

# Annual Report 2013



***Priorbank***  
Member of RZB Group



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*Member of RZB Group*





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Foreword

# Foreword



Summarising the results for the gone 2013 it is worth mentioning that it was again a very successful year for Priorbank. The Bank managed to achieve the set objectives and perform the planned tasks.

Among the major achievements we can emphasize actual growth of lending support to our customers and high loan portfolio quality; promotion to the Belarusian market of the advanced and up-to-date banking technologies and improvement of the existing customers servicing procedures; pursuing of strict operational expenses saving policy and high Bank business efficiency indicators.

Bank servicing of corporate clients still remained the key focus of our business activities. In 2013, the Bank implemented "The Comprehensive Business Solutions" cooperation strategy with corporate clients, enabling to offer the most efficient services package to each client depending on the client's business peculiarities. Mix of traditional banking lending and cash management services and advisory and consulting support enabled our customers to stably and efficiently develop their businesses.

Wide implementation of export factoring enabled to successfully solve the global task of the clients' accounts receivable management. The Bank offered its corporate clients an investment instrument of cash allocation as alternative to deposits – banking management funds. Cash Pooling (Clients' cash flow management) system further developed. Documentary operations volume was significantly expanded.

All this enabled to increase the corporate business volume in 2013 up to 11.5 trillion BYR or by 19%. The number of active corporate customers reached 1,770.

The year 2013 was also successful for the business with the Small- and Medium-Sized Enterprises (SME). The priority in this client segment was stressed on the clients' base expansion, growth of lending support, customer service quality and technologies improvement.

The Bank launched marketing campaigns promoting special cash management offers for the existing and new SME clients. Within the existing "Partnership Programme", the clients enjoyed the discount for the services package if they recommended complex servicing in Priorbank to their business partners. This campaign resulted in 209 new SME clients attraction to Priorbank. The Bank was actively optimizing its technologies and improving SME customer service quality. Such business activities resulted in the growth of loans disbursed to SMEs by 59%, and in the growth of funding raised from SMEs by 12%. The Bank attracted a further 4,372 clients.

Business with Private Individuals (PIs) dynamically developed. Owing to comprehensive servicing of PIs, including payroll and pension programs development with payment cards issue, the Bank managed to form and maintain a stable liabilities base in local and foreign currencies.

Customer Relationship Management (CRM) system development enabled to increase lending products sales. More than 37% of new consumer loans and 63% of opened credit card limits were sold via outbound calls to existing clients. The number of opened payroll accounts reached 303,000; pension accounts – exceeded 108,000. The number of issued payment cards increased by 10% and reached 740,000 cards.

The Bank paid utmost attention to the control over its loan portfolio quality. Weighted approaches in lending to clients, application of an Early Warning Signs System for timely detection of potentially problem loans, and constant work with problem loans enabled the Bank to maintain high loan portfolio quality.

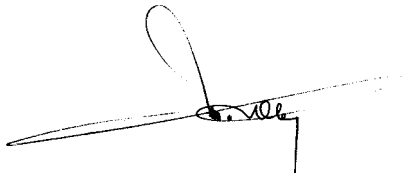
In 2013, the Bank adopted measures on improving of its activities' efficiency. The business processes in the Private Individuals Operations Processing Department were optimized. Positive effect was achieved in Cash Collection and Services Business. In order to fully satisfy customers needs and mitigate card fraud risk, the Bank launched the issue of chipped plastic bank cards. The Bank continued to optimize and standardize the existing Banking Services Centres and Points of Sales (POS). Electronic distribution channels were developed further.

In 2013, for the 7<sup>th</sup> time Priobank was named 'The Bank of the Year in Belarus' by the well-known international magazine 'The Banker'. Visa International awarded Priobank for "Achievement of the Highest Efficiency in terms of Card Transactions Dispute" among other banks-participants of the International Payment System. Raiffeisen Bank International AG acknowledged Priobank as the best among the RBI Group Network Banks in the 3 nominations: "The Best Bank in SME business" (Leadership Award 2012), for the "Successful Project Management 2012", and "Outstanding Recovery Performance 2012".

