OPEN JOINT STOCK COMPANY “PARITETBANK”

Financial Statements
for the Year Ended 31 December 2012

OPEN JOINT STOCK COMPANY "PARITETBANK"

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OPEN JOINT STOCK COMPANY "PARITETBANK"

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

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

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2012 were authorized for issue on 1 April 2013 by the Management of the Bank.

On behalf of the Management Board of the Bank:

РЕСПУБЛИКА БЕЛАРУСЬ АКЦИОНЕРНОЕ ОБЩЕСТВО ОТКРЫТОЕ «ПАРИТЕТБАНК» МИНСК

Chairman of the Management Board	**Chief Accountant**
V.N. Gorozhankin	**M.M. Abramenko**
1 April 2013	1 April 2013
Minsk	Minsk

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Belarus

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INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board and the shareholders of Open Joint Stock Company "Paritetbank":

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Deloitte & Touche

1 April 2013
Minsk

OPEN JOINT STOCK COMPANY “PARITETBANK”

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

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	4, 26	161,623	184,877
Interest expense	4, 26	(83,964)	(116,944)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		77,659	67,933
Provision for impairment losses on interest bearing assets	5, 26	(7,157)	(14,181)
NET INTEREST INCOME		70,502	53,752
Net gain on operations with financial instruments at fair value through profit or loss	6, 26	44,929	339,791
Net gain/(loss) on foreign exchange operations	7, 26	6,992	(262,352)
Fee and commission income	8, 26	21,177	21,370
Fee and commission expense	8	(4,690)	(5,515)
Net gain on investments available for sale		258	1,496
(Other provisions)/recovery of other provisions	5	(654)	123
Other income	9	8,703	12,403
NET NON-INTEREST INCOME		76,715	107,316
OPERATING INCOME		147,217	161,068
OPERATING EXPENSES	10	(92,609)	(88,637)
PROFIT BEFORE INCOME TAX AND LOSS ON NET MONETARY POSITION		54,608	72,431
Income tax expense	11	(4,556)	(4,975)
PROFIT BEFORE LOSS ON NET MONETARY POSITION		50,052	67,456
Loss on net monetary position due to inflation		(11,335)	(213,153)
NET PROFIT/(LOSS)		**38,717**	**(145,697)**

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V.N. Gorozhankin

1 April 2013
Minsk

Chief Accountant
M.M. Abramenko

1 April 2013
Minsk

The notes on pages 10 to 53 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY "PARITETBANK"

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

	Year ended 31 December 2012	Year ended 31 December 2011
NET PROFIT/(LOSS)	38,717	(145,697)
OTHER COMPREHENSIVE INCOME		
Transfer of comprehensive income to profit or loss upon disposal of investments available for sale	(258)	(1,496)
Change in fair value of investments available for sale	2,266	(1,393)
TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)	2,008	(2,889)
TOTAL COMPREHENSIVE INCOME/(LOSS)	**40,725**	**(148,586)**

On behalf of the Management Board of the Bank:

«ПАРИТЕТБАНК»

Chairman of the Management Board
V.N. Gorozhankin

1 April 2013
Minsk

Chief Accountant
M.M. Abramenko

1 April 2013
Minsk

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OPEN JOINT STOCK COMPANY "PARITETBANK"

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

	Notes	31 December 2012	31 December 2011
ASSETS:			
Cash and balances with the National Bank of the Republic of Belarus	12, 26	155,210	161,791
Derivative financial instruments, assets	13, 26	150,974	237,382
Due from banks and other financial institutions	14, 26	23,593	59,612
Loans to customers	15	478,300	520,427
Investments available for sale	16	5,396	14,662
Property, equipment and intangible assets	17	80,774	81,834
Current income tax asset		146	-
Non-current assets held for sale	18	5,265	3,247
Other assets	19, 26	5,784	13,766
TOTAL ASSETS		**905,442**	**1,092,721**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	13	25	21
Due to banks	20, 26	14,243	145,718
Customer accounts	21, 26	616,927	737,825
Debt securities issued	22	-	56,773
Current income tax liability		-	2,512
Other liabilities	23, 26	8,377	9,442
Total liabilities		639,572	952,291
EQUITY:			
Share capital	24	761,394	675,801
Investments available for sale fair value revaluation reserve		(881)	(2,889)
Accumulated deficit		(494,643)	(532,482)
Total equity		265,870	140,430
TOTAL LIABILITIES AND EQUITY		**905,442**	**1,092,721**

On behalf of the Management Board of the Bank:

«ПАРИТЕТБАНК»

Chairman of the Management Board
V.N. Gorozhankin

1 April 2013
Minsk

Chief Accountant
M.M. Abramenko

1 April 2013
Minsk

The notes on pages 10 to 53 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY "PARITETBANK"

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

	Notes	Share capital	Investments available for sale fair value revaluation reserve	Accumulated deficit	Total equity
31 December 2010		675,801	-	(384,210)	291,591
Total comprehensive loss for the year		-	(2,889)	(145,697)	(148,586)
Dividends declared	24	-	-	(2,575)	(2,575)
31 December 2011		675,801	(2,889)	(532,482)	140,430
Issue of ordinary shares	24	85,593	-	-	85,593
Total comprehensive income for the year		-	2,008	38,717	40,725
Dividends declared	24	-	-	(878)	(878)
31 December 2012		761,394	(881)	(494,643)	265,870

On behalf of the Management Board of the Bank:

Chairman of the Management Board
V.N. Gorozhankin
1 April 2013
Minsk

Chief Accountant
M.M. Abramenko
1 April 2013
Minsk

The notes on pages 10 to 53 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY “PARITETBANK”

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

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax and loss on net monetary position		54,608	72,431
Adjustments for:			
Provision for impairment losses on interest bearing assets	5	7,157	14,181
Other provisions/(recovery of other provisions)	5	654	(123)
Depreciation and amortization	10	7,512	7,546
Impairment loss on property and equipment	10	1,294	-
Loss from disposal of property, equipment, intangible assets and equity investments	10	65	127
Gain from disposal of non-current assets held for sale	9	(4,825)	(417)
Non-cash repayment of interest on loans through repossession of collateral		(3,888)	-
Net change in interest accruals		2,742	(4,834)
Net change in fair value of derivative financial instruments		(32,334)	(339,807)
Amortization of discount for financial instruments with non-market terms and amortization of loan commissions		3,147	7,376
Translation differences, net	7	7,270	266,564
Other adjustments		3,987	(518)
Cash flows from operating activities before changes in operating assets and liabilities		47,389	22,526
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Belarus		(1,795)	(6,186)
Derivative financial instruments		84,423	(413)
Due from banks and other financial institutions		14,589	84,833
Loans to customers		(60,142)	45,847
Other assets		2,025	(4,657)
Increase/(decrease) in operating liabilities:			
Due to banks		(117,950)	6,838
Customer accounts		(12,619)	81,437
Other liabilities		143	1,634
Cash (outflow)/inflow from operating activities before taxation		(43,937)	231,859
Income tax paid		(6,994)	(1,480)
Net cash (outflow)/inflow from operating activities		(50,931)	230,379
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property, equipment and intangible assets		(5,390)	(13,036)
Proceeds on disposal of property, equipment and intangible assets		4	566
Proceeds on disposal of non-current assets held for sale		7,678	-
Proceeds from repayment of investments available for sale, net		10,041	8,134
Net cash inflow/(outflow) from investing activities		12,333	(4,336)

The notes on pages 10 to 53 form an integral part of these financial statements.

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
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary shares		85,593	-
Net outflow from repayment of debt securities issued		(49,437)	(61,353)
Dividends paid		(870)	(2,406)
Net cash inflow/(outflow) from financing activities		35,286	(63,759)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(3,312)	162,284
Effect of changes in foreign exchange rates on cash and cash equivalents		662	25,065
Effect of inflation on cash and cash equivalents		(26,640)	(122,242)
CASH AND CASH EQUIVALENTS, beginning of the year	12	201,450	136,343
CASH AND CASH EQUIVALENTS, end of the year	12	172,120	201,450

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to BYR 75,161 million and BYR 154,820 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to BYR 100,976 million and BYR 171,451 million, respectively.

During the years ended 31 December 2012 and 2011 the Bank received property through repossession of collateral pledged under the default loans in the amount of BYR 8,449 million and BYR 645 million, respectively, which represents non-cash transactions.

