interest rates remain constant throughout the reporting period, and all other variables held constant.

*(in millions of Belarusian Rubles unless otherwise stated)*

Impact on profit before tax and loss on net monetary position and equity:

| | **31 December 2012** | | **31 December 2011 (restated)** | |
|---|---|---|---|---|
| | **Interest rate +15%** | **Interest rate -15%** | **Interest rate +5%** | **Interest rate -20%** |
| **FINANCIAL ASSETS:** | | | | |
| Due from banks | 74,872 | (74,872) | 15,136 | (60,545) |
| Loans to customers | 1,850,264 | (1,850,264) | 621,201 | (2,484,805) |
| Investments in securities available for sale | 568,850 | (568,850) | 106,588 | (426,350) |
| **FINANCIAL LIABILITIES** | | | | |
| Due to the National Bank of the Republic of Belarus | - | - | (6,474) | 25,896 |
| Due to banks | (647,084) | 647,084 | (260,157) | 1,040,628 |
| Customer accounts | (1,091,341) | 1,091,341 | (356,322) | 1,425,289 |
| Debt securities issued | (622,010) | 622,010 | (182,563) | 730,255 |
| **Net impact on profit before income taxes and loss on net monetary position** | 133,551 | (133,551) | (62,591) | 250,368 |

### *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 Group is exposed to the effects of fluctuations in the foreign currency exchange rates on its financial position and cash flows.

While performing foreign exchange operations regional offices, local branch offices, the Operational Department, as well as the Foreign Currency Regulation and Control Department and Treasury continuously monitor the status of open currency position in order to fulfill the requirements of the legislation and local regulatory legal acts as well as for operational management of currency risk.

For control purposes in relation to the Bank's open currency position the limitations on the following indicators are imposed:

- values of the total open currency position;
- values of net open currency position for each foreign currency (except for bullions);
- values of net open currency position on forward transactions for each foreign currency (except for bullions).
- assessment of the Bank’s liquidity position to identify facts, negatively characterizing the liquidity management system.

Calculation of the standard open currency position is carried out in accordance with the regulations of the National Bank of the Republic of Belarus.

Based on the open currency position ratio set for the Bank as a whole, performance results of the Bank’s regional offices in the currency market, the Foreign Currency Regulation and Control Department sets limitations on the certain indicators of open currency position for regional offices, which can be reviewed in connection with their redistribution among regional offices, and changes in factors effecting the value of the currency risk. Limitations on the certain indicators of open currency position for local branch offices are set by regional offices independently in the framework of limitations set for them.

*(in millions of Belarusian Rubles unless otherwise stated)*

In order to minimize currency risk the Treasury establishes limits for foreign exchange transactions: limits on positions, limits on transactions and stop losses.

During stress-testing the cumulative effect of possible losses is assessed for the overall open currency position of the Bank in extreme market conditions that result from sharp foreign currency rates fluctuations.

The summary of the Group's exposure to currency risk is as follows:

| | BYR | USD 1USD= BYR 8,570.00 | EUR 1EUR= BYR 11,340.00 | RUB 1RUB= BYR 282.00 | Other currencies | 31 December 2012 Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 1,475,777 | 209,097 | 145,728 | 98,651 | 3,645 | 1,932,898 |
| Due from banks | - | 430,250 | 310,724 | 150,907 | 10,564 | 902,445 |
| Derivative financial instruments | 2,201,495 | - | - | - | - | 2,201,495 |
| Loans to customers | 27,324,648 | 7,783,120 | 6,610,914 | 1,084,905 | - | 42,803,587 |
| Investments in securities available for sale | 4,352,856 | 729,329 | - | 33,909 | - | 5,116,094 |
| Other financial assets | 92,536 | 36,807 | 13,231 | 2,907 | - | 145,481 |
| **TOTAL FINANCIAL ASSETS** | 35,447,312 | 9,188,603 | 7,080,597 | 1,371,279 | 14,209 | 53,102,000 |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Due to banks | 3,844,480 | 1,712,694 | 4,818,046 | 16,418 | 1 | 10,391,639 |
| Customer accounts | 14,415,085 | 9,202,688 | 2,303,686 | 1,090,677 | 10,761 | 27,022,897 |
| Debt securities issued | 5,237,935 | 941,610 | 332,951 | 45,724 | - | 6,558,220 |
| Other financial liabilities | 379,262 | 2,040 | 27,035 | 22 | - | 408,359 |
| **TOTAL FINANCIAL LIABILITIES** | 23,876,762 | 11,859,032 | 7,481,718 | 1,152,841 | 10,762 | 44,381,115 |
| **NET STATEMENT OF FINANCIAL POSITION EXPOSURE** | 11,570,550 | (2,670,429) | (401,121) | 218,438 | 3,447 | |

