Translation from the original in Russian

"Priorbank" JSC
Consolidated financial statements

Year ended 31 December 2012
Together with independent auditors' report

Contents

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Independent auditors' report

To the Shareholders, Supervisory Board and Executive Committee of "Priorbank" JSC

We have audited the accompanying consolidated financial statements of "Priorbank" JSC and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

22 April 2013

Consolidated statement of financial position as at 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

	Note	*2012*	*2011*
Assets			
Cash and cash equivalents	6	3,147,648	3,982,169
Precious metals		6,339	11,347
Amounts due from credit institutions	7	286,964	120,038
Derivative financial assets	8	1,290,092	1,375,120
Loans to customers	9	9,559,522	9,469,491
Investment securities available-for-sale	11	25,251	20,055
Property and equipment	12	856,995	768,814
Intangible assets	13	134,717	106,038
Current income tax assets		19,484	-
Other assets	15	412,642	224,309
Total assets		**15,739,654**	**16,077,381**
Liabilities			
Amounts due to the National Bank of the Republic of Belarus		2,279	14,880
Amounts due to credit institutions	16	2,527,964	3,877,248
Derivative financial liabilities	8	29,033	3,838
Amounts due to customers	17	9,849,006	8,729,749
Amounts due to international financial institutions	18	101,610	200,529
Debt securities issued	19	265,060	557,415
Current income tax liabilities		5,416	125,485
Deferred tax liabilities	14	115,312	63,048
Provisions	10	21,212	58,919
Other liabilities	15	159,698	139,361
Total liabilities		**13,076,590**	**13,770,472**
Equity	20		
Share capital		2,189,493	2,189,493
Additional paid-in capital		1,423	1,423
Retained earnings		423,117	83,635
Other reserves		9,567	5,305
Total equity attributable to shareholders of the Bank		**2,623,600**	**2,279,856**
Non-controlling interests		**39,464**	**27,053**
Total equity		**2,663,064**	**2,306,909**
Total equity and liabilities		**15,739,654**	**16,077,381**

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

Sergey A. Kostyuchenko — Chairman of the Board

Zoya P. Yarmosh — Executive Director

22 April 2013

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated income statement for the year ended 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

	Note	2012	2011
Interest income			
Loans to customers		1,575,475	1,747,976
Cash and cash equivalents		106,359	75,103
Amounts due from credit institutions		21,948	7,132
		1,703,782	**1,830,211**
Securities designated at fair value through profit or loss		26,814	151
		1,730,596	**1,830,362**
Interest expense			
Amounts due to customers		(749,593)	(600,658)
Amounts due to credit institutions		(161,260)	(191,927)
Debt securities issued		(54,501)	(80,306)
Amounts due to international financial institutions		(9,939)	(18,614)
Amounts due to the National Bank of the Republic of Belarus		(18)	(324)
		(975,311)	**(891,829)**
Net interest income		**755,285**	**938,533**
Allowance for loan impairment	9	168,774	(466,622)
Net interest income after allowance for loan impairment		**924,059**	**471,911**
Fee and commission income		739,103	690,467
Fee and commission expense		(201,248)	(257,016)
Net fee and commission income	22	**537,855**	**433,451**
Net gains from foreign currencies:			
- dealing		174,791	108,111
- translation differences		135,501	1,262,877
Other income	23	63,970	57,960
Non-interest income		**374,262**	**1,428,948**
Personnel expenses	24	(363,964)	(341,253)
Depreciation and amortization	12, 13	(97,798)	(84,287)
Net loss on investment securities available-for-sale		-	(956)
Other operating expenses	24	(371,634)	(342,420)
Taxes other than income tax		(6,918)	(6,741)
Reversal / (charge)of provisions	10	27,200	(29,661)
Non-interest expenses		**(813,114)**	**(805,318)**
Loss on net monetary position		(239,930)	(1,070,003)
Profit before income tax expense		**783,132**	**458,989**
Income tax expense	14	(247,467)	(368,269)
Profit for the year		**535,665**	**90,720**
Attributable to:			
- shareholders of the Bank		523,254	82,726
- non-controlling interests		12,411	7,994
		535,665	**90,720**

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

	Note	*2012*	*2011*
Profit for the year		**535,665**	**90,720**
Other comprehensive income			
Unrealized gains on investment securities available-for-sale	20	5,197	9,631
Realized gains on investment securities available-for-sale reclassified to the income statement		-	956
Income tax related to components of other comprehensive income		(935)	(2,153)
Other comprehensive income for the year, net of tax		**4,262**	**8,434**
Total comprehensive income for the year		**539,927**	**99,154**
Attributable to:			
- shareholders of the Bank		527,516	91,160
- non-controlling interests		12,411	7,994
		539,927	**99,154**

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

	Attributable to shareholders of the Bank						
	Share capital	***Additional paid-in capital***	***Retained earnings***	***Other reserves***	***Total***	***Non-controlling interests***	***Total equity***
At 31 December 2010	**2,189,493**	**1,423**	**246,598**	**(3,129)**	**2,434,385**	**19,009**	**2,453,394**
Profit for the year	-	-	82,726	-	82,726	7,994	90,720
Other comprehensive income for the year	-	-	-	8,434	8,434	-	8,434
Total comprehensive income for the year	-	-	82,726	8,434	91,160	7,994	99,154
Dividends to shareholders of the Bank (Note 20)	-	-	(245,689)	-	(245,689)	-	(245,689)
Establishment of subsidiaries						50	50
At 31 December 2011	**2,189,493**	**1,423**	**83,635**	**5,305**	**2,279,856**	**27,053**	**2,306,909**
Profit for the year	-	-	523,254	-	523,254	12,411	535,665
Other comprehensive income for the year	-	-	-	4,262	4,262	-	4,262
Total comprehensive income for the year	-	-	523,254	4,262	527,516	12,411	539,927
Dividends to shareholders of the Bank (Note 20)	-	-	(183,772)	-	(183,772)		(183,772)
At 31 December 2012	**2,189,493**	**1,423**	**423,117**	**9,567**	**2,623,600**	**39,464**	**2,663,064**

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

	Note	*2012*	*2011*
Cash flows from operating activities			
Interest received		1,742,793	1,724,592
Interest paid		(978,600)	(844,472)
Fees and commissions received		723,605	668,733
Fees and commissions paid		(198,277)	(255,456)
Gains less losses from dealing in foreign currencies		197,367	752,052
Other income received		63,907	56,273
Personnel expenses paid		(341,427)	(322,600)
Other operating expenses paid		(332,776)	(313,403)
Cash flows from operating activities before changes in operating assets and liabilities		**876,592**	**1,465,719**
Net (increase)/ decrease in operating assets			
Amounts due from credit institutions		(188,330)	(77,716)
Loans to customers		(1,381,788)	(1,147,222)
Precious metals and other assets		(212,801)	42,887
Net increase/ (decrease) in operating liabilities			
Amounts due to the National Bank of the Republic of Belarus		(9,936)	10,520
Amounts due to credit institutions		(745,873)	575,180
Amounts due to international financial institutions		(65,470)	(120,513)
Amounts due to customers		2,442,581	924,559
Other liabilities		10,613	35,545
Net cash flows from operating activities before income tax		**725,588**	**1,708,959**
Income tax paid		(302,074)	(192,845)
Net cash flows from operating activities		**423,514**	**1,516,114**
Cash flows from investing activities			
Acquisitions of subsidiaries, net of cash acquired		-	(5)
Proceeds from sale of property and equipment and intangible assets	12,13	7,805	12,900
Purchase of property and equipment and intangible assets	12,13	(259,322)	(240,841)
Net cash used in investing activities		**(251,517)**	**(227,946)**
Cash flows from financing activities			
Establishment of subsidiaries		-	50
Proceeds from issue of debt securities		137,058	497,275
Redemption of debt securities		(293,068)	(195,969)
Dividends paid to shareholders of the Bank		(175,052)	(231,615)
Net cash flows from financing activities		**(331,062)**	**69,741**

The accompanying notes on pages 7 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2012

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

(continued)

Effect of exchange rate changes on cash and cash equivalents		62,919	1,460,048
Net increase in cash and cash equivalents		**(96,146)**	**2,817,957**
Effect of inflation on monetary items		(738,375)	(2,257,096)
Cash and cash equivalents at 1 January		**3,982,169**	**3,421,308**
Cash and cash equivalents at 31 December	6	**3,147,648**	**3,982,169**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

1. Principal activities

"Priorbank" Joint Stock Company (hereinafter "Priorbank") was founded in 1989 as an open joint stock company under the laws of the Republic of Belarus. Priorbank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter "NBRB") in August 2008. Priorbank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2006.