On behalf of the Management Board of the Bank:

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» МИНСК

Chairman of the Management Board
V.N. Gorozhankin

1 April 2013
Minsk

Chief Accountant
M.M. Abramenko

1 April 2013
Minsk

The notes on pages 10 to 53 form an integral part of these financial statements.

(in millions of Belarusian Rubles, unless otherwise stated)

1. ORGANIZATION

OJSC "Paritetbank" ("Bank") is the legal successor of OJSC "Bank "Poisk" which was founded on 18 January 1991 as a limited liability company Commercial Bank "Poisk" and subsequently reorganized as a joint-stock company under the laws of the Republic of Belarus. In 1999 the National Bank of the Republic of Belarus became the principal shareholder of the Bank and in May 2004 its legal name was changed to OJSC "Paritetbank".

The Bank's primary areas of operations include granting loans to customers, money transfers, exchanging foreign currencies upon demand of the customers and for trading purposes, attracting deposits and transactions with securities. The Bank has a banking license # 5 issued on 27 October 2006 and a license for professional and stock-exchange operations with securities.

The Bank has 20 structural subdivisions throughout the territory of the Republic of Belarus and a head office located in Minsk and registered at the following address 61a, Kiseleva Street, Minsk, 220002, Republic of Belarus.

As at 31 December 2012 and 2011 the share capital of the Bank was owned by the following shareholders:

	31 December 2012	31 December 2011
The National Bank of the Republic of Belarus	99.36%	98.77%
Others	0.64%	1.23%
Total	**100.00%**	**100.00%**

The ultimate controlling party of the Bank is the National Bank of the Republic of Belarus which is ultimately controlled by the state.

Investments in associates of the Bank are presented as follows:

Name	Country of operation	Share of ownership 2012	2011	Type of operation
LLC "Investment Company Paritet"	Republic of Belarus	50.0%	50.0%	Finance lease
CJSC "Mobile Payments" JV	Republic of Belarus	0.0%	26.0%	Customer payments

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

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

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

The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS. The financial statements adjustments also included reclassification of certain assets and liabilities, income and expenses into corresponding articles of statement of financial position and income statement in order to reflect economic nature of operations.

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery of assets or repayment of liabilities within 12 months after the date of the statement of financial position (short-term) and more than 12 months after the date of the statement of financial position (long-term) is presented in Note 29.

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

The principal accounting policies are set out below.

Hyperinflationary accounting

From 1 January 2011 the economy of the Republic of Belarus has been recognised as hyperinflationary in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

IAS 29 and IFRIC 7 "Applying the Restatement Approach under IAS 29" require the financial statements to be restated in the reporting period in which the existence of a hyperinflationary economy is identified. IAS 29 has been applied as if the economy had always been hyperinflationary. Non-monetary transactions for the reporting period and non-monetary balances at the end of the reporting period have been restated to be presented in monetary units current at the reporting date. The comparatives have been restated to be presented in monetary units current at the end of the reporting period.

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

Year	Change
2007	12.1%
2008	13.3%
2009	10.1%
2010	9.9%
2011	108.7%
2012	21.7%

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

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

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

Recognition of interest income and expense

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.
Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Recognition of income on repurchase and reverse repurchase agreements

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

Recognition of fee and commission income

Loan origination fees are deferred and recognised as an adjustment to the effective interest rate of the loan. Where it is probable that settlement of a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, (together with the related direct costs), and recognised as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognised in income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognised in statement of comprehensive income on expiry. Loan servicing fees and other commissions are recognised as revenue as the services are provided.

Recognition of dividend income

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

Financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognised using settlement date accounting by the Bank.

Financial assets and financial liabilities are initially measured at fair value.

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

Financial assets

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with the National Bank with original maturity within 90 days, loans to banks with original maturity within 90 days, which may be converted to cash within a short period of time without restrictions, except for guarantee deposits and other restricted balances. For the purpose of statement of cash flows preparation, the minimum reserve deposit required by the National Bank is not included as a cash equivalent due to restriction on its availability.

Financial assets at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss when it is either held for trading or is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 27.

Available-for-sale financial assets

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

Unlisted shares and bonds are classified as available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 27.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments available for sale fair value revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest rate method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments available for sale fair value revaluation reserve is reclassified to profit or loss at the moment of disposal or impairment.

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

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

Due from banks and other financial institutions

In the normal course of business the Bank maintains advances or deposits for various periods of time with other banks and other financial institutions. Balances due from banks and other financial institutions with fixed maturity are measured at amortized cost using the effective interest rate method if the fixed maturities are established. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from banks and other financial institutions are carried net of allowance for impairment losses, if any.

Derivative financial instruments

The Bank uses derivative financial instruments: foreign currency forwards and exchange of deposits in different currencies with the National Bank (swap). These instruments are used by the Bank to manage its exposure to foreign exchange rate risk.

Derivative financial instruments contracts concluded by the Bank are not defined as hedging contracts and do not meet the requirement for hedge accounting application.

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

Loans and receivables

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

Repurchase and reverse repurchase agreements

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

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

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

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

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

Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Bank’s share of the profit or loss and other comprehensive income of the associate. When the Bank’s share of losses of an associate exceeds the Bank’s interest in that associate (which includes any long-term interests that, in substance, form part of the Bank’s net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Impairment of financial assets

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

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

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

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

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

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

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

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

If an available-for-sale asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

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

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

Renegotiated loans

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

Write-off of loans

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

Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised on an effective yield basis.

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

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

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

Leases

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

The Bank as lessor

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

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

The Bank as lessee

Assets held under finance leases are initially recognised as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

Property and equipment

Property and equipment are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss.

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

Buildings	1-12%
Computer equipment	11-20%
Vehicles	10-14%
Office furniture and other fixed assets	10-20%

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

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

Assets obtained through financial lease contracts are amortized with the use of principles applicable to own property and equipment and the minimal period from the following two: the estimated useful life and the term of respective lease contract.

Intangible assets

Intangible assets acquired separately

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

Intangible assets	20-50%

Derecognition of intangible assets

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

Impairment of tangible and intangible assets

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

Taxation

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

Current income tax

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

Deferred income tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Operating taxes

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

Provisions

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

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

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

Contingencies

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

Functional currency

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

Foreign currencies

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

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

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

Collateral

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

Non-current assets held for sale

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

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Impairment of loans and receivables

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

The Bank uses 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 data relating to similar borrowers or expected data regarding the borrower's business. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behaviour, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. 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 Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

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

Measurement of derivative financial instruments fair value

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

Useful lives of property and equipment

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

Application of new and revised IFRS and IFRIC

The following amendments to IFRS became effective in the current reporting period:

- Amendments to IFRS 7 “Disclosures – Transfers of financial assets”;
- Amendments to IAS 1 “Presentation of Other Comprehensive Income items”;
- Amendments to IAS 1 “Presentation of Financial Statements”;
- Amendments to IAS 12 Income tax – “Deferred tax and recovery of underlying assets”.

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

New and revised IFRS in issue but not yet effective

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

Standards and Interpretations	**Effective for annual period beginning on or after**
IFRS 9 “Financial Instruments”	1 January 2015
IFRS 10 “Consolidated Financial Statements”	1 January 2013
IFRS 11 “Joint Arrangements”	1 January 2013
IFRS 12 “Disclosure of Interests in Other Entities”	1 January 2013
IFRS 13 “Fair Value Measurement”	1 January 2013
Amendments to IFRS 7 – “Disclosures”- Disclosures-Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 9 “Financial instruments” and IFRS 7 “Financial instruments: Disclosures” – IFRS 9: effective date and disclosure requirements for the transition period	1 January 2015
Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interest in Other Entities” – Consolidated Financial statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance	1 January 2013
IAS 19 (revised in 2011) “Employee Benefits”;	1 January 2013
IAS 27 “Separate Financial Statements” (revised in 2011)	1 January 2013
IAS 28 “Investments in Associates” (revised in 2011)	1 January 2013
Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Asset forming the basis of the deferred tax	1 January 2013
Amendments to IFRS “Annual Improvements to IFRSs” (for 2009-2011)	1 January 2013
Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of items of other comprehensive income	1 July 2012

IFRS 9 “Financial Instruments” – issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. Key requirements of IFRS 9 are as follows:

Upon initial recognition all recognised financial assets are measured at amortised cost or at fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under IFRS 9 “Financial Instruments”, entities may make an irrevocable choice to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

For financial assets that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial asset that is attributable to changes in the credit risk of that asset is recognised in other comprehensive income, unless the recognition of the effects of changes in the asset’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial asset’s credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 “Financial Instruments: Recognition and Measurement”, the entire amount of the change in fair value of a financial asset designated as at fair value through profit or loss was recognised in profit and loss.