### *Derivative financial instruments*

The table above includes derivative financial instruments that are carried at fair value. The exposure to foreign currency risk on derivative financial instruments as at 31 December 2012 is presented in the table below:

| | BYR | USD 1USD= BYR 8,570.00 | EUR 1EUR= BYR 11,340.00 | RUB 1RUB= BYR 282.00 | Other currencies | 31 December 2012 Total |
|---|---|---|---|---|---|---|
| Claims on forward contracts | - | 3,188,131 | 713,706 | - | - | 3,901,837 |
| Obligations on forward contracts | (1,249,858) | (367,751) | (11,907) | (133,831) | - | (1,763,347) |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | (1,249,858) | 2,820,380 | 701,799 | (133,831) | - | |
| **NET EXPOSURE** | 10,320,692 | 149,951 | 300,678 | 84,607 | 3,447 | |

*(in millions of Belarusian Rubles unless otherwise stated)*

| | **BYR** | **USD** 1USD= BYR 8,350.00 | **EUR** 1EUR= BYR 10,800.00 | **RUB** 1RUB= BYR 261.00 | **Other currencies** | **31 December 2011 (restated) Total** |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and balances with the National Bank of the Republic of Belarus | 2,114,204 | 243,571 | 134,666 | 90,402 | 4,476 | 2,587,319 |
| Due from banks | 29,906 | 205,877 | 746,648 | 92,214 | 4,476 | 1,079,121 |
| Derivative financial instruments | 4,719,435 | - | - | - | - | 4,719,435 |
| Loans to customers | 28,082,855 | 5,293,349 | 6,381,846 | 906,369 | - | 40,664,419 |
| Investments in securities available for sale | 2,999,416 | 257,394 | - | 38,139 | - | 3,294,949 |
| Other financial assets | 21,880 | 9,345 | 2,358 | 11 | - | 33,594 |
| **TOTAL FINANCIAL ASSETS** | 37,967,696 | 6,009,536 | 7,265,518 | 1,127,135 | 8,952 | 52,378,837 |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Due to the National Bank of the Republic of Belarus | 170,372 | - | - | - | - | 170,372 |
| Due to banks | 2,944,899 | 3,285,079 | 4,858,140 | 20,126 | - | 11,108,244 |
| Derivative financial instruments | 8,536 | - | - | - | - | 8,536 |
| Customer accounts | 11,569,824 | 5,967,399 | 3,100,060 | 840,654 | 2,424 | 21,480,361 |
| Debt securities issued | 5,136,576 | 3,331,092 | 899,200 | 2,733 | - | 9,369,601 |
| Commitments to provide loans at below market rates | 118,984 | - | - | - | - | 118,984 |
| Other financial liabilities | 81,944 | 1,331 | 17,845 | 19 | - | 101,139 |
| **TOTAL FINANCIAL LIABILITIES** | 20,031,135 | 12,584,901 | 8,875,245 | 863,532 | 2,424 | 42,357,237 |
| **NET STATEMENT OF FINANCIAL POSITION EXPOSURE** | 17,936,561 | (6,575,365) | (1,609,727) | 263,603 | 6,528 | |