Priorbank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its main office is in Minsk, and it has 98 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise Priorbank and its subsidiaries (jointly referred to as the "Bank"). A list of consolidated subsidiaries is disclosed in Note 2. Priorbank's legal address is 31-A, V. Khoruzhey St., Minsk, Republic of Belarus.

As at 31 December 2012 and 2011, Priorbank had the following shareholding structure:

Shareholders	***2012*** ***%***	***2011*** ***%***
Raiffeisen CIS Region Holding GmbH	87.74	-
Raiffeisen Bank International AG	-	87.74
Other	12.26	12.26
Total	**100.00**	**100.00**

Raiffeisen-Landesbanken-Holding GmbH is the ultimate parent company of the Bank.

2. Basis of preparation

General

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

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

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the Note "Summary of accounting policies". For example, investment securities, which are comprised of securities designated at fair value through profit or loss, investment available-for-sale securities, derivative financial instruments have been measured at fair value.

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

Inflation accounting

With the effect from 1 January 2011, the Belarusian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). Accordingly, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belorussian ruble. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

2. Basis of preparation (continued)

Inflation accounting (continued)

On the application of IFRS (IAS) 29 The Bank used the conversion coefficient derived from the consumer price index in the Republic of Belarus ("CPI") published by the National Statistics Committee. CPIs for the six-year period and corresponding conversion coefficient since the moment when the republic of Belarus is no longer classified as the country with hyperinflationary economy, since 1 January 2006, are presented below:

Year	*Index, %*	*Conversion coefficient*
2006	106.6	320.8
2007	112.1	286.2
2008	113.3	252.6
2009	110.1	229.4
2010	109.9	208.7
2011	208.7	121.7
2012	121.7	100.0

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

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

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2011 and 2012

Subsidiary	*Ownership, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Unitary Enterprise “Priorleasing”	100	Belarus	June 1991	Leasing and agriculture	-
Unitary Enterprise “Dom-Office 2000”	100	Belarus	February 2001	Construction	-
Unitary Insurance Enterprise “Seventh Line”	100	Belarus	April 2001	Insurance	-
Raiffeisen Leasing LLC	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-leasing Lithuania UAB	90	Lithuania	January 2011	Leasing	January 2011
Developer-Invest LLC	99	Belarus	April 2010	Developer organization	January 2011

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies

Changes in accounting policies

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

- Amendment to IFRS 7 *Financial Instruments: Disclosures*. The amendment was issued in October 2010 and is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred to enable the users of the Bank's financial statements to evaluate the risk exposures relating to those assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

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

- Amendment to IAS 12 *Income Taxes – Deferred Taxes: Recovery of Underlying Assets*

- Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

Basis of consolidation

Subsidiaries, which are those entities in which the Bank has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying value of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes analysis of necessity of the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer should be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred and accepted non-controlling interests over the Bank's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying value of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

'Day 1' profit

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

Determination of fair value

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

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

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This, as a rule, doesn't work for general offset agreements, and corresponding assets and liabilities are reported in full amount in consolidated statement of financial position.

Reclassification of financial assets

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Financial assets (continued)

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

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

Precious metals

Nonmonetary gold and other nonmonetary precious metals are recorded at the lower of historical cost and net realizable value at balance sheet date.

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within net gains from foreign currencies, translation differences position.

Borrowings

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Borrowings (continued)

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

Leases

i. Finance – Bank as lessor
The Bank recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Bank presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

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

iii. Operating – Bank as lessor
The Bank presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying value of the leased asset.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Such assessment involves consideration of both quantitative and qualitative characteristics of a financial asset, resulting in the assignment of proper rating to each financial asset of the Bank based on the established internal credit rating system. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

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

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

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

Available-for-sale financial investments

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

Financial liabilities

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Financial guarantees

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

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

Taxation

Current income tax expense is calculated in accordance with the regulations of Belarus and is based on the results reported in the separate (non-consolidated) income statement of the Bank and income statements of its subsidiaries prepared under Belarusian statutory legislation after adjustments for tax purposes.

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

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

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

Belarus also has various operating taxes, which are assessed on the Bank's activities. These taxes are separately presented in the consolidated income statement.

Property and equipment

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Years
Buildings	50
Furniture, fixtures and other	5 -10

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

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

Intangible assets

Intangible assets include computer software and other intangible assets (including rights to use land plots, licenses to perform activity).

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses and with adjustment for the effect of hyperinflation. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of six years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

Provisions

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

Retirement and other employee benefit obligations

The Bank participates in the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Bank operates a defined benefit plan through its wholly owned subsidiary "Seventh Line" which provides eligible employees with retirement benefits upon reaching the retirement age of 60 for men and 55 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses for the plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Share capital

Share capital

Ordinary shares and preference shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are presented at restated cost.

Dividends

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

Segment reporting

The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

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

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates at 31 December 2012 and 2011 were 8,570 Belarusian rubles and 8,350 Belarusian rubles to 1 US dollar, respectively.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Significant accounting policies (continued)

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. In addition, IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* and becomes effective for annual periods beginning on or after 1 January 2013. Early application is permitted. Currently the Bank evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. . IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Early application is permitted. Currently, the Bank evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The standard becomes effective for annual reporting periods beginning on or after 1 January 2013.

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

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

Amendment to IAS 19 Employee Benefits

The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, the amendment will limit the changes in net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and service costs. Currently the Bank assesses the impact of the amendment on the Bank's financial position and performance.

Amendment to IAS 1 Presentation of Financial Statements – Presentation of Other Comprehensive Income

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

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

These amendments require an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments*: *Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments will have no impact on the Bank's financial position or performance. The amendments become effective for annual periods beginning on or after 1 January 2013.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

3. Significant accounting policies (continued)

Future changes in accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

Amendments to IFRS 1 Government Loans

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

Improvements to IFRS

The amendments become effective for annual periods beginning on or after 1 January 2013. The following amendments will have no impact on the Bank:

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

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

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

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Allowance for impairment of loans and receivables

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

Assessment of payment liabilities under the "Seventh line" pension plan

A defined benefit obligation is assessed on actuarial basis using projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ.

Fair value of financial instruments

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

5. Segment information

For management purposes, the Bank is organized into three operating segments:

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities.

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers.

Other – Treasury and Finance Department and other central functions which are not directly allocated.

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2012 or 2011.

Noncurrent assets and deferred tax assets are related to Republic of Belarus. Generally revenue is earned from sources in Republic of Belarus.

The following tables present income and profit and certain asset and liability information regarding the Bank's operating segments:

2012	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	529,971	1,039,630	160,995	**1,730,596**
Interest expense	(426,784)	(322,722)	(225,805)	**(975,311)**
Net interest income	**103,187**	**716,908**	**(64,810)**	**755,285**
Allowance for loan impairment	23,961	144,813	-	**168,774**
Net interest income after allowance for loan impairment	**127,148**	**861,721**	**(64,810)**	**924,059**
Net fee and commission income/ (expense)	181,371	362,195	(5,711)	**537,855**
Net income from foreign exchange operations	83,864	75,460	150,968	**310,292**
Other non-interest income	-	51,584	12,386	**63,970**
Non-interest expense	(383,867)	(343,294)	(85,953)	**(813,114)**
Segment financial results	**8,516**	**1,007,666**	**6,880**	**1,023,062**
Loss on net monetary position				(239,930)
Income tax expense				(247,467)
Profit for the year				**535,665**
Assets and liabilities				
Segment asset	1,580,085	8,328,266	5,831,303	**15,739,654**
Total assets				**15,739,654**
Segment liabilities	4,628,101	5,211,831	3,236,658	**13,076,590**
Total liabilities				**13,076,590**
Other segment information				
Capital expenditure	9,777	3,931	54,180	**67,888**
Depreciation and amortization	(1,540)	(78,432)	(17,826)	**(97,798)**
Charge for provisions	-	27,200	-	**27,200**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