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

Amendments to IAS 32 “Financial Instruments: Presentation clarify existing application issues relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify: the meaning of ‘currently has a legally enforceable right for set-off ’ and ‘simultaneous realization and settlement’.

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

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

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

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

The Bank’s management is currently evaluating the impact of the new standards and the aforesaid amendments adoption on the financial statements.

4. NET INTEREST INCOME

Net interest income before provision for impairment losses on interest bearing assets comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income on financial assets measured at amortized cost:		
Interest income on financial assets impaired collectively	67,072	87,749
Interest income on financial assets impaired individually	46,129	52,079
Interest income on unimpaired financial assets	39,903	37,840
Interest income on financial assets at fair value	8,519	7,209
Total interest income	**161,623**	**184,877**
Interest income on financial assets measured at amortized cost comprises:		
Interest on loans to customers	143,407	167,696
Interest on balances due from banks	9,614	9,896
Other interest income	83	76
Total interest income on financial assets measured at amortized cost	153,104	177,668
Interest income on financial assets at fair value comprises:		
Interest on investments available for sale	8,289	7,209
Interest on securities at fair value through profit or loss	230	-
Total interest income on financial assets at fair value	8,519	7,209
Interest expense on financial liabilities recorded at amortized cost	83,964	116,944
Total interest expense	**83,964**	**116,944**
Interest expense on financial liabilities measured at amortized cost comprises:		
Interest on customer accounts	69,511	87,515
Interest on deposits from banks and other financial institutions, on loans from the National Bank of the Republic of Belarus	9,056	13,990
Interest on debt securities issued	5,397	15,439
Total interest expense on financial liabilities measured at amortized cost	83,964	116,944
Net interest income before provision for impairment losses on interest bearing assets	**77,659**	**67,933**

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER ALLOWANCES

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

	Loans to customers	Investments available for sale	Total
31 December 2010	**56,053**	**526**	**56,579**
Provisions/(recovery of provisions)	14,433	(252)	14,181
Write-off of assets	(3,461)	-	(3,461)
Effect of inflation	(31,835)	(274)	(32,109)
31 December 2011	**35,190**	**-**	**35,190**
Provision	7,157	-	7,157
Write-off of assets	(706)	-	(706)
Effect of inflation	(7,103)	-	(7,103)
31 December 2012	**34,538**	**-**	**34,538**

The movements in other allowances were as follows:

	Other assets
31 December 2010	**843**
Recovery of provisions	(123)
Effect of inflation	(720)
31 December 2011	**-**
Provisions	654
Effect of inflation	(50)
31 December 2012	**604**

6. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Year ended 31 December 2012	Year ended 31 December 2011
Net gain on derivative financial instruments	44,621	339,791
Net gain on securities at fair value through profit or loss	308	-
Total net gain on financial instruments at fair value through profit or loss	**44,929**	**339,791**

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

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

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	14,262	4,212
Translation differences, net	(7,270)	(266,564)
Total net gain/(loss) on foreign exchange operations	**6,992**	**(262,352)**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income		
Settlement and cash operations with clients	12,622	14,071
Plastic cards transactions	5,402	4,609
Foreign exchange transactions	3,153	2,672
Other	-	18
Total fee and commission income	**21,177**	**21,370**
Fee and commission expense		
Plastic cards transactions	3,293	2,494
Correspondent banks services	1,024	1,078
Foreign exchange transactions	141	1,497
Securities operations	35	55
Other	197	391
Total fee and commission expense	**4,690**	**5,515**

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2012	Year ended 31 December 2011
Gain on disposal of non-current assets held for sale	4,825	417
Fines and penalties	2,277	2,860
Repayment of loans previously written off	936	8,454
Dividend income	141	54
Rental income	113	52
Other	411	566
Total other income	**8,703**	**12,403**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	35,075	34,979
Social security contributions	10,700	10,578
Depreciation and amortization	7,512	7,546
Contributions to deposits of individuals protection fund	5,610	4,914
Lease expenses	4,553	5,665
Taxes, other than income tax	3,331	1,598
Repairs	2,997	2,265
Software maintenance costs	2,866	2,674
Communication services	2,310	2,030
Security expenses	2,160	1,970
Utilities	2,046	1,950
Services of automated interbank settlement system	1,932	1,906
Professional fees	1,868	1,558
Advertising expenses	1,300	1,894
Impairment loss on property and equipment	1,294	-
Vehicles maintenance and fuel expenses	663	613
Stationery expenses	502	775
Loss on disposal of property and equipment	65	127
Other expenses	5,825	5,595
Total operating expenses	**92,609**	**88,637**

11. INCOME TAX

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

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

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

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

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

	Year ended 31 December 2012	Year ended 31 December 2011
Property, equipment and intangible assets	4,778	3,113
Loans to customers	4,697	5,972
Other liabilities	741	959
Other assets	260	(467)
Investments	42	467
Due from banks and other financial institutions	(10)	(142)
Customer accounts	(496)	(2,284)
Derivative financial instruments	(1,112)	7,332
Net deferred tax asset	**8,900**	**14,950**
Unrecognised deferred tax asset	(8,900)	(14,950)
Net deferred tax asset	**-**	**-**

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

	Year ended 31 December 2012	Year ended 31 December 2011
Gain/(loss) before income tax after loss on net monetary position	43,273	(140,722)
	18%	24%
Tax at the statutory tax rate	7,789	(33,773)
Change in unrecognised deferred tax asset	(6,050)	6,340
Tax effect of non-deductible expenses	1,208	2,531
Tax effect of non-taxable income and other deductions	(1,538)	(1,829)
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	(4,720)	(11,346)
Tax effect of change in income tax rate	-	4,983
Tax effect of the inflation of equity components on profit	4,591	36,138
Tax effect of the inflation of income tax	2,962	2,246
Tax effect of other permanent differences	314	(315)
Income tax expense	**4,556**	**4,975**

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

Cash and balances with the National Bank of the Republic of Belarus comprise:

	31 December 2012	31 December 2011
Current accounts with the National Bank of the Republic of Belarus	99,676	112,965
Cash on hand	39,455	42,673
Due from the National Bank of the Republic of Belarus on stock exchange trading operations	9,396	-
Balance on reserve deposit account with the National Bank of the Republic of Belarus	6,683	6,153
Total cash and balances with the National Bank of the Republic of Belarus	**155,210**	**161,791**

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

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

	31 December 2012	31 December 2011
Cash and balances with the National Bank of the Republic of Belarus	155,210	161,791
Correspondent accounts with banks and other financial institutions	17,935	38,510
Due from banks and other financial institutions with original maturity within 90 days	5,658	7,302
	178,803	207,603
Less minimum reserve deposits with the National Bank	(6,683)	(6,153)
Total cash and cash equivalents	**172,120**	**201,450**

13. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2012 derivative financial instruments comprise:

Foreign currency forward and swap contracts	Nominal amount (in units of purchased currency)	Fair value	
		Asset	Liability
USD/BYR	USD 21,204,612	120,166	-
EUR/BYR	EUR 4,081,764	30,806	-
USD/RUB	USD 870,000	2	(4)
BYR/USD	BYR 5,649,600,000	-	(21)
Total derivative financial instruments		**150,974**	**(25)**

As at 31 December 2012 derivative financial instruments included foreign currency swap contracts with the National Bank of the Republic of Belarus with the fair value of BYR 150,972 million (assets).

As at 31 December 2011 derivative financial instruments comprise:

Foreign currency forward and swap contracts	Nominal amount (in units of purchased currency)	Fair value	
		Asset	Liability
USD/BYR	USD 38,370,273	209,023	-
EUR/BYR	EUR 4,081,764	28,171	-
RUB/EUR	RUB 75,000,000	145	-
EUR/USD	EUR 7,000,000	43	(21)
Total derivative financial instruments		**237,382**	**(21)**

As at 31 December 2011 derivative financial instruments included foreign currency swap contracts with the National Bank of the Republic of Belarus with the fair value of BYR 237,194 million (assets).