The exposure to foreign currency risk on derivative financial instruments as at 31 December 2011 is presented in the table below:

| | **BYR** | **USD** 1USD= BYR 8,350.00 | **EUR** 1EUR= BYR 10,800.00 | **RUB** 1RUB= BYR 261.00 | **Other currencies** | **31 December 2011 (restated) Total** |
|---|---|---|---|---|---|---|
| Claims on forward contracts | 15,516 | 6,755,354 | 1,692,041 | - | - | 8,462,911 |
| Obligations on forward contracts | (3,618,921) | (147,340) | (131,430) | (115,698) | - | (4,013,389) |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | (3,603,405) | 6,608,014 | 1,560,611 | (115,698) | - | |
| **NET EXPOSURE** | 14,333,156 | 32,649 | (49,116) | 147,905 | 6,528 | |

*(in millions of Belarusian Rubles unless otherwise stated)*

***Currency risk sensitivity***

The following table details the Group's sensitivity to an increase and decrease in the USD, EUR and RUB against the BYR. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. At 31 December 2011 the management of the Group analyzed sensitivity to 10% increase and 5% decrease in rates of major foreign currencies used by the Group (US dollar, Euro and Russian Ruble). The sensitivity analysis includes only outstanding monetary items denominated in foreign currencies. These items are translated at foreign currency exchange rates adjusted for possible change compared to the actual foreign exchange rates.

| | **31 December 2012** | | **31 December 2011 (restated)** | |
|---|---|---|---|---|
| | **USD/BYR +10%** | **USD/BYR -5%** | **USD/BYR +10%** | **USD/BYR -5%** |
| Impact on net profit and comprehensive income, as well as equity | 12,296 | (6,148) | 2,677 | (1,338) |
| | **EUR/BYR +10%** | **EUR/BYR -5%** | **EUR/BYR +10%** | **EUR/BYR -5%** |
| Impact on net profit and comprehensive income, as well as equity | 24,656 | (12,328) | (4,028) | 2,014 |
| | **RUB/BYR +10%** | **RUB/BYR -5%** | **RUB/BYR +10%** | **RUB/BYR -5%** |
| Impact on net profit and comprehensive income, as well as equity | 6,938 | (3,469) | 12,129 | (6,064) |

***Limitations of sensitivity analysis***

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and results should not be interpolated or extrapolated.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. In case of negative fluctuations of securities market, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas it can affect certain assets that are held at fair value in the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

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

## 31. EVENTS SUBSEQUENT TO THE REPORTING DATE

During the period from 1 January 2013 until the date these consolidated financial statements were authorized for issue, the exchange rate of Belarusian ruble revalued against the currency basket by 0.4%.

There is a relatively high level of inflation in Belarus. According to the official statistics, consumer prices grew by 5% during the three-month period ended 31 March 2013.

As at the date of authorization of these consolidated financial statements for issue the refinancing rate of the National Bank of the Republic of Belarus amounted 27% (30% as at 31 December 2012)

Dividends declared in 2013 based on results of 2012 amounted BYR 110.95 per each ordinary share and BYR 300 per each preference share. The total amount of dividends comprised BYR 366,338 million (all amounts are stated at historic cast before restatement for hyperinflation)

## 32. OPERATING ENVIRONMENT

### *Economy of the Republic of Belarus*

The economy of the Republic of Belarus has recently been characterized by high rates of inflation, a relatively high level of taxation and a high degree of State regulation. Business legislation of the Republic of Belarus constantly changes. Future economic development to a large extent depends on the effectiveness of measures taken by the Belarusian government and is outside the control of the Group. The recoverability of the Group's assets and its ability to pay debts as they mature as well as future activity of the Group to a large extent depends on the future direction of the economic policy of the government of the Republic of Belarus. Management of the Bank made its best estimate of the recoverability and classification of assets and liabilities. However, the uncertainty described above still exists and may have a significant influence on the operations of the Group.

### *Legislation*

Certain provisions of Belarusian business and tax legislation in particular are subject to varying interpretations and may be applied inconsistently. In addition, interpretations made by Management may be different from official interpretations and compliance with law may be challenged by the authorities. As a result, the Group may be subject to additional tax payments and fines and other preventive actions. Management of the Group believes that it has made the required tax and other payments and no additional provisions are needed in the financial statements. A tax year remains open for review by the tax authorities in subsequent periods.