5. Segment information (continued)

2011	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	621,237	1,121,427	87,698	**1,830,362**
Interest expense	(309,006)	(284,578)	(298,245)	**(891,829)**
Net interest income	**312,231**	**836,849**	**(210,547)**	**938,533**
Allowance for loan impairment	(92,230)	(374,392)	-	**(466,622)**
Net interest income after allowance for loan impairment	**220,001**	**462,457**	**(210,547)**	**471,911**
Net fee and commission income/(expense)	150,693	302,095	(19,337)	**433,451**
Net income from foreign exchange operations	30,085	378,875	962,028	**1,370,988**
Other non-interest income	-	31,356	26,604	**57,960**
Non-interest expense	(195,930)	(394,084)	(215,304)	**(805,318)**
Segment financial results	**204,849**	**780,699**	**543,444**	**1,528,992**
Loss on net monetary position				(1,070,003)
Income tax expense				(368,269)
Profit for the year				**90,720**
Assets and liabilities				
Segment assets	1,865,029	8,397,968	5,814,384	**16,077,381**
Total assets				**16,077,381**
Segment liabilities	3,920,933	4,786,166	5,063,373	**13,770,472**
Total liabilities				**13,770,472**
Other segment information				
Capital expenditure	22,708	7,401	175,333	**205,442**
Depreciation and amortization	(2,701)	(5,776)	(75,810)	**(84,287)**
Charge for provisions	-	(29,661)	-	**(29,661)**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2012	*2011*
Cash on hand	861,108	884,977
Current accounts with credit institutions	530,144	645,763
Current accounts with the National Bank of the Republic of Belarus	1,262,163	504,202
Time deposits with credit institutions up to 90 days	494,233	1,947,227
Cash and cash equivalents	**3,147,648**	**3,982,169**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2012	*2011*
Obligatory reserves with the National Bank of the Republic of Belarus	100,225	71,754
Time deposits for more than 90 days	186,739	48,284
Amounts due from credit institutions	**286,964**	**120,038**

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

As at 31 December 2012, the Bank had time deposits with two Belarusian banks (2011: four Belarusian banks).

8. Derivative financial instruments

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

	2012			*2011*		
		Fair value			*Fair value*	
	Notional principal	*Asset*	*Liability*	*Notional principal*	*Asset*	*Liability*
Foreign exchange contracts (forwards and swaps)						
EUR-USD contract with OECD bank	2,209,564	-	(27,858)	419,509	4,193	-
BYR- EUR contract with NBRB	1,984,500	1,289,718	-	2,300,130	1,370,853	-
USD-EUR contract with customer	139,358	-	(286)	-	-	-
EUR-USD contract with OECD bank	138,712	357	-	-	-	-
CHF-USD contract with OECD bank	22,582	-	(871)	49,619	74	-
USD-EUR contract with OECD bank	14,742	-	(18)	-	-	-
EUR-GBP contract with OECD bank	4,141	-	-	-	-	-
USD-EUR contract with customer	3,371	14	-	416,145	-	(3,838)
BYR-USD contract with OECD bank	1,497	3	-	-	-	-
Total derivative assets / (liabilities)		**1,290,092**	**(29,033)**		**1,375,120**	**(3,838)**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

8. Derivative financial instruments (continued)

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

Forwards

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

Swaps

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

9. Loans to customers

Loans to customers comprise:

	2012	*2011*
Corporate lending	7,185,995	7,316,288
Small business lending	1,175,501	986,258
Consumer lending	1,325,118	1,509,084
Residential mortgages	254,967	355,946
Gross loans to customers	**9,941,581**	**10,167,576**
Less – Allowance for loan impairment	(382,059)	(698,085)
Loans to customers	**9,559,522**	**9,469,491**

As at 31 December 2012, the Bank had a concentration of loans represented by BYR 2,425,548 million due from the ten largest third party borrowers (24% of gross loan portfolio) (2011: BYR 2,824,345 million, or 28%). An allowance of BYR 53,529 million (2011: BYR 150,464 million) was recognized against these loans.

Loans have been extended to the following types of customers:

	2012	*2011*
Private companies	7,064,540	7,493,661
Individuals	1,580,085	1,865,030
State companies	1,296,956	808,885
Loans to customers	**9,941,581**	**10,167,576**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

9. Loans to customers (continued)

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

	2012	*2011*
Individuals	1,580,085	1,865,030
Manufacturing:	4,312,005	3,557,233
Base metals production	730,045	749,420
Coking coal and oil products	500,734	546,535
Chemicals, rubber, plastics	796,955	496,304
Food, beverages, tobacco products	505,695	411,606
Transport facilities	429,673	227,248
Machinery, equipment	340,070	157,009
Pulp and paper industry	169,037	180,265
Electric equipment	132,961	122,236
Textile industry	109,298	140,439
Wood processing	94,469	108,922
Other manufacturing	503,068	417,249
Wholesale trade	1,530,341	1,714,530
Retail trade	1,056,017	1,316,256
Real estate	307,718	749,180
Transport	560,123	398,785
Construction	261,370	154,356
Electrical energy, gas, water supply	63,376	94,623
Mineral development and extraction	20	109,335
Other	270,526	208,248
Loans to customers	**9,941,581**	**10,167,576**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

9. Loans to customers (continued)

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

	Corporate lending 2012	*Small business lending 2012*	*Consumer lending 2012*	*Residential mortgages 2012*	*Total 2012*
At 31 December 2011	**360,436**	**165,596**	**127,201**	**44,852**	**698,085**
Gain on net monetary position	(64,267)	(29,527)	(22,681)	(7,997)	(124,472)
Reversal for the year	(101,507)	(43,306)	(21,190)	(2,771)	(168,774)
Amounts written off	-	(5,264)	(17,516)	-	(22,780)
At 31 December 2012	**194,662**	**87,499**	**65,814**	**34,084**	**382,059**
Individual impairment	9,094	32,366	25,934	22,458	89,852
Collective impairment	185,568	55,133	39,880	11,626	292,207
	194,662	**87,499**	**65,814**	**34,084**	**382,059**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**13,400**	**42,052**	**25,936**	**22,458**	**103,846**

	Corporate lending 2011	*Small business lending 2011*	*Consumer lending 2011*	*Residential mortgages 2011*	*Total 2011*
At 31 December 2010	**180,598**	**156,561**	**161,362**	**24,126**	**522,647**
Gain on net monetary position	(94,063)	(81,544)	(84,045)	(12,566)	(272,218)
Charge for the year	279,916	94,476	58,938	33,292	466,622
Amounts written off	(6,015)	(3,897)	(9,054)	-	(18,966)
At 31 December 2011	**360,436**	**165,596**	**127,201**	**44,852**	**698,085**
Individual impairment	24,185	59,233	65,997	28,479	177,894
Collective impairment	336,251	106,363	61,204	16,373	520,191
	360,436	**165,596**	**127,201**	**44,852**	**698,085**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**31,514**	**72,153**	**65,997**	**28,479**	**198,143**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2012, comprised BYR 3,219 million (2011: BYR 6,354 million).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

9. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending – charges over real estate properties, inventory and trade receivables;
- For retail lending – mortgages over residential properties.

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

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

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2011 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	360,848	511,686	61,342	933,876
Unearned future finance income on finance leases	(73,622)	(97,278)	(7,995)	(178,895)
Net investments in finance leases	**287,226**	**414,408**	**53,347**	**754,981**

Finance lease receivables as at 31 December 2011 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	308,021	491,956	123,303	923,280
Unearned future finance income on finance leases	(80,520)	(115,162)	(20,111)	(215,793)
Net investments in finance leases	**227,501**	**376,794**	**103,192**	**707,487**

10. Provisions

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*	*Total*
31 December 2010	**2,063**	**58,999**	**61,062**
Gain on net monetary position	(1,075)	(30,729)	(31,804)
Charge	-	29,661	29,661
31 December 2011	**988**	**57,931**	**58,919**
Gain on net monetary position	(176)	(10,331)	(10,507)
Reversal	-	(27,200)	(27,200)
31 December 2012	**812**	**20,400**	**21,212**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

11. Investment securities available-for-sale

As at 31 December 2012, investment securities available-for-sale comprised corporate shares of Visa Inc. with fair value of BYR 25,251 million (2011: BYR 20,055 million).