The next year we face new challenging tasks. However, we are confident in our future. The many years' experience accumulated by the Bank on the financial market, our expert knowledge of the innovation banking technologies, as well as the support of our strategic investor Raiffeisen Bank International AG (RBI) will enable us to successfully achieve the set objectives and provide efficient Bank's development in 2014.

In conclusion, we would like to express our sincere gratitude to the Bank's customers, partners and all Priobank employees for their contribution to the Bank's development in 2013.

Chairman of the Board  
Sergey Kostyuchenko



Chairman of the Supervisory Board  
Vladimir Semashko







Ladies and Gentlemen,

After years of extremely low or even negative growth, 2013 finally showed the first signs of an economic recovery in the euro area and Central and Eastern Europe alike. We also saw an increasing shift of economic growth to Central Europe with Poland, Czech Republic and Slovakia taking on a leading role in the region. In addition, political decisions about the future of the European Banking Union were finally made and provided more clarity for the European banking sector. However, the business environment for banks remained difficult. Especially the short-term raising of equity capital requirements and various complex regulatory requirements, as well as banking levies, have been and continue to be an additional burden on banks leading to restricted lending.

In autumn 2013 RBI Group launched the program "Fit for Future 2016" with the goal to lower costs to the level of 2012 by the year 2016. This means that over the next three years we will more than offset inflation and save around € 450 million in total. We were also very satisfied with the € 2.78 billion result of the recent capital increase. The higher free float makes our shares even more attractive for both private and institutional investors. The proceeds will be used to achieve our goal, for the coming 12 to 18 months, of achieving a fully-loaded Basel III CET ratio of 10.0 per cent by the end of the transition period. Both actions were taken in order to support our successful business model across the region and guarantee a sustainable development of the Group in this still challenging environment. Hence, the RBI Group is proud of posting a profit before tax of € 835 mn.

As far as Priorbank is concerned, I am glad to state that the bank managed to achieve the set objectives and perform the planned tasks.

Let me take this opportunity to thank all employees of Priorbank for their hard work in this continuously challenging environment and their constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

Karl SEVELDA

Chairman of the Board of Raiffeisen Bank  
International AG (RBI)  
Member of the Supervisory Board of Priorbank



Highlights of Priorbank

# Highlights of Priorbank

## Establishment and start of activity:

January 1989

## The licence of National Bank of the Republic of Belarus:

Licence No. 12 dated May 6, 2013.

## The major shareholders as of 01.01.2014:

Shareholder	Share in the Authorized Capital
Raiffeisen International Bank Holding AG, Austria	87.74%
State sector, enterprises	5.02%
Private individuals	4.7%
Other legal entities	2.54%

## Correspondent banks as of 01.01.2014:

in the Republic of Belarus – 17  
abroad – 54

## Employees as of 01.01.2014:

2,529

## Customers as of 01.01.2014:

Corporate Clients – 1,770  
Active SMEs – 30,187  
Private Individuals – 687,707

## Membership in interbank unions, exchanges, associations:

Association of Belarusian Banks;  
Belarusian Currency-Stock Exchange;  
Visa International;  
MasterCard/Europay International;  
BelCard;  
Business Union Of Entrepreneurs and Employers n.a.  
Professor M. Kuniyavsky

## Information and telecommunication systems:

Internet;  
REUTERS;  
SWIFT;  
Bloomberg;  
VisaNET via VSAT;  
EPS NET via X.25.

## External auditor:

"Ernst and Young (CIS) Limited"

## Awards

- "Euromoney" marked Priorbank as "The Best Bank in 2012".
- "The Banker" awards Priorbank as "The Bank of the year" in 2011 and in 2012.
- "Global Finance" recognized Priorbank as "The best bank in Belarus in 2012".
- International Charitable Foundation for Children "Chance" is also honoured Priorbank with an award "For commitment to the charity".
- RBBY special award "For the successful project portfolio management in 2012".
- RBBY special award "Outstanding Recovery Performance in 2012".
- Recognition of Outstanding Effort to RBI Recovery Target in 2012.
- EBRD Trade Facilitation Programme Award recognized Priorbank as the Most Active Bank in Belarus in 2013.