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprise:

	31 December 2012	31 December 2011
Correspondent accounts	17,935	38,510
Time deposits	5,658	21,102
Total due from banks and other financial institutions	**23,593**	**59,612**

As at 31 December 2011 the Bank had balances due from one bank in the amount of BYR 32,489 million, individually exceeding 10% of the Bank's equity.

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2012	31 December 2011
Loans to customers	512,063	555,089
Net investments in finance lease	775	528
	512,838	555,617
Less allowance for impairment losses	(34,538)	(35,190)
Total loans to customers	**478,300**	**520,427**

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

Maximum exposure to credit risk of loans to customers equals to the net value of the loans reported in the statement of financial position. The effect of collateral on maximum exposure to credit risk of loans to customers as at 31 December 2012 and 2011 comprised BYR 373,415 million and BYR 484,877 million, being the least of the fair value of collateral and value of loans reported in the statement of financial position.

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

	31 December 2012	31 December 2011
Loans collateralized by real estate	148,067	142,153
Loans collateralized by inventories	87,876	17,769
Loans collateralized by guarantees of individuals	47,444	59,777
Loans collateralized by insurance policy	34,624	33,381
Loans collateralized by equipment	21,633	34,555
Loans collateralized by corporate guarantees	21,450	24,324
Loans collateralized by liens over other property	17,804	160,860
Loans collateralized by vehicles	15,204	44,745
Loans collateralized by cash deposits	955	99
Uncollateralized loans	117,781	37,954
	512,838	555,617
Less allowance for impairment losses	(34,538)	(35,190)
Total loans to customers	**478,300**	**520,427**

	31 December 2012	31 December 2011
Analysis by sector:		
Trade and catering	134,824	78,664
Individuals	115,074	127,247
Manufacturing	95,522	119,688
Transport	69,417	105,802
Leasing companies	42,685	34,371
Construction	15,046	35,738
Real estate operations	11,472	18,684
Agriculture	8,307	13,234
Entrepreneurs	3,338	5,469
Other	17,153	16,720
	512,838	555,617
Less allowance for impairment losses	(34,538)	(35,190)
Total loans to customers	**478,300**	**520,427**

Loans to individuals comprise the following products:

	31 December 2012	31 December 2011
Consumer loans	76,346	63,781
Mortgage loans	38,666	62,949
Car loans	62	517
	115,074	127,247
Less allowance for impairment losses	(4,558)	(5,103)
Total loans to individuals	**110,516**	**122,144**

As at 31 December 2012 and 2011 the Bank provided loans to two customers totaling BYR 69,276 million and 9 borrowers totaling BYR 225,991 million, respectively, which individually exceeded 10% of the Bank's equity.

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

During 2009-2011 the Bank issued loans for residential real estate construction purposes to the employees of one of its clients which is a related party of the Bank. Nominal amount of issued loans comprised as at 31 December 2012 and 2011 BYR 20,046 million and BYR 21,487 million, respectively. The loans were provided for a period up to 20 years at the rate of 4.75%, which is significantly lower than the market rate for similar financial instruments. These loans were given out of the funds received from this client in the form of deposits amounting to BYR 52,983 million and BYR 67,335 million at nominal value at 31 December 2012 and 2011, respectively. Deposits were placed in the Bank for the period of three years at the rate of 0.01%, which is also significantly lower than the market rate. According to the agreement with the client, the proportion of placed deposits to loans issued by the Bank must not be lower than the fixed ratio set by the agreement; in addition, the client can not withdraw the deposits until the expiry of three years. The Bank bears all credit risks in case of irrecoverability of the loans. At initial recognition loans granted and deposits received have been measured at approximate fair value using respective discounting methods and effective interest rate with subsequent measurement at amortized cost.

As at 31 December 2012 carrying value of the loans and deposit amounted to BYR 10,253 million and BYR 50,228 million, respectively (Note 21).

As at 31 December 2011 carrying value of the loans and deposit amounted to BYR 12,911 million and BYR 69,265 million, respectively (Note 21).

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

	31 December 2012			31 December 2011		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans assessed for impairment individually	161,549	(18,447)	143,102	174,921	(19,652)	155,269
Loans assessed for impairment collectively	245,216	(16,091)	229,125	286,838	(15,538)	271,300
Unimpaired loans	106,073	-	106,073	93,858	-	93,858
Total	**512,838**	**(34,538)**	**478,300**	**555,617**	**(35,190)**	**520,427**

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

	31 December 2012	31 December 2011
Not later than one year	528	354
From one year to five years	770	290
Minimum payments on financial lease contracts	1,298	644
Less unearned finance income	(523)	(116)
Net investments in finance lease	**775**	**528**
Current portion	249	273
Long-term portion	526	255
Net investments in finance lease	**775**	**528**

16. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Nominal currency	Interest to nominal	31 December 2012	Interest to nominal	31 December 2011
Long-term bonds of legal entities	BYR	26%	5,346	37.0%	10,675
Short-term bonds of foreign banks	RUB	-	-	9.0%	3,937
Equity securities	BYR	-	50	-	50
Total investments available for sale			**5,396**		**14,662**

17. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings	Computer equipment	Vehicles	Office furniture and other fixed assets	Intangible assets	Construction in progress	Total
At initial cost, restated for hyperinflation effect							
As at 31 December 2010	56,730	15,150	2,615	22,966	3,700	1,219	102,380
Additions	116	679	1,061	4,528	1,968	3,121	11,473
Transfers	157	-	-	-	-	(157)	-
Disposals	(183)	(47)	(54)	(413)	(1,610)	-	(2,307)
At 31 December 2011	56,820	15,782	3,622	27,081	4,058	4,183	111,546
Additions	4,535	917	-	975	972	363	7,762
Transfers	327	34	-	417	908	(1,686)	-
Impairment	(1,294)	-	-	-	-	-	(1,294)
Disposals	-	(732)	-	(1,418)	(1,038)	-	(3,188)
At 31 December 2012	60,388	16,001	3,622	27,055	4,900	2,860	114,826
Accumulated depreciation restated for hyperinflation effect							
As at 31 December 2010	2,913	7,051	904	11,614	1,715	-	24,197
Charge for the year	1,286	2,367	432	1,734	1,727	-	7,546
Eliminated on disposal	(23)	(45)	(52)	(301)	(1,610)	-	(2,031)
At 31 December 2011	4,176	9,373	1,284	13,047	1,832	-	29,712
						-	
Charge for the year	1,230	2,292	450	2,145	1,395	-	7,512
Eliminated on disposal	-	(732)	-	(1,402)	(1,038)	-	(3,172)
At 31 December 2012	5,406	10,933	1,734	13,790	2,189	-	34,052
Net book value							
31 December 2012	**54,892**	**5,068**	**1,888**	**13,265**	**2,711**	**2,860**	**80,774**
31 December 2011	**52,644**	**6,409**	**2,338**	**14,034**	**2,226**	**4,183**	**81,834**

18. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2012 and 2011 non-current assets held for sale included property (mainly real estate) which was received as loans repayment in the amount of BYR 5,265 million and BYR 3,247 million, respectively. As at 31 December 2012 the Bank's management approved the plan for realization of the property. The Bank is planning to complete the sales of these assets in the year 2013.

19. OTHER ASSETS

Other assets comprise:

	31 December 2012	31 December 2011
Other financial assets		
Accounts receivable	2,460	-
Accrued income	679	3,006
Other	437	198
Less allowance for impairment losses	(604)	-
Total other financial assets	**2,972**	**3,204**
Other non-financial assets		
Taxes reimbursable, other than income tax	1,200	3,989
Prepaid expenses	1,132	1,042
Advances paid to suppliers	431	1,050
Low value items	60	217
Prepayments for property and equipment	7	4,264
Total other non-financial assets	**2,812**	**10,562**
Total other assets	**5,784**	**13,766**

As of 31 December 2012 and 2011 other financial assets included investments in associates which are presented as follows:

Name of an associate	Share of ownership	31 December 2012	Share of ownership	31 December 2011
LLC “Investment Company Paritet "	50%	70	50%	70
CJSC “Mobile Payments” JV	0%	-	26%	82

Associates are accounted for using the equity method. Total unrecognised Bank’s share in net loss of the associates for the year 2012 amounted to BYR 2,050 million. Total unrecognised Bank’s share in net profits of the associates for the year 2011 comprised BYR 608 million and was not recognised as it did not exceed the Bank’s unrecognised share in accumulated loss of the associates. The Bank’s unrecognised share in accumulated loss of the associates comprised BYR 4,085 million and BYR 2,035 million as at 31 December 2012 and 2011, respectively.