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2011	**569,772**	**654,655**	**1,224,427**
Additions	95,850	103,743	**199,593**
Disposals	(21,216)	(48,394)	**(69,610)**
At 31 December 2012	**644,406**	**710,004**	**1,354,410**
Accumulated depreciation			
At 31 December 2011	**(110,523)**	**(345,090)**	**(455,613)**
Depreciation	(9,908)	(61,044)	**(70,952)**
Disposals	2,721	26,429	**29,150**
At 31 December 2012	**(117,710)**	**(379,705)**	**(497,415)**
Net book value			
At 31 December 2011	**459,249**	**309,565**	**768,814**
At 31 December 2012	**526,696**	**330,299**	**856,995**

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2010	**495,862**	**602,526**	**1,098,388**
Additions	89,594	101,086	**190,680**
Disposals	(15,684)	(48,957)	**(64,641)**
At 31 December 2011	**569,772**	**654,655**	**1,224,427**
Accumulated depreciation			
At 31 December 2010	**(102,460)**	**(327,586)**	**(430,046)**
Depreciation	(8,935)	(55,803)	**(64,738)**
Disposals	872	38,299	**39,171**
At 31 December 2011	**(110,523)**	**(345,090)**	**(455,613)**
Net book value			
At 31 December 2010	**393,402**	**274,940**	**668,342**
At 31 December 2011	**459,249**	**309,565**	**768,814**

As at 31 December 2012, the Bank had fully depreciated furniture and fixtures that were still in use with a gross book value of BYR 171,754 million (2011: BYR 146,281 million).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

13. Intangible assets

The movements of intangible assets were as follows:

	Computer software	*Other*	*Total*
Cost			
At 31 December 2011	**169,873**	**279**	**170,152**
Additions	59,192	537	**59,729**
Disposals	(17,030)	(41)	**(17,071)**
At 31 December 2012	**212,035**	**775**	**212,810**
Accumulated depreciation			
At 31 December 2011	**(63,983)**	**(131)**	**(64,114)**
Depreciation	(26,797)	(49)	**(26,846)**
Disposals	12,864	3	**12,867**
At 31 December 2012	**(77,916)**	**(177)**	**(78,093)**
Net book value			
At 31 December 2011	**105,890**	**148**	**106,038**
At 31 December 2012	**134,119**	**598**	**134,717**

	Computer software	*Other*	*Total*
Cost			
At 31 December 2010	**128,061**	**264**	**128,325**
Additions	50,029	132	**50,161**
Disposals	(8,217)	(117)	**(8,334)**
At 31 December 2011	**169,873**	**279**	**170,152**
Accumulated depreciation			
At 31 December 2010	**(49,551)**	**(181)**	**(49,732)**
Depreciation	(19,530)	(19)	**(19,549)**
Disposals	5,098	69	**5,167**
At 31 December 2011	**(63,983)**	**(131)**	**(64,114)**
Net book value			
At 31 December 2010	**78,510**	**83**	**78,593**
At 31 December 2011	**105,890**	**148**	**106,038**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

14. Taxation

The corporate income tax expense comprises:

	2012	*2011*
Current tax charge	185,205	315,389
Deferred tax charge – origination and reversal of temporary differences	63,197	55,033
Less: deferred tax recognized in other comprehensive income	(935)	(2,153)
Income tax expense	**247,467**	**368,269**

Belarusian legal entities must file individual tax returns. In 2012, statutory income tax rate for banks was 18%. In 2011, statutory income tax rate for banks was 24%. In 2012 and 2011, statutory income tax rates for subsidiaries of "Priorbank" OJSC were 18% and 24%, respectively. Income earned by agricultural enterprises is not subject to income tax.

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

	2012	*2011*
Profit before tax	**783,132**	**458,989**
Statutory tax rate	18%	24%
Theoretical income tax expense at the statutory rate	**140,964**	**110,157**
Capital expenditure tax exemption	-	(20,065)
Other tax exemptions and credits	(2,419)	(1,230)
Property tax and tax on dividend income	-	(51)
Income of subsidiaries not subject to income tax	(3,302)	(1,519)
Non-deductible expenditures		
- salaries and related expenses	13,934	15,884
- securities	4,947	17,833
- insurance	3,292	5,823
- translation differences	2,545	-
- consulting, advertising and representative expenses	1,939	2,321
- charity	1,917	2,934
- disposal of property and equipment	1,540	486
- depreciation and amortization	778	1,078
- maintenance and repairs	748	842
-provisions	491	9,319
- taxes other than income tax	196	327
- other	1,643	258
Loss on monetary position in respect of non-deductible expenses	(3,178)	(17,577)
Change in unrecognized deferred tax assets	(11)	(3,616)
Permanent differences in the indexation of hyperinflation	82,990	355,035
Reversal of statutory revaluation of property and equipment	(1,547)	(90,776)
Effect of change in tax rate	-	(19,194)
Income tax expense	**247,467**	**368,269**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

14. Taxation (continued)

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

			Origination and reversal of temporary differences				***Origination and reversal of temporary differences***		
	2010	**Net monetary position**	***In the income statement***	***In other compre-hensive income***	***2011***	**Net monetary position**	***In the income statement***	***In other compre-hensive income***	***2012***
Tax effect of deductible temporary differences									
Allowance for loan impairment	29,305		(29,305)	-	-		-	-	-
Property and equipment	27,499		(26,392)	-	1,107		(72)	-	1,035
Loans to customers	2,736		(661)	-	2,075		1,388	-	3,463
Provisions	2,004		(2,004)	-	-		1,411	-	1,411
Other assets	10,777		10,095	-	20,872		(14,886)	-	5,986
Other liabilities	393		1,169	-	1,562		(670)	-	892
Deferred tax assets	**72,714**		**(47,098)**	**-**	**25,616**		**(12,829)**	**-**	**12,787**
Deferred tax assets recognized in statement of financial position	(4,341)		3,616	-	(725)		11	-	(714)
Deferred tax asset, net amount	**68,373**		**(43,482)**	**-**	**24,891**		**(12,818)**	**-**	**12,073**
Tax effect of taxable temporary differences:									
Accrued income	(191)		(20)	-	(211)		183	-	(28)
Allowance for loan impairment	-		(28,565)	-	(28,565)		(301)	-	(28,866)
Fair value of available-for-sale securities	(3,685)		(202)	(2,153)	(6,040)		4,306	(935)	(2,669)
Amounts due from credit institutions	(619)		271	-	(348)		230	-	(118)
Provisions	(7,007)		5,091	-	(1,916)		(11,278)		(13,194)
Derivative financial assets	-		(3,764)	-	(3,764)		(11,313)	-	(15,077)
Loans to customers	(29,703)		18,373	-	(11,330)		(993)	-	(12,323)
Investments in subsidiaries	(1,519)		(3,835)	-	(5,354)		(5,379)	-	(10,733)
Other assets	(2,607)		2,045		(562)		562		-
Other liabilities	(66)		(25,347)	-	(25,413)		9,368		(16,045)
Property and equipment	(39,703)		35,267	-	(4,436)		(23,896)	-	(28,332)
Deferred tax liability	**(85,100)**		**(686)**	**(2,153)**	**(87,939)**		**(38,511)**	**(935)**	**(127,385)**
Net monetary position			(8,712)				(11,241)		
Deferred tax liabilities, net	**(16,727)**	**8,712**	**(52,880)**	**(2,153)**	**(63,048)**	**11,241**	**(62,570)**	**(935)**	**(115,312)**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

15. Other assets and liabilities

Other assets comprise:

	2012	*2011*
Other financial assets:		
Fees and commissions receivable	39,122	32,875
Settlements on securities sold	-	10,018
Settlements on currency conversion operations	124,098	-
	163,220	**42,893**
Other non-financial assets:		
Prepayments	76,992	82,953
Blocks of apartments owned by the Bank	77,750	56,649
Prepaid VAT and other prepaid taxes other than income tax	28,100	21,766
Other non-financial assets	66,580	20,048
	249,422	**181,416**
Total other assets	**412,642**	**224,309**

The Bank is involved in the construction of blocks of apartments, and these are intended to be sold in the ordinary course of business. The blocks of apartments owned by the Bank comprise both finished apartments and construction-in-progress. The carrying value is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Bank.

Other liabilities comprise:

	2012	*2011*
Other financial liabilities:		
Salary and bonus payable	60,553	42,257
Defined benefit plan: pension liabilities (Note 25)	30,741	26,206
Trade and other payables	18,484	27,544
Pension liabilities payable by subsidiary to third parties	4,271	1,305
Other financial liabilities	31,817	25,175
	145,866	**122,487**
Other non-financial liabilities:		
Tax liabilities (taxes other than income tax)	12,038	16,578
Other non-financial liabilities	1,794	296
	13,832	**16,874**
Total other liabilities	**159,698**	**139,361**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2012	***2011***
Current accounts	235,894	261,156
Time deposits and loans	2,292,070	3,616,092
Amounts due to credit institutions	**2,527,964**	**3,877,248**

As of 31 December 2012 time deposits and loans included amounts payable to the bank-founder comprising BYR 2,206,353 million (2011: BYR 3,548,859 million).