Supervisory Board

# Supervisory Board

- |     |                   |  |
|-----|-------------------|--|
| 1.  | Peter Bazil       | Executive Director, Raiffeisen Bank International AG           |
| 2.  | Kurt Bruckner     | Executive Director, Raiffeisen Bank International AG           |
| 3.  | Gennadi Yerokhin  | Senior Manager, Raiffeisen Bank International AG               |
| 4.  | Nikolay Kadushko  | Independent Director   |
| 5.  | Alexander Lyakhov | Director General, RUE PU Belarusneft                           |
| 6.  | Anatoly Savenok   | Director General, OJSC BSW – management company of BMC holding |
| 7.  | Vladimir Semashko | First Deputy Prime Minister of the Republic of Belarus         |
| 8.  | Sergey Sosnovsky  | Director General, JSC Gomeltransneft Druzhiba                  |
| 9.  | Herbert Stepic    |  |
| 10. | Heinz Hödl        | Independent Director   |

## Management Board

- |                     |                       |
|---------------------|-----------------------|
| Sergey Kostyuchenko | Chairman of the Board |
| Vladimir Dedioul    |                       |
| Igor Likhogrud      |                       |
| Vadim Matyushkin    |                       |
| Bernd Rosenberg     |                       |
| Sergey Shishov      |                       |



Macroeconomic Environment

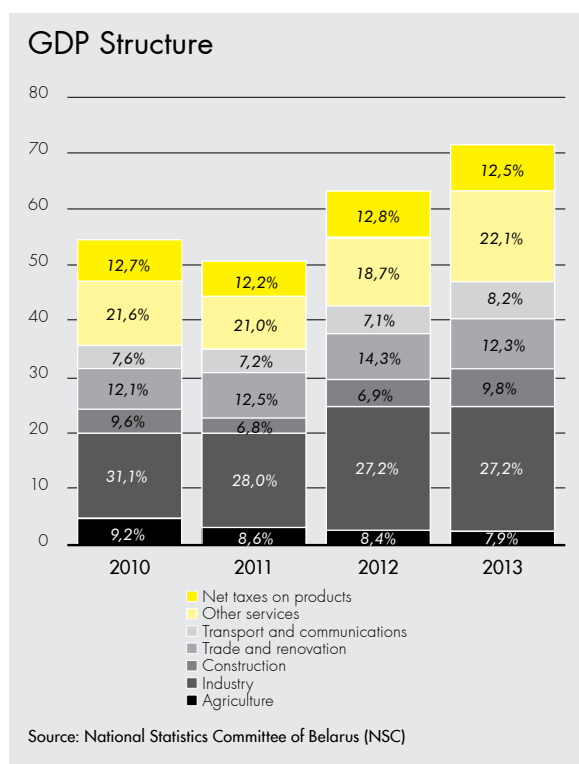
# Macroeconomic Environment

## Real Economy

In 2013, economic growth continued to slow down. GDP increased in comparable prices by 0.9% against 2012 to USD 71.7 billion (in the previous year GDP grew by 1.7%). At the same time, the major contributors to GDP growth were retail trade and construction, while industry and agriculture contributed negatively to growth.

GDP growth for 2013 was forecasted at 8.5%.

In 2013, industrial output reduced by 4.8% yoy to BYR 609.2 trillion (in 2012 it grew by 5.8% yoy). The most significant decline was in chemical production (by 17.8% yoy), in coke and oil products



industry (by 22.5%), in vehicles and equipment production (by 5.2%), as well as in machinery construction (by 2.6%). Decline in petrochemical industry was mainly explained by the strong base of 2012, when the Belarusian industry gained large revenues from the so-called "dissolvent business".

At the same time, the amount of inventories increased by 13.7% in spite of a decline in production output. Thus, the amount of inventories at the industrial enterprises' warehouses reached 70.2% of average monthly production in 2013 against 56.5% in 2012.

Capital investments in 2013 in comparable prices increased by 7.4% yoy (in 2012 dropped by 11.7%), mainly due to the growth of the amount of construction and assembly works. Given the weak GDP growth, the share of investments grew to 31.8% of GDP against 29.1% in 2012.