As of 31 December 2012 and 2011 and for the years then ended the main indicators of associates performance were as follows:

	31 December 2012	31 December 2011
Total assets	79,435	34,241
Total liabilities	(83,768)	(36,081)
Total revenue	16,154	10,008
Net (loss)/profit	(4,100)	337

20. DUE TO BANKS

Due to banks comprise:

	31 December 2012	31 December 2011
Loans and term deposits	12,475	145,415
Correspondent accounts	1,768	303
Total due to banks	**14,243**	**145,718**

As at 31 December 2012 and 2011 balances due to banks in the amounts of BYR 14,086 million (99% of the total amount due to banks) and BYR 135,280 million (93% of the total amount due to banks) were due to 2 and 7 banks, respectively.

21. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2012	31 December 2011
Term deposits	509,639	667,388
Current/settlement accounts and deposits repayable on demand	107,288	70,437
Total customer accounts	**616,927**	**737,825**

	31 December 2012	31 December 2011
Analysis by sector:		
Individuals	428,980	440,013
Manufacturing	57,748	73,193
Trade	30,676	12,930
Insurance	25,633	102,767
Consulting	19,548	-
Commerce	15,237	61,383
Public health service	14,677	-
Construction	7,158	4,190
Real estate	5,099	268
Transport	3,913	4,271
Agriculture	1,280	1,830
Social organizations	1,051	-
Financial services	-	36,980
Other	5,927	-
Total customer accounts	**616,927**	**737,825**

As at 31 December 2012 and 2011 customer accounts amounting to BYR 3,466 million and BYR 6,142 million, respectively, were held as collateral against letters of credit and loans issued by the Bank.

As at 31 December 2012 and 2011 customer accounts contained a term deposit of one client amounting to BYR 50,228 million and BYR 69,265 million, respectively. Deposit was placed in accordance with the agreement stipulating loans granting by the Bank to employees of that client (Note 15).

22. DEBT SECURITIES ISSUED

Debt securities issued by the Bank as at 31 December 2011 were presented by the following types of bonds:

	Nominal currency	Nominal interest rate	Maturity date	31 December 2011
Debt securities issued held by banks	EUR	7.13%	10 August 2012	36,246
Debt securities issued held by other legal entities	BYR	46.50%	18 June 2012	20,527
Total debt securities issued				**56,773**

23. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2012	31 December 2011
Other financial liabilities		
Payables to employees	3,412	2,607
Settlements with other creditors	1,481	827
Finance lease payables	464	2,349
Dividends payable	21	29
Total other financial liabilities	**5,378**	**5,812**
Other non-financial liabilities		
Taxes payable other than income tax	1,699	921
Accrued contributions to deposits of individuals protection fund	1,279	1,309
Settlements with other creditors	21	1,400
Total other non-financial liabilities	**2,999**	**3,630**
Total other liabilities	**8,377**	**9,442**

Finance lease payables of the Bank as at 31 December 2012 and 2011 comprised:

	31 December 2012	31 December 2011
Less than one year	438	2,551
One to five years	321	938
Minimum finance lease payments	759	3,488
Less unearned finance income	(295)	(1,139)
Net payments under finance lease	**464**	**2,349**
Current portion	275	1,784
Long-term portion	189	565
Net payments under finance lease	**464**	**2,349**

24. SHARE CAPITAL

As at 31 December 2012 and 2011 authorized and fully paid share capital comprised 59,456,145,067 and 31,122,811,734 shares, respectively, with a par value of BYR 3 each (at historical cost).

In December 2012 the National Bank of the Republic of Belarus contributed BYR 85,000 million in nominal terms to the share capital of the Bank. Par value of share of OJSC “Paritetbank” remained unchanged and amounts to BYR 3.

In 2012 the Bank declared dividends for the year 2011 in the total amount of BYR 878 million.

In 2011 the Bank declared dividends for the year 2010 in the total amount of BYR 2,575 million.

The Bank’s funds distributable to shareholders are limited to the amount of funds that are stated in the financial statements prepared according to the Belarusian accounting and financial reporting rules. Non-distributable funds comprise reserve fund created based on requirements of Belarusian legislation to cover general banking risks including future losses, other unforeseen risks and contingent liabilities and tangible assets revaluation fund. The legislation requires that the reserve fund is created for the mentioned objectives in the amount of no less than 5% of the Bank’s share capital stated in statutory accounting records of the Bank.

25. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, being susceptible to various degrees of credit risk, are not recognised in the statement of financial position.

The Bank uses the same credit policy for the contingent liabilities as it does for the financial instruments recorded in the statement of financial position.

As at 31 December 2012 and 2011 the nominal or contract amounts of financial commitments and contingencies were:

	31 December 2012	31 December 2011
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	38,867	43,147
Uncovered letters of credit	1,293	2,889
Guaranties issued	906	1,626
Letters of credit collateralized by cash	304	1,157
Total contingent liabilities and credit commitments	**41,370**	**48,819**

Capital commitments – As at 31 December 2012 the Bank had no capital commitments. As at 31 December 2011 the Bank had capital commitments relating to reconstruction of a building. The total estimated cost of construction per contracts comprised BYR 4,291 million. As at 31 December 2011 the Bank made prepayment to the contractor in the amount of BYR 2,546 million.

Operating lease commitments – As at 31 December 2012 and 2011 the Bank entered into non-cancellable operating lease agreements. Future minimum lease payments under such agreements as at 31 December 2012 and 2011 comprised:

	31 December 2012	31 December 2011
Less than one year	138	100
One to five years	109	163
More than five years	57	66
Net payments under finance lease	**304**	**329**

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

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

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

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

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

26. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Bank had the following transactions outstanding as at 31 December 2012 and 2011 with related parties:

	31 December 2012		**31 December 2011**	
	Balances with related parties	**Total category as per financial statements caption**	**Balances with related parties**	**Total category as per financial statements caption**
Balances with the National Bank of the Republic of Belarus	**115,755**	**115,755**	**119,118**	**119,118**
Derivative financial instruments, assets	**150,972**	**150,974**	**237,339**	**237,382**
- the National Bank of the Republic of Belarus	150,972		237,194	
- other banks under common control of the State	-		145	
Due from banks and other financial institutions	**493**	**23,593**	**1,166**	**59,612**
- other banks under common control of the State	493		1,166	
Loans to customers, gross	**104,005**	**512,838**	**199,697**	**555,617**
- state institutions and entities under common control of the State	91,587		185,214	
- associates	11,445		13,900	
- key management personnel	973		583	
Allowance for impairment losses on loans to customers	**5,810**	**34,538**	**16,852**	**35,190**
- state institutions and entities under common control of the State	5,304		15,044	
- associates	480		1,802	
- key management personnel	26		6	
Current income tax asset	**146**	**146**	**-**	**-**
Other assets	**1,270**	**5,784**	**4,153**	**13,766**
- state institutions and entities under common control of the State	1,200		3,989	-
- associates	70		164	-
Due to banks	**-**	**14,243**	**16,767**	**145,718**
- other banks under common control of the State	-		16,767	
Customer accounts	**83,240**	**616,927**	**219,155**	**737,825**
- state institutions and entities under common control of the State	76,168		212,764	
- associates	568		38	
- key management personnel	6,504		6,353	
Current income tax liability	**-**	**-**	**2,512**	**2,512**

	31 December 2012		31 December 2011	
	Balances with related parties	Total category as per financial statements caption	Balances with related parties	Total category as per financial statements caption
Other liabilities	**3,457**	**8,377**	**4,579**	**9,442**
- state institutions and entities under common control of the State	2,993		2,230	
- associates	464		2,349	
Contingent liabilities and credit commitments	**4,645**	**41,370**	**10,579**	**48,819**
- state institutions and entities under common control of the State	4,344		10,497	
- associates	9		-	
- key management personnel	292		82	