17. Amounts due to customers

Amounts due to customers include the following:

	2012	***2011***
Time deposits	5,637,883	5,389,738
Current accounts	4,211,123	3,340,011
Amounts due to customers	**9,849,006**	**8,729,749**
Held as collateral against letters of credit	**196,581**	**393,544**
Held as security against guarantees	**20,488**	**24,425**

As of 31 December 2012, amounts due to customers of BYR 791,113 million (8%) were due to the five largest third-party customers (2011: BYR 714,720 million or 8%).

Included in time deposits are deposits of individuals in the amount of BYR 3,673,584 million (BYR 3,274,789 million). In accordance with the Belarus Banking Code, the Bank is obliged to repay such deposits upon the demand of a depositor upon advance notification of five days before the expected withdrawal.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

17. Amounts due to customers (continued)

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

	2012	*2011*
Private companies	4,594,393	4,060,749
Individuals	4,628,101	3,920,933
State companies and budgetary organizations	626,512	748,067
Amounts due to customers	**9,849,006**	**8,729,749**

An analysis of customer accounts by economic sector follows:

	2012	*2011*
Individuals	4,628,101	3,920,933
Manufacturing:	1,051,662	1,153,273
Coking coal and oil products	168,586	206,853
Machinery, equipment	79,744	154,558
Base metals production	132,873	122,955
Chemicals, rubber, plastics	158,750	111,750
Food, beverages, tobacco products	115,679	108,343
Electric equipment	72,299	104,690
Transport facilities	65,175	72,402
Wood processing	36,033	68,083
Pulp and paper industry	39,335	31,298
Pharmaceuticals industry	30,938	23,837
Textile industry	16,053	14,487
Other manufacturing	136,197	134,017
Wholesale trade	807,969	817,492
Retail trade	665,163	583,963
Real estate	636,229	404,749
Transport	181,642	331,726
Mineral development and extraction	394,476	256,230
Construction	227,050	240,457
Electrical energy, gas, water supply	51,012	7,335
Other	1,205,702	1,013,591
Amounts due to customers	**9,849,006**	**8,729,749**

18. Amounts due to international credit institutions

Amounts due to international credit institutions consist of the following:

	2012	*2011*
Due to the European Bank for Reconstruction and Development ("EBRD")	51,050	100,573
Due to Dutch Development Bank ("FMO")	50,560	99,956
Amounts due to international credit institutions	**101,610**	**200,529**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

19. Debt securities issued

	2012	***2011***
Non-documentary bonds	265,060	557,397
Certificates of deposit	-	18
Debt securities issued	**265,060**	**557,415**

Non-documentary bonds denominated in Belarusian rubles in the amount of BYR 139,694 million (2011: BYR 412,704 million) mature in the period from 2012 to 2016 and bear interest of the NBRB refinancing rate from minus 1% to plus 1%, which is revised every three months, once the regular coupon payment has been made; at 31 December 2012, the interest rates on these bonds ranged from 29% to 31% (2011: 44%-46.5%).

Non-documentary bonds denominated in Euros, US dollars and Russian rubles in the amount of BYR 125,366 million (2011: BYR 144,693 million) mature in 2017. EUR-denominated bonds and USD-denominated bonds bear a fixed interest rate of 3.5%, RUB-denominated bonds - 7.45%, which are revised every three months.

In 2011, certificates of deposit are denominated in Belarusian rubles, born a fixed interest rate of 44% and matured in 2012.

20. Equity

The information on shares authorized, fully paid and outstanding follows:

	Number of shares		***Nominal value***		***Inflation adjustment***	
	Preferred	***Ordinary***	***Preferred***	***Ordinary***		***Total***
31 December 2010, 2011 and 2012	**10,000**	**123,058,441**	**33**	**412,246**	**1,777,214**	**2,189,493**

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank's Charter. In the event of the Bank's liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

At the shareholders' meeting in March 2012, the Bank declared dividends in respect of the year ended 31 December 2011 as follows: BYR 1,493 (2011: BYR 1,996) per ordinary share, BYR 2,038 (2011: BYR 4,255) per preferred share. In total, the amount of dividends amounted to BYR 183,752 million (2011: BYR 245,646 million) on ordinary shares and BYR 20 million (2011: BYR 43 million) on preferred shares.

According to the Belarusian legislation, only retained earnings and unreserved profit can be distributed as dividends based on the financial statements prepared in accordance with NSFO. As at 31 December 2012, the Bank's non-distributable reserves totaled BYR 1,013,943 million (2011: BYR 554,375 million (not hyperinflated)). As of 31 December 2012, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYR 13,671 million (2011: BYR 9,087 million (not hyperinflated)).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

20. Equity (continued)

Movements in other capital items

Movements in other capital items were as follows:

	Unrealized gains/ (losses) on investment securities available-for-sale
At 1 January 2011	**(3,129)**
Net unrealized losses on investments securities available-for-sale	9,631
Realized losses from investment securities available-for-sale reclassified to the income statement	956
Tax effect of net gains on investment securities available-for-sale	(2,153)
At 31 December 2011	**5,305**
Net unrealized gains on available-for-sale investment securities	5,197
Tax effect of net gains on available-for-sale investment securities	(935)
At 31 December 2012	**9,567**

Unrealized gains on investment securities available-for-sale

This reserve reflects changes in the fair value of investments available-for-sale.

21. Commitments and contingencies

Operating environment

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

In 2011, Belarus experienced significant deterioration of the macroeconomic situation. The deterioration was primarily due to the high current account deficit, decrease in, and restriction on, external financing sources, and significant shortage of foreign currency inflow at the beginning of 2011. This led to significant decrease in international reserves of the National Bank in Q1 2011 and foreign currency deficit and a significant decrease in the official exchange rate accompanied by development of inflation and an increase in the basic refinancing rate up to 45% as at 31 December 2011. The rate of inflation in 2011 was 108.7% (Note 2).

The significant financial support provided by Russia (extension of loans in 2011 and 2012 and participation in privatization of state assets at the end of 2011) and a positive foreign trade balance contributed to a significant increase in reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. The representatives of the Government and the National Bank believe that reserves as at 31 December 2012 were sufficient to preserve stability, avoid foreign currency deficit and satisfy the country's needs in external funds in the short- and medium-term. The official exchange rate in 2012 remained virtually unchanged. The inflation rate in 2012 was 21.7%, the prime refinancing rate was reduced to 30% as at 31 December 2012.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

21. Commitments and contingencies (continued)

Operating environment (continued)

While management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Bank and its borrowers. The degree of such impact on the Bank's consolidated financial statements is not currently determinable.

Legal

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

Taxation

Belarusian tax legislation and regulations as well as other operational matters, including currency and customs regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time. It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

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

Financial commitments and contingencies

As at 31 December 2012, the Bank's financial commitments and contingencies comprises the following:

	2012	***2011***
Credit-related commitments		
Undrawn loan commitments	766,137	668,115
Letters of credit	616,268	1,087,388
Guarantees	1,043,491	884,327
	2,425,896	**2,639,830**
Lease commitments		
Not later than 1 year	12,168	13,151
From 1 to 5 years	12,232	10,791
	24,400	**23,942**
Less - Provisions	(20,400)	(57,930)
Financial commitments and contingencies (before deducting collateral)	**2,429,896**	**2,605,842**
Less: Cash held as security against letters of credit and guarantees	(217,069)	(417,969)
Financial commitments and contingencies	**2,212,827**	**2,187,873**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

22. Net fee and commission income

Net fee and commission income comprises:

	2012	*2011*
Settlement transactions	533,817	485,978
Currency conversion operations	142,774	130,663
Guarantees and letters of credit	49,397	61,334
Agency services	10,533	9,426
Other	2,582	3,066
Fee and commission income	**739,103**	**690,467**
Settlement operations	(171,590)	(141,644)
Guarantees	(19,927)	(49,600)
Currency conversion operations	(9,584)	(65,757)
Securities operations	(121)	(15)
Other	(26)	-
Fee and commission expense	**(201,248)**	**(257,016)**
Net fee and commission income	**537,855**	**433,451**

23. Other income

Other income comprises:

	2012	*2011*
Income from agriculture services	35,677	20,616
Income from rendering of services for office buildings maintenance	2,476	18,520
Income from operating lease	4,330	4,824
Income on debt previously written off	4,363	3,400
Income from additional services for finance lease agreements	1,559	2,954
Income from sale of property and equipment	61	1,687
Income from sale of constructed housing	1,272	723
Other	14,232	5,236
Total other income	**63,970**	**57,960**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2012	*2011*
Salaries and bonuses	274,644	253,265
Social security costs	75,069	70,151
Retirement benefits (Note 25)	12,343	16,143
Other employment taxes	1,908	1,694
Personnel expenses	**363,964**	**341,253**

	2012	*2011*
Occupancy and rent	76,565	73,159
Data processing	45,519	56,604
Deposit insurance fees	54,020	43,601
Marketing and advertising	29,108	30,919
Plastic cards operations	23,550	19,773
Loss on disposal of property and equipment	36,920	17,424
Transportation expenses	15,488	15,234
Communications	9,154	11,990
Office supplies	19,157	11,918
Legal and consultancy	18,639	11,335
Personnel training	5,141	6,804
Repair and maintenance of equipment	6,339	5,985
Business travel and related expenses	5,765	4,541
Expenses from additional leasing services	1,600	2,793
Security	2,689	2,505
Other	21,980	27,835
Other operating expenses	**371,634**	**342,420**

25. Post employment benefits

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

The plan liability is assessed on actuarial basis using projected unit credit method, adjusted for unrecognized actuarial gains and losses. The defined benefit plan liability is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognized unless the net cumulative unrecognized gains or losses at the end of the previous reporting year exceeded the greater of either 10% of the fair value of plan assets or the present value of defined benefit obligation. In these circumstances, the excess is charged or credited to the income statement over the employees' expected average remaining working lives.

Net benefit expense (recognized under personnel expenses):

	2012	*2011*
Current service cost	4,504	3,460
Interest cost on benefit obligation	3,665	5,161
Actuarial losses recognized during the year	3,588	6,297
Prior service cost	586	1,225
Net benefit expense (Note 24)	**12,343**	**16,143**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

25. Post employment benefits (continued)

Defined benefit plan (continued)

Retirement benefit liability:

	2012	*2011*
Defined benefit obligation	(53,782)	(32,707)
Unrecognized actuarial losses	21,127	4,364
Unrecognized past service cost	4,139	5,751
Gain on net monetary position	(2,225)	(3,614)
Retirement benefit liability (Note 15)	**(30,741)**	**(26,206)**

Changes in the present value of the defined benefit obligation are as follows:

	2012	*2011*
Opening defined benefit obligation	32,707	51,290
Interest expense	3,665	5,161
Current service cost	4,504	3,460
Benefits paid	(1,795)	(1,465)
Actuarial losses on obligation	21,129	3,178
Gain on net monetary position	(6,428)	(28,917)
Closing defined benefit obligation	**53,782**	**32,707**

Changes in the fair value of plan obligation are as follows:

	2012	*2011*
Opening fair value of plan obligation	26,206	36,831
Net benefit expense	12,343	16,143
Benefits paid	(1,795)	(1,465)
Gain on net monetary position	(6,013)	(25,303)
Closing defined benefit obligation	**30,741**	**26,206**

The principal assumptions used in determining pension obligations for the bank’s plan are shown below:

	2012	*2011*
	%	*%*
Discount rate	7.1	11.0
Future salary increases	1.0	2.0

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management

Introduction

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

Risk management structure

The Supervisory Board and the Executive Committee are ultimately responsible for identifying and controlling risks and are responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board is required under Belarusian legislation and is comprised of representatives of the Government, major shareholder and major counterparties.

Executive Committee

The Executive Committee is comprised of 5 members of the Supervisory Board.

Management Board

The Management Board is responsible for monitoring the overall risk process within the Bank.

Risk Committees (Credit committee, Financial Committee, Problem Loans Committee)

The risk committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions.

Risk management

The risk management units are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.

Bank's treasury

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

Internal audit

The risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Internal Audit function discusses the results of all assessments with management, and reports its findings and recommendations to the Management Board.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Supervisory Board and Executive Committee. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loan Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Executive committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

As requested by all relevant subdivision throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Weekly meetings are held with Risk Committees concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

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

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower and product are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

Where appropriate and in the case of most loans, the Bank obtains collateral. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The exposure to the counterparty is further restricted by sub-limits covering on and off-balance risks exposures which are set by the respective authorized body. Actual exposures against limits are monitored on a regular basis.

Credit-related commitments risks

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

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

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

More details on the maximum exposure to credit risk exposure of each class of financial instrument are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by means of the Bank's internal credit ratings.

High grade: customers with credit rating 0.5-2.0 and 1C-6A (good profitability; has sufficient equity, the probability that the repayment of debt - is very high in the long run).

Standard grade: customers with credit rating 2.5-3.0 and 6B-7A (stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in medium term).

Sub-standard grade: customers with credit rating 3.5-4.5 and 7B-9B (low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Credit risk (continued)

Individually impaired loans: customers with credit rating 5.0 (corporate customers and average SMEs with the limit over EUR 1.5 million) and customers with credit rating 10.0 (average SMEs). (Default, financial obligations cannot be promptly and fully fulfilled.)

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowances.

		Neither past due nor individually impaired					
	Notes	***High grade 2012***	***Standard grade 2012***	***Sub-standard grade 2012***	***Past due but not individually impaired 2012***	***Individually impaired 2012***	***Total 2012***
Cash and cash equivalents (net of cash on hand)	6	593,941	1,692,599	-	-	-	2,286,540
Amounts due from credit institutions	7	100,225	186,739	-	-	-	286,964
Derivative financial assets	8	-	1,290,092	-	-	-	1,290,092
Investment securities available-for-sale	11	-	25,251	-	-	-	25,251
Loans to customers:	9						
Corporate lending		924,100	4,183,746	2,064,224	525	13,400	7,185,995
Small business lending		41,444	441,564	636,748	13,693	42,052	1,175,501
Consumer lending		-	1,270,010	-	29,172	25,936	1,325,118
Residential mortgages		-	222,959	-	9,550	22,458	254,967
		965,544	**6,118,279**	**2,700,972**	**52,940**	**103,846**	**9,941,581**
Other assets	15	-	163,220	-	-	-	163,220
Total		**1,659,710**	**9,476,180**	**2,700,972**	**52,940**	**103,846**	**13,993,648**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Credit risk (continued)

		Neither past due nor individually impaired					
	Notes	***High grade 2011***	***Standard grade 2011***	***Sub-standard grade 2011***	***Past due but not individually impaired 2011***	***Individually impaired 2011***	***Total 2011***
Cash and cash equivalents	6	2,081,304	1,015,888	-	-	-	**3,097,192**
Amounts due from credit institutions	7	71,754	48,284	-	-	-	**120,038**
Derivative financial assets	8	-	1,375,120	-	-	-	**1,375,120**
Investment securities available-for-sale	11	-	20,055	-	-	-	**20,055**
Loans to customers:	9						
Corporate lending		654,635	2,613,740	4,014,480	1,919	31,514	**7,316,288**
Small business lending		135,417	318,185	436,398	24,105	72,153	**986,258**
Consumer lending		-	1,419,106	-	23,981	65,997	**1,509,084**
Residential mortgages		-	308,187	-	19,280	28,479	**355,946**
		790,052	**4,659,218**	**4,450,878**	**69,285**	**198,143**	**10,167,576**
Other assets	15	-	42,893	-	-	-	**42,893**
Total		**2,943,110**	**7,161,458**	**4,450,878**	**69,285**	**198,143**	**14,822,874**

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

An analysis of past due loans, by age, is provided below.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Credit risk (continued)

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

	Less than 30 days 2012	***31 to 90 days 2012***	***More than 90 days 2012***	***Total 2012***
Loans to customers				
Corporate lending	525	-	-	525
Small business lending	3,915	9,518	260	13,693
Consumer lending	21,362	5,068	2,742	29,172
Residential mortgages	4,441	2,400	2,709	9,550
Total	**30,243**	**16,986**	**5,711**	**52,940**

	Less than 30 days 2011	***31 to 90 days 2011***	***More than 90 days 2011***	***Total 2011***
Loans to customers:				
Corporate lending	1,919	-	-	1,919
Small business lending	14,929	6,342	2,834	24,105
Consumer lending	10,086	8,906	4,989	23,981
Residential mortgages	14,469	3,169	1,642	19,280
Total	**41,403**	**18,417**	**9,465**	**69,285**

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

The main considerations for the loan impairment assessment include: whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of borrower, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses its impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance payment on an individual basis. Items considered while determining allowance amounts include the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by customer.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Geographical risk concentration

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

	2012				2011			
	Belarus	*OECD*	*CIS and other foreign banks*	*Total*	*Belarus*	*OECD*	*CIS and other foreign banks*	*Total*
Assets:								
Cash and cash equivalents	2,450,023	548,843	148,782	**3,147,648**	2,049,328	1,552,754	380,087	**3,982,169**
Amounts due from credit institutions	286,964	-	-	**286,964**	120,038	-	-	**120,038**
Derivative financial assets	1,289,732	357	3	**1,290,092**	1,370,853	4,267	-	**1,375,120**
Loans to customers	9,559,522	-	-	**9,559,522**	9,469,491	-	-	**9,469,491**
Investment securities	-	25,251	-	**25,251**	-	20,055	-	**20,055**
Other assets	163,220	-	-	**163,220**	42,893	-	-	**42,893**
	13,749,461	**574,451**	**148,785**	**14,472,697**	**13,052,603**	**1,577,076**	**380,087**	**15,009,766**
Liabilities:								
Amounts due to the National Bank of the Republic of Belarus	2,279	-	-	**2,279**	14,880	-	-	**14,880**
Amounts due to credit institutions	207,474	2,206,356	114,134	**2,527,964**	229,223	3,616,096	31,929	**3,877,248**
Derivative financial liabilities	286	28,747	-	**29,033**	3,838	-	-	**3,838**
Amounts due to customers	9,556,356	150,683	141,967	**9,849,006**	8,428,522	219,593	81,634	**8,729,749**
Amounts due international credit institutions	-	101,610	-	**101,610**	-	200,529	-	**200,529**
Debt securities issued	265,060	-	-	**265,060**	557,415	-	-	**557,415**
Other liabilities	110,854	-	-	**110,854**	94,976	-	-	**94,976**
	10,142,309	**2,487,396**	**256,101**	**12,885,806**	**9,328,854**	**4,036,218**	**113,563**	**13,478,635**
Net assets and liabilities	**3,607,152**	**(1,912,945)**	**(107,316)**	**1,586,891**	**3,723,749**	**(2,459,142)**	**266,524**	**1,531,131**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Liquidity risk and funding management

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

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

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

	NBRB required minimum ratio value	*2012*	*2011*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	102.5%	158.3%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity or liabilities repayable within one year)	1.0	1.0	2.7
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	179.6%	266.6%
The Bank's liquidity and total assets ratio	20.0%	27.2%	36.2%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2012	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to NBRB	2,279	-	-	-	-	**2,279**
Amounts due to credit institutions	235,145	523,759	1,424,653	464,280	-	**2,647,837**
Derivative financial instruments						
▸ Contractual amounts payable	-	2,562,329	-	758,038	-	**3,320,367**
▸ Contractual amounts receivable	-	(2,533,965)	-	(1,984,500)	-	**(4,518,465)**
Amounts due to customers	4,438,394	3,601,686	1,261,021	702,859	5,529	**10,009,489**
Amounts due to international financial institutions	253	18,021	54,264	34,446	-	**106,984**
Debt securities issued	-	12,064	98,983	285,350	-	**396,397**
Other liabilities	725	110,129	-	-	-	**110,854**
Total undiscounted financial liabilities	**4,676,796**	**4,294,023**	**2,838,921**	**260,473**	**5,529**	**12,075,742**

Financial liabilities As at 31 December 2011	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to NBRB	13,121	-	1,779	-	-	**14,900**
Amounts due to credit institutions	260,407	734,995	704,990	2,439,334	6,977	**4,146,703**
Derivative financial instruments						
▸ Contractual amounts payable	-	884,823	-	922,533	-	**1,807,356**
▸ Contractual amounts receivable	-	(885,273)	-	(2,300,130)	-	**(3,185,403)**
Amounts due to customers	3,392,480	3,152,577	1,783,223	647,659	679	**8,976,618**
Amounts due to international financial institutions	398	22,432	68,369	126,373	-	**217,572**
Debt securities issued	-	39,457	376,001	574,429	-	**989,887**
Other liabilities	572	94,404	-	-	-	**94,976**
Total undiscounted financial liabilities	**3,666,978**	**4,043,415**	**2,934,362**	**2,410,198**	**7,656**	**13,062,609**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2012	2,429,405	8,659	12,232	-	**2,450,296**
2011	2,643,683	9,298	10,791	-	**2,663,772**

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

Amounts due to customers comprise time deposits of individuals. In accordance with Belarusian legislation, the Bank is obliged to repay such deposits upon demand of the depositor within 5 business days (see Note 17).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2012)

26. Risk management (continued)

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates of the Bank's equity and consolidated income statement with all other variables held constant.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the non-fixed rate non-trading financial assets and financial liabilities held at 31 December 2012 and 2011. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, at 31 December for the effects of the assumed changes in interest rates.

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity less effect on net interest 2012*
BYR	+ 50 b.p.	3,340	-
EUR	+ 50 b.p.	5,844	-
USD	+ 50 b.p.	8,142	126

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity less effect on net interest 2012*
BYR	- 50 b.p.	(3,340)	-
EUR	- 50 b.p.	(5,844)	-
USD	- 50 b.p.	(8,142)	(126)

Currency	*Increase in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity less effect on net interest 2011*
BYR	+ 500 b.p.	44,978	-
EUR	+ 50 b.p.	1,437	-
USD	+ 50 b.p.	10,769	100

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26. Risk management (continued)

Market risk (continued)

Currency	*Decrease in basis points 2011*	*Sensitivity of net interest income 2011*	*Sensitivity of equity less effect on net interest 2011*
BYR	- 2200 b.p.	(197,902)	-
EUR	- 50 b.p.	(1,437)	-
USD	- 50 b.p.	(10,769)	(100)

Currency risk

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

The table below indicates the currencies to which the Bank had significant exposure at 31 December 2012 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity; meanwhile the positive amounts reflect the potentially possible increase.

Currency	*Change in currency rate in % 2012*	*Effect on profit before tax 2012*	*Change in currency rate in % 2011*	*Effect on profit before tax 2011*
USD	34.01	222,859	31.6	261,506
USD	- 34.01	(222,859)	- 31.6	(261,506)
EUR	32.8	171,705	34.0	163,213
EUR	- 32.8	(171,705)	- 34.0	(163,213)

Prepayment risk

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

Due to the fact that Bank does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Bank believes that the Bank is not exposed to the prepayment risk.

Operational risk

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

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27. Fair values of financial instruments

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

	Carrying value 2012	*Fair value 2012*	*Unrecognized gain/ (loss) 2012*	*Carrying value 2011*	*Fair value 2011*	*Unrecognized gain/ (loss) 2011*
Financial assets						
Cash and cash equivalents	3,147,648	3,147,648	-	3,982,169	3,982,169	-
Amounts due from credit institutions	286,964	286,964	-	120,038	120,038	-
Loans to customers	9,559,522	9,559,522	-	9,469,491	9,433,025	(36,466)
Other financial assets	163,220	163,220	-	42,893	42,893	-
Financial liabilities						
Amounts due to the National Bank of the Republic of Belarus	2,279	2,279	-	14,880	14,880	-
Amounts due to credit institutions	2,527,964	2,527,964	-	3,877,248	3,877,248	-
Amounts due to customers	9,849,006	9,849,006	-	8,729,749	8,729,749	-
Amounts due to international financial institutions	101,610	101,610	-	200,529	200,529	-
Debt securities issued	265,060	265,060		557,415	550,654	6,762
Other financial liabilities	110,854	110,854	-	94,976	94,976	-
Total unrecognized change in unrealized fair value			**-**			**(29,704)**

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

Assets for which fair value approximates carrying value

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

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27. Fair value of financial instruments (continued)

Fixed rate and variable rate financial instruments

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

Loans to customers are issued at variable rates subject to change simultaneously with the change of market conditions and the fair value of similar financial instruments.

All deposits are issued under fixed interest rates. The fair values of such liabilities carried at amortized cost are estimated by comparing market interest rates with current market rates offered for similar financial instruments.