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

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	**42,236**	**161,623**	**57,045**	**184,877**
- the National Bank of the Republic of Belarus	4,309		-	
- other banks under common control of the State	5,440		4,707	
- state institutions and entities under common control of the State	27,691		46,566	
- associates	4,610		5,569	
- key management personnel	186		203	
Interest expense	**14,197**	**83,964**	**36,708**	**116,944**
- other banks under common control of the State	164		405	
- state institutions and entities under common control of the State	13,291		35,992	
- associates	-		6	
- key management personnel	742		305	
Provision/(recovery of provision) for impairment losses on interest bearing assets	**(8,866)**	**7,157**	**7,250**	**14,181**
- state institutions and entities under common control of the State	(7,786)		6,184	
- associates	(1,104)		1,081	
- key management personnel	24		(15)	
Net gain on financial instruments at fair value through profit and loss	**45,897**	**44,929**	**310,403**	**339,791**
-Republic of Belarus	308		-	
- the National Bank of the Republic of Belarus	45,581		310,213	
- other banks under common control of the State	8		190	
Net gain/ (loss) on foreign exchange operations	**35**	**6,992**	-	**(262,352)**
- other banks under common control of the State	35		-	
Fee and commission income	**610**	**21,177**	**283**	**21,370**

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
- state institutions and entities under common control of the State	596		273	
- associates	13		8	
- key management personnel	1		2	
Rental expenses	**865**	**4,553**	**1,910**	**5,665**
- the National Bank of the Republic of Belarus	29		51	
- state institutions and entities under common control of the State	111		199	
- associates	725		1,660	
Rental income	**45**	**113**	**43**	**52**
- state institutions and entities under common control of the State	23		12	
- associates	22		31	
Staff costs	**6,459**	**35,075**	**5,705**	**34,979**
- key management personnel	6,459		5,705	
Social security contributions	**10,700**	**10,700**	**10,578**	**10,578**
Other banking and operating income less rental income	**154**	**8,590**	**9**	**12,351**
- associates	154		9	
Other banking and operating income less rental expense, staff costs and social security contributions	**6,939**	**42,281**	**8,343**	**37,415**
- the National Bank of the Republic of Belarus	442		512	
- other banks under common control of the State	700		833	
- state institutions and entities under common control of the State	5,797		6,998	
Income tax expense	**4,556**	**4,556**	**4,975**	**4,975**

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

27. 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.

Information on fair value of Bank's financial assets and liabilities as compared to carrying value is presented below:

	31 December 2012		31 December 2011	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the National Bank of the Republic of Belarus	155,210	155,210	161,791	161,791
Derivative financial instruments (assets)	150,974	150,974	237,382	237,382
Due from banks and other financial institutions	23,593	23,593	59,612	59,612
Loans to customers	478,300	469,093	520,427	492,753
Investments available for sale	5,396	5,396	14,662	14,662
Other financial assets	2,972	2,972	3,204	3,204
Derivative financial instruments (liabilities)	25	25	21	21
Due to banks and other financial institutions	14,243	14,243	145,718	145,718
Debt securities issued	-	-	56,773	56,773
Customer accounts	616,927	611,584	737,825	713,151
Other financial liabilities	5,378	5,378	5,812	5,812

Financial instruments for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Loans to customers

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

- The management believes that fair value of loans with floating interest rates does not materially differ from their carrying value.
- Fair value of short-term loans with fixed interest rates also does not materially differ from their carrying value.
- Information on fair value of long-term loans with fixed interest rates is presented in the above table.

Customer accounts

Customer deposits have both variable and fixed rates.

- The management believes that fair value of deposits with floating interest rates does not materially differ from their carrying value.
- For deposits with fixed interest rates, except for the deposit described in Note 15, the Bank has contractual right to revise interest rates to reflect the current market situation. As a result interest expense on the most of balances is charged at rates which approximate market ones. Due to this fact the fair value of deposits with fixed rates does not materially differ from their carrying value.

As at 31 December 2012 fair value of the deposit described in Note 15 amounted to BYR 50,228 million while the carrying value amounted to BYR 44,886 million.

As at 31 December 2011 fair value of the deposit described in Note 15 amounted to BYR 69,265 million while the carrying value amounted to BYR 44,591 million.

Debt securities issued

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

Due to banks

Loans from banks are obtained both at variable and fixed rates.

- Floating rate – the management believes that the carrying value may be accepted as fair value.
- Fixed rate – loans with fixed rates have maturities of up to one year. Considering this fact, the fair value of loans from banks with fixed rates does not materially differ from their carrying value.

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

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

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

		31 December 2012	
	Quoted prices in active market (Level 1)	**Valuation techniques based on observable market data (Level 2)**	**Valuation techniques incorporating information other than observable market data (Level 3)**
Investments available for sale, less equity investments	-	5,346	-
Derivative financial instruments, assets	-	150,974	-
Derivative financial instruments, liabilities	-	25	-

	Quoted prices in active market (Level 1)	31 December 2011 Valuation techniques based on observable market data (Level 2)	Valuation techniques incorporating information other than observable market data (Level 3)
Investments available for sale, less equity investments	3,930	10,682	-
Derivative financial instruments, assets	-	237,382	-
Derivative financial instruments, liabilities	-	21	-

28. CAPITAL MANAGEMENT

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

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

	Year ended 31 December 2012	Year ended 31 December 2011
Composition of regulatory capital:		
Tier 1 capital:	761,394	675,801
Share capital		
Accumulated deficit	(494,643)	(532,482)
Total Tier 1 capital	**266,751**	**143,319**
Investments available for sale fair value revaluation reserve	(881)	(2,889)
Total regulatory capital	**265,870**	**140,430**
Capital Ratios:		
Tier 1 capital	34%	15%
Total capital	34%	15%

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

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

29. RISK MANAGEMENT POLICIES

Risk management is fundamental to the banking business. The Bank exercises a system approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks based on recommendations of the National Bank of the Republic of Belarus and Basel Committee on Banking Supervision.

In accordance with the above mentioned standards the Bank has elaborated and duly implemented risk management procedures for main types of risks inherent to the Bank's operations, including credit, liquidity, foreign exchange, interest rates and operational risks. A description of the Bank's risk management policies in relation to those risks follows.

Credit risk

The Bank 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.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Limits on the maximum level of credit risk exposure are set by the Credit Committee in respect of corporate and individual borrowers and by the Financial Committee in respect of banks and other financial institutions. The specific limits in respect of particular borrowers are approved by the Management Board of the Bank at the Credit Committee request. Actual exposures against limits set are monitored on the regular basis. Where appropriate and in respect of the majority of loans, the Bank obtains collateral and corporate and personal guaranties. Credit risk and the value of collateral are monitored on a continuous basis and are subject to monthly or more frequent reviews.

Maximum credit risk exposure

The Bank's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals the carrying value of those assets less any allowance for impairment losses. For financial guarantees and other contingent liabilities, except for covered letters of credit, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or, in the case of commitments, if the loan amount was called on less the provisions created.

	31 December 2012 Maximum exposure	**31 December 2011 Maximum exposure**
Due from the National Bank of the Republic of Belarus	115,755	119,118
Derivative financial instruments, assets	150,974	237,382
Due from banks and other financial institutions	23,593	59,612
Loans to customers	478,300	520,427
Investments available for sale	5,346	14,612
Other financial assets	2,972	3,204
Uncovered letters of credit	1,293	2,889
Guarantees issued	906	1,626

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

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

The following table details the financial assets held by the Bank per the credit ratings of the counterparties (for state authorities – per the country's rating):

	AA	A	BBB	BB	Lower than BB	Not rated	31 December 2012 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	115,755	-	115,755
Derivative financial instruments, assets	-	-	-	-	150,974	-	150,974
Due from banks and other financial institutions	-	8,133	2,048	1	3,044	10,367	23,593
Loans to customers	-	-	-	-	-	478,300	478,300
Investments available for sale	-	-	-	-	-	5,396	5,396
Other financial assets	-	63	-	-	-	2,909	2,972

	AA	A	BBB	BB	Lower than BB	Not rated	31 December 2011 Total
Due from the National Bank of the Republic of Belarus	-	-	-	-	119,118	-	119,118
Derivative financial instruments, assets	-	-	-	-	237,339	43	237,382
Due from banks and other financial institutions	551	135	925	353	34,845	22,803	59,612
Loans to customers	-	-	-	-	-	520,427	520,427
Investments available for sale	-	-	-	-	3,930	10,732	14,662
Other financial assets	-	-	-	-	-	3,204	3,204

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

The carrying value of impaired loans to customers is disclosed in Note 15.

As at 31 December 2012 and 2011 the Bank had no past due but not impaired financial assets.

Geographical concentration

The Bank exercises control over the risk of changes in the legislation and regulatory areas and assesses its influence on the Bank's activities and activities of its counterparties. The Bank's Financial Committee sets up country limits for operations with foreign counterparties.

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

	Belarus	CIS countries	OECD countries	Non-OECD countries	31 December 2012 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	155,210	-	-	-	155,210
Derivative financial instruments, assets	150,974	-	-	-	150,974
Due from banks and other financial institutions	7,871	2,527	12,971	224	23,593
Loans to customers	477,486	-	814	-	478,300
Investments available for sale	5,396	-	-	-	5,396
Other financial assets	2,908	-	64	-	2,972
TOTAL FINANCIAL ASSETS	**799,845**	**2,527**	**13,849**	**224**	**816,445**
FINANCIAL LIABILITIES:					
Derivative financial instruments, liabilities	25	-	-	-	25
Due to banks	19	14,224	-	-	14,243
Customer accounts	616,202	297	428	-	616,927
Other financial liabilities	5,372	-	6	-	5,378
TOTAL FINANCIAL LIABILITIES	**621,618**	**14,521**	**434**	**-**	**636,573**
OPEN POSITION	**178,227**	**(11,994)**	**13,415**	**224**	

	Belarus	CIS countries	OECD countries	Non-OECD countries	31 December 2011 Total
FINANCIAL ASSETS:					
Cash and balances with the National Bank of the Republic of Belarus	161,791	-	-	-	161,791
Derivative financial instruments, assets	237,382	-	-	-	237,382
Due from banks and other financial institutions	22,415	2,212	2,497	32,488	59,612
Loans to customers	519,407	-	1,020	-	520,427
Investments available for sale	10,732	3,930	-	-	14,662
Other financial assets	3,204	-	-	-	3,204
TOTAL FINANCIAL ASSETS	**954,931**	**6,142**	**3,517**	**32,488**	**997,078**
FINANCIAL LIABILITIES:					
Derivative financial instruments, liabilities	-	21	-	-	21
Due to banks	95,263	50,455	-	-	145,718
Customer accounts	737,220	128	477	-	737,825
Debt securities issued	56,773	-	-	-	56,773
Other financial liabilities	5,812	-	-	-	5,812
TOTAL FINANCIAL LIABILITIES	**895,068**	**50,604**	**477**	**-**	**946,149**
OPEN POSITION	**59,863**	**(44,462)**	**3,040**	**32,488**	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Financial Committee is a collegial body which determines the liquidity management policy of the Bank. In order to manage liquidity risk the Banking Risk Control Department prepares payment calendar, based on which the forecast of negative (positive) liquidity gap is prepared. In addition, the Planning and Economic Department performs daily calculation and analysis of quick, current and short-term liquidity ratios, and liquid to total assets ratio and controls their compliance with the requirements set by the National Bank of the Republic of Belarus. Based on the analysis performed, measures are taken to manage liquidity of the Bank. Prior to concluding major transactions the Bank analyses the impact those transactions could have on liquidity of the Bank. The results of the analysis are submitted to the Financial Committee of the Bank for approval.

An analysis of the liquidity and interest rate risks is presented in the following tables. The tables have been drawn up to detail the remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to settle the obligation.

	Nominal weighted average 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
FINANCIAL LIABILITIES							
Due to banks	1.00%	12,478	-	-	-	-	12,478
Customer accounts	8.44%	151,475	14,734	178,839	296,911	8	641,967
Other financial liabilities	52.00%	78	271	89	321	-	759
Total interest bearing financial liabilities		**164,031**	**15,005**	**178,928**	**297,232**	**8**	**655,204**
Derivative financial instruments, liabilities		25	-	-	-	-	25
Due to banks		1,768	-	-	-	-	1,768
Customer accounts		25,132	6	-	-	-	25,138
Other financial liabilities		4,914	-	-	-	-	4,914
Commitments on loans and unused credit lines		38,867	-	-	-	-	38,867
Uncovered letters of credit		1,293	-	-	-	-	1,293
Guarantees issued		906	-	-	-	-	906
TOTAL FINANCIAL LIABILITIES		**236,936**	**15,011**	**178,928**	**297,232**	**8**	**728,115**

	Nominal weighted average 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 Total
FINANCIAL LIABILITIES							
Due to banks	5.45%	145,881	-	-	-	-	145,881
Customer accounts	14.01%	95,978	58,344	296,283	435,300	1,544	887,449
Debt securities issued	21.57%	-	58,945	-	-	-	58,945
Other financial liabilities	59.00%	270	1,454	826	938	-	3,488
Total interest bearing financial liabilities		**242,129**	**118,743**	**297,109**	**436,238**	**1,544**	**1,095,763**
Derivative financial instruments, liabilities		21	-	-	-	-	21
Due to banks		303	-	-	-	-	303
Customer accounts		16,606	-	-	-	-	16,606
Other financial liabilities		3,417	-	46	-	-	3,463
Commitments on loans and unused credit lines		43,147	-	-	-	-	43,147
Uncovered letters of credit		2,889	-	-	-	-	2,889
Guarantees issued		1,626	-	-	-	-	1,626
TOTAL FINANCIAL LIABILITIES		**310,138**	**118,743**	**297,155**	**436,238**	**1,544**	**1,163,818**

The following tables present an analysis of liquidity risk based on carrying values of financial assets and liabilities.

	Nominal weighted average interest rate	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 and other financial institutions	1.54%	11,699	-	-	-	-	-	-	11,699
Loans to customers	28.25%	33,097	105,008	133,384	183,378	19,933	3,500	-	478,300
Investments available for sale	26.17%	102	-	-	5,244	-	-	-	5,346
Total interest bearing financial assets		**44,898**	**105,008**	**133,384**	**188,622**	**19,933**	**3,500**	**-**	**495,345**
Cash and balances with the National Bank of the Republic of Belarus		148,527	-	-	-	-	-	6,683	155,210
Derivative financial instruments, assets		2	-	-	150,972	-	-	-	150,974
Due from banks and other financial institutions		11,894	-	-	-	-	-	-	11,894
Investments available for sale		-	-	-	-	-	-	50	50
Other financial assets		2,152	6	13	291	-	316	194	2,972
TOTAL FINANCIAL ASSETS		**207,473**	**105,014**	**133,397**	**339,885**	**19,933**	**3,816**	**6,927**	**816,445**
FINANCIAL LIABILITIES:									
Due to banks	1.00%	12,475	-	-	-	-	-	-	12,475
Customer accounts	8.48%	148,148	9,563	157,716	276,355	7	-	-	591,789
Other financial liabilities	52.00%	49	170	56	189	-	-	-	464
Total interest bearing financial liabilities		**160,672**	**9,733**	**157,772**	**276,544**	**7**	**-**	**-**	**604,728**
Derivative financial instruments, liabilities		25	-	-	-	-	-	-	25
Due to banks		1,768	-	-	-	-	-	-	1,768
Customer accounts		25,132	6	-	-	-	-	-	25,138
Other financial liabilities		4,914	-	-	-	-	-	-	4,914
TOTAL FINANCIAL LIABILITIES		**192,511**	**9,739**	**157,772**	**276,544**	**7**	**-**	**-**	**636,573**
Liquidity gap on financial assets and liabilities		14,962	95,275	(24,375)	63,341	19,926			
Interest sensitivity gap		(115,744)	95,275	(24,388)	(87,922)	19,926			
Cumulative interest sensitivity gap		(115,744)	(20,499)	(44,887)	(132,809)	(112,883)			
Cumulative interest sensitivity gap as a percentage of total assets		(14%)	(3%)	(5%)	(16%)	(14%)			