Financial instruments recorded at fair value

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

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

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

At 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	-	374	1,289,718	**1,290,092**
Investment securities available-for-sale	25,251	-	-	**25,251**
	25,251	**374**	**1,289,718**	**1,315,343**
Financial liabilities				
Derivative financial liabilities	-	29,033	-	**29,033**
	-	**29,033**	**-**	**29,033**

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27. Fair value of financial instruments (continued)

At 31 December 2011	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	-	4,267	1,370,853	**1,375,120**
Investment securities available-for-sale	20,055	-	-	**20,055**
	20,055	**4,267**	**1,370,853**	**1,395,175**
Financial liabilities				
Derivative financial liabilities	-	3,838	-	**3,838**
	-	**3,838**	**-**	**3,838**

Financial instruments recorded at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. Methods used by the Bank to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

Securities designated at fair value through profit or loss

Securities designated at fair value through profit or loss are valued using the model that incorporates present value. Inputs to the model are market interest rates.

Movements in level 3 financial instruments measured at fair value

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

	At 1 January 2012	***Gain / (loss) recorded in profit or loss on "Translation differences" position***	***Settlements***	***Transfers from Level 1 and Level 2***	***31 December 2012***
Financial assets					
Derivative financial instruments	1,370,853	(81,135)	-	-	1,289,718
Total level 3 financial assets	**1,370,853**	**(81,135)**	**-**	**-**	**1,289,718**

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

	2012			***2011***		
	Realized gains / (losses)	***Unrealized gains / (losses)***	***Total***	***Realized gains / (losses)***	***Unrealized gains / (losses)***	***Total***
Gains/ (losses) recorded in profit or loss	-	(81,135)	**(81,135)**	**-**	1,396,359	**1,396,359**

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27. Fair value of financial instruments (continued)

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

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

	31 December 2012		*31 December 2011*	
	Carrying value	***Effect of reasonably possible alternative assumptions***	***Carrying value***	***Effect of reasonably possible alternative assumptions***
Financial assets				
Derivative financial instruments	1,289,718	(3,285)	1,370,853	(161,909)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash inflows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 50 b.p. (2011: 2,200 b.p.)

28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled: See Note 26 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2012			*2011*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	3,147,648	-	**3,147,648**	3,982,169	-	**3,982,169**
Precious metals	6,339	-	**6,339**	11,347	-	**11,347**
Amounts due from credit institutions	4,537	282,427	**286,964**	35,138	84,900	**120,038**
Derivative financial assets	374	1,289,718	**1,290,092**	4,267	1,370,853	**1,375,120**
Loans to customers	6,289,618	3,269,904	**9,559,522**	5,600,572	3,868,919	**9,469,491**
Investment securities available-for-sale	-	25,251	**25,251**	-	20,055	**20,055**
Property and equipment	85,015	771,980	**856,995**	84,567	684,247	**768,814**
Intangible assets	36,435	98,282	**134,717**	31,277	74,761	**106,038**
Current income tax assets	19,484	-	**19,484**	-	-	**-**
Other assets	397,575	15,067	**412,642**	167,358	56,951	**224,309**
Total assets	**9,987,025**	**5,752,629**	**15,739,654**	**9,916,695**	**6,160,686**	**16,077,381**
Amounts due to NBRB	2,279	-	**2,279**	14,880	-	**14,880**
Amounts due to credit institutions	2,087,011	440,953	**2,527,964**	1,553,514	2,323,734	**3,877,248**
Derivative financial liabilities	29,033	-	**29,033**	3,838	-	**3,838**
Amounts due to customers	8,397,348	1,451,658	**9,849,006**	7,660,022	1,069,727	**8,729,749**
Amounts due to international financial institutions	68,295	33,315	**101,610**	82,020	118,509	**200,529**
Debt securities issued	68,356	196,704	**265,060**	272,845	284,570	**557,415**
Current income tax liabilities	5,416	-	**5,416**	125,485	-	**125,485**
Deferred tax liabilities	-	115,312	**115,312**	-	63,048	**63,048**
Provisions	21,212	-	**21,212**	58,919	-	**58,919**
Other liabilities	124,469	35,229	**159,698**	111,650	27,711	**139,361**
Total liabilities	**10,803,419**	**2,273,171**	**13,076,590**	**9,883,173**	**3,887,299**	**13,770,472**
Net	**(816,394)**	**3,479,458**	**2,663,064**	**33,522**	**2,273,387**	**2,306,909**

Negative maturity balance between assets and liabilities in the "within one year" category results from the balance structure optimization performed by the Bank in 2012 through partial replacement of amounts due to credit institutions by amounts due to customers (which are cheaper). Besides, major funds received from the bank-founder under the guarantee from OeKB AG (Oesterreichische Kontrollbank Aktiengesellschaft), become repayable in 2013 in accordance with contractual terms. Management believes that this level of funding will remain with the Bank in the foreseeable future since a preliminary refunding agreement has been reached with the bank-founder.

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29. Related party transactions

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

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties for reporting purposes are Raiffeisen-Landesbanken-Holding GmbH members, shareholders with more than 5% ownership in the share capital of the Bank, companies under trust management over which the Bank can exercise significant influence, and also the key management personnel of the Bank.

The outstanding balances of transactions with related parties at the end of the reporting period are as follows:

	2012		*2011*	
	Bank-founder	***Key management personnel***	***Bank-founder***	***Key management personnel***
Loans outstanding at 1 January, gross	-	3,589	-	4,879
Loss on monetary position		(640)		(2,541)
Loans issued during the year	-	2,919	-	2,169
Loan repayments during the year	-	(1,406)	-	(918)
Loans outstanding at 31 December, gross	-	4,462	-	3,589
Less: allowance for impairment at 31 December	-	-	-	-
Loans outstanding at 31 December, net	-	4,462	-	3,589
Deposits at 1 January	3,548,858	18,836	2,908,220	13,200
Loss on monetary position	(701,031)	(3,359)	(2,515,768)	(6,875)
Foreign exchange differences	125,905	559	3,502,358	10,494
Deposits received during the year	113,612	44,512	-	36,828
Deposits repaid during the year	(880,991)	(43,222)	(345,951)	(34,811)
Deposits at 31 December	2,206,353	17,326	3,548,859	18,836
Settlement and current accounts at 31 December	-	404	-	628
Commitments and guarantees issued	27,861	-	64,326	-
Commitments and guarantees received	53,477	-	72,205	-

The income and expense arising from transactions with related parties are as follows:

	For the year ended 31 December			
	2012		*2011*	
	Bank-founder	***Key management personnel***	***Bank-founder***	***Key management personnel***
Interest income on loans	-	472	-	512
Impairment of loans	-	-	-	-
Interest expense on deposits	(142,114)	(2,368)	(177,297)	(1,515)
Fee and commission income	720	90	785	18
Fee and commission expense	(7,117)	-	(28,306)	-
Personnel expenses	-	(11,840)	-	(9,138)
Other operating expenses	(17,675)	-	(10,649)	-

Compensation to key management personnel comprises the following:

	2012	***2011***
Salaries and other short-term benefits	10,373	8,673
Defined benefit plan	799	411
Social security costs	668	54
Total key management compensation	**11,840**	**9,138**

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30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

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

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

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

NBRB capital adequacy ratio

The National Bank of the Republic of Belarus requires banks to maintain in 2012 a capital adequacy ratio of 8% of risk-weighted assets, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2012 and 2011, the Bank managed to comply with NBRB capital adequacy ratio.

Capital adequacy ratio under 1988 Basel Capital Accord

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

	2012	***2011***
Tier 1 capital	2,614,033	2,274,551
Tier 2 capital	9,567	5,305
Total capital	**2,623,600**	**2,279,856**
Risk-weighted assets	**13,473,515**	**13,311,231**
Tier 1 capital ratio	19.40%	17.09%
Total capital ratio	19.47%	17.13%

31. Events after the reporting period

At the shareholders' meeting in March 2013, the Bank declared dividends in respect for the year ended 31 December 2012, totaling BYR 1,450 per ordinary share and BYR 1 675 - per preferred share. In total, the amount of dividends amounted to BYR 178,435 million on ordinary shares and BYR 17 million on preferred shares.

Since the beginning of 2013, the National Bank of the Republic of Belarus has reduced the refinancing rate to 27%.

Beginning with 22 January 2013, the National Bank of the Republic of Belarus raised the capital adequacy ratio to 10% of risk-weighted assets. As of the reporting date the Bank was in compliance with this requirement.