	Nominal weighted average interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2011 Total
FINANCIAL ASSETS:									
Due from banks and other financial institutions	21.23%	-	7,302	-	13,800	-	-	-	21,102
Loans to customers	30.85%	21,537	66,729	225,706	163,648	32,311	10,496	-	520,427
Investments available for sale	29.50%	-	84	3,853	10,675	-	-	-	14,612
Total interest bearing financial assets		**21,537**	**74,115**	**229,559**	**188,123**	**32,311**	**10,496**	**-**	**556,141**
Cash and balances with the National Bank of the Republic of Belarus		155,638	-	-	-	-	-	6,153	161,791
Derivative financial instruments, assets		187	-	-	237,195	-	-	-	237,382
Due from banks and other financial institutions		38,510	-	-	-	-	-	-	38,510
Investments available for sale		-	-	-	-	-	-	50	50
Other financial assets		2,416	-	-	596	-	40	152	3,204
TOTAL FINANCIAL ASSETS		**218,288**	**74,115**	**229,559**	**425,914**	**32,311**	**10,536**	**6,355**	**997,078**
FINANCIAL LIABILITIES:		-	-	-	-	-	-	-	-
Due to banks	5.45%	145,415	-	-	-	-	-	-	145,415
Customer accounts	14.01%	87,501	43,908	246,628	341,843	1,339	-	-	721,219
Debt securities issued	21.57%	-	56,773	-	-	-	-	-	56,773
Other financial liabilities	59.00%	189	1,017	578	565	-	-	-	2,349
Total interest bearing financial liabilities		**233,105**	**101,698**	**247,206**	**342,408**	**1,339**	**-**	**-**	**925,756**
Derivative financial instruments, liabilities		21	-	-	-	-	-	-	21
Due to banks		303	-	-	-	-	-	-	303
Customer accounts		16,606	-	-	-	-	-	-	16,606
Other financial liabilities		3,417	-	46	-	-	-	-	3,463
TOTAL FINANCIAL LIABILITIES		**253,452**	**101,698**	**247,252**	**342,408**	**1,339**	**-**	**-**	**946,149**
Liquidity gap on financial assets and liabilities		(35,164)	(27,583)	(17,693)	83,506	30,972			
Interest sensitivity gap		(211,568)	(27,583)	(17,647)	(154,285)	30,972			
Cumulative interest sensitivity gap		(211,568)	(239,151)	(256,798)	(411,083)	(380,111)			
Cumulative interest sensitivity gap as a percentage of total assets		(26%)	(29%)	(31%)	(50%)	(46%)			

Market Risk

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

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

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the interest rate margin and the value of the financial instruments. The Bank's interest rate policy is primarily directed to provide adequate interest rate margin and stable level of net interest income. The Bank's interest rate policy is analyzed and developed by the Financial Committee and the Credit Committee and approved by the Management Board.

The following tables present 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 and financial instruments at fair value with fixed interest rate. The level of these changes is determined by management. The sensitivity analysis below represents the effect of 5% increase/reduction in interest rates existing as at 31 December 2012 and 2011, on the net profit and equity of the Bank assuming that the change took place at the beginning of the financial year and held constant throughout the reporting period, provided all other variables were held constant.

Impact on profit before taxation:

	31 December 2012		31 December 2011	
	Interest rate +5%	Interest rate -5%	Interest rate +5%	Interest rate -5%
Financial assets				
Loans to customers	13,167	(13,167)	10,681	(10,681)
Investments available for sale with floating interest rate	184	(184)	224	(224)
Financial liabilities				
Due to banks	-	-	(4,065)	4,065
Debt securities issued	-	-	(1,006)	1,006
Customer accounts	(481)	481	(3,065)	3,065
Net impact on profit before taxation	**12,870**	**(12,870)**	**2,769**	**(2,769)**

Impact on other comprehensive income:

Investments available for sale	(77)	81	(696)	789
Net impact on comprehensive income after taxation	**10,476**	**(10,472)**	**1,575**	**(1,482)**

The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Currency risk

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

The Financial Committee of the Bank manages currency risk by setting maximum open positions for each currency based on expected BYR devaluation against those currencies, other macroeconomic factors and the requirements set by the National Bank. The Treasury of the Bank performs daily control and prompt regulation of the open currency position of the Bank.

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

	BYR	USD	EUR	RUB	Other currencies	31 December 2012 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	124,558	17,972	7,241	4,967	472	155,210
Derivative financial instruments, assets	150,974	-	-	-	-	150,974
Due from banks and other financial institutions	-	15,463	5,992	1,690	448	23,593
Loans to customers	340,368	89,763	23,705	24,464	-	478,300
Investments available for sale	5,396	-	-	-	-	5,396
Other financial assets	2,592	90	288	2	-	2,972
TOTAL FINANCIAL ASSETS	**623,888**	**123,288**	**37,226**	**31,123**	**920**	**816,445**
FINANCIAL LIABILITIES:						
Derivative financial instruments, liabilities	25	-	-	-	-	25
Due to banks	-	548	13,146	549	-	14,243
Customer accounts	197,740	321,995	74,714	22,478	-	616,927
Other financial liabilities	5,219	7	10	142	-	5,378
TOTAL FINANCIAL LIABILITIES	**202,984**	**322,550**	**87,870**	**23,169**	**-**	**636,573**
OPEN BALANCE SHEET POSITION	**420,904**	**(199,262)**	**(50,644)**	**7,954**	**920**	

Derivative financial instruments

Fair value of the derivative financial instruments is included in the currency analysis presented above. The following table presents further analysis of currency risk on derivative financial instruments as at 31 December 2012:

	BYR	USD	EUR	RUB	Other currencies	31 December 2012 Total
Claims on derivative financial instruments	5,650	189,180	46,287	-	-	241,117
Obligations on derivative financial instruments	(84,609)	(5,656)	-	(7,470)	-	(97,735)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(78,959)**	**183,524**	**46,287**	**(7,470)**	**-**	**143,382**
TOTAL CURRENCY POSITION	**341,945**	**(15,738)**	**(4,357)**	**484**	**920**	

	BYR	USD	EUR	RUB	Other currencies	31 December 2011 Total
FINANCIAL ASSETS:						
Cash and balances with the National Bank of the Republic of Belarus	137,511	9,232	11,118	3,541	389	161,791
Derivative financial instruments, assets	237,382	-	-	-	-	237,382
Due from banks and other financial institutions	7,302	34,270	15,511	1,789	740	59,612
Loans to customers	331,366	148,780	34,901	5,380	-	520,427
Investments available for sale	10,732	-	-	3,930	-	14,662
Other financial assets	3,091	113	-	-	-	3,204
TOTAL FINANCIAL ASSETS	**727,384**	**192,395**	**61,530**	**14,640**	**1,129**	**997,078**
FINANCIAL LIABILITIES:						
Derivative financial instruments, liabilities	21	-	-	-	-	21
Due to banks		145,603	92	23	-	145,718
Customer accounts	213,578	353,326	132,633	38,288	-	737,825
Debt securities issued	20,527	-	36,246	-	-	56,773
Other financial liabilities	5,812	-	-	-	-	5,812
TOTAL FINANCIAL LIABILITIES	**239,938**	**498,929**	**168,971**	**38,311**	**-**	**946,149**
OPEN BALANCE SHEET POSITION	**487,445**	**(306,534)**	**(107,441)**	**(23,671)**	**1,129**	

Derivative financial instruments

Fair value of the derivative financial instruments is included in the currency analysis presented above. The following table presents further analysis of currency risk on derivative financial instruments as at 31 December 2011:

	BYR	USD	EUR	RUB	Other currencies	31 December 2011 Total
Claims on derivative financial instruments	-	389,897	145,647	23,822	-	559,366
Obligations on derivative financial instruments	(170,574)	(91,970)	(23,667)	-	-	(286,211)
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	**(170,574)**	**297,927**	**121,980**	**23,822**	**-**	**273,155**
TOTAL CURRENCY POSITION	**316,871**	**(8,607)**	**14,539**	**151**	**1,129**	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase and decrease in the USD, EUR and RUB exchange rates 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. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	31 December 2012		31 December 2011	
	BYR/USD +10%	**BYR/USD -10%**	**BYR/USD +10%**	**BYR/USD -10%**
Impact on profit before taxation	(1,574)	1,574	(861)	861
Impact on comprehensive income after taxation	(1,291)	1,291	(706)	706

	31 December 2012		31 December 2011	
	BYR/EUR +10	**BYR/EUR -10%**	**BYR/EUR +10**	**BYR/EUR -10%**
Impact on profit before taxation	(436)	436	1,454	(1,454)
Impact on comprehensive income after taxation	(358)	358	1,192	(1,192)

	31 December 2012		31 December 2011	
	BYR/RUB +10%	**BYR/RUB -10%**	**BYR/RUB +10%**	**BYR/RUB -10%**
Impact on profit before taxation	48	(48)	15	(15)
Impact on comprehensive income after taxation	39	(39)	12	(12)

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 larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities and substantially influence assets that are held at market value on 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 Bank'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 way.

30. SUBSEQUENT EVENTS

According to official statistics published by the Belarusian Statistical Committee inflation level in the Republic of Belarus for the first 2 months of 2013 was 4.3%.

On 13 March 2013 the National Bank of the Republic of Belarus decreased refinancing rate from 30% to 28.5% which is caused by the slowdown of inflationary processes in the country.