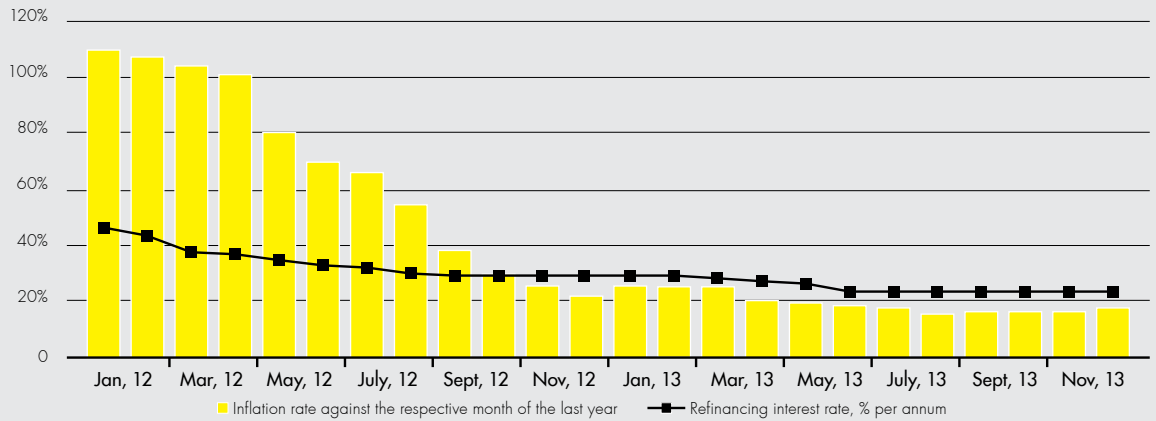
## Monetary and Credit Policy and FX Rates

The priority tasks of the monetary and credit policy in 2013 were the implementation of measures aimed at maintenance of financial stability, protection of BYR savings from the inflation combined with the gradual decrease of general interest rate level in the economy.

In 2013, the annual inflation reached 16.5% (or 1.3% – average monthly rate), thus exceeded the annual forecast of 12%; in 2012 the inflation accounted for 21.8% (or 1.7% – average monthly rate).

In the 1<sup>st</sup> half of 2013, the National Bank decreased the key interest rate 4 times from 30% to 23.5% per annum. In the 2<sup>nd</sup> half of 2013, the regulator tightened its monetary and credit policy, in order to curb the inflation and maintain attractive interest rates on BYR deposits.

### Refinancing Interest Rate and Inflation Dynamics

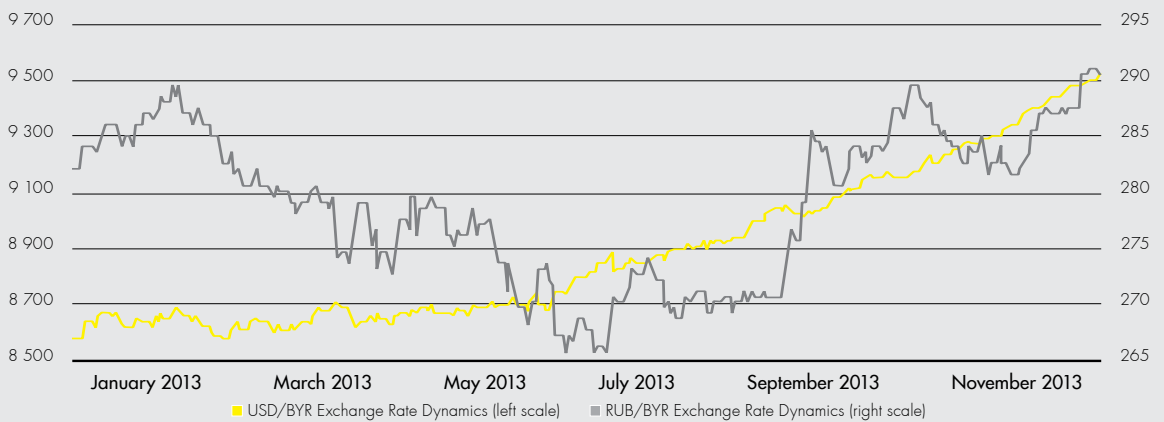


Source: National Bank of Belarus (NBB)

In 2013, the BYR weakened by 15.3% against EUR (to EUR/BYR 13,080), by 11% versus USD (to USD/BYR 9,510) and by 3% against RUB (to RUB/BYR 290.5). BYR exchange rate against the foreign currency basket fell by 9.7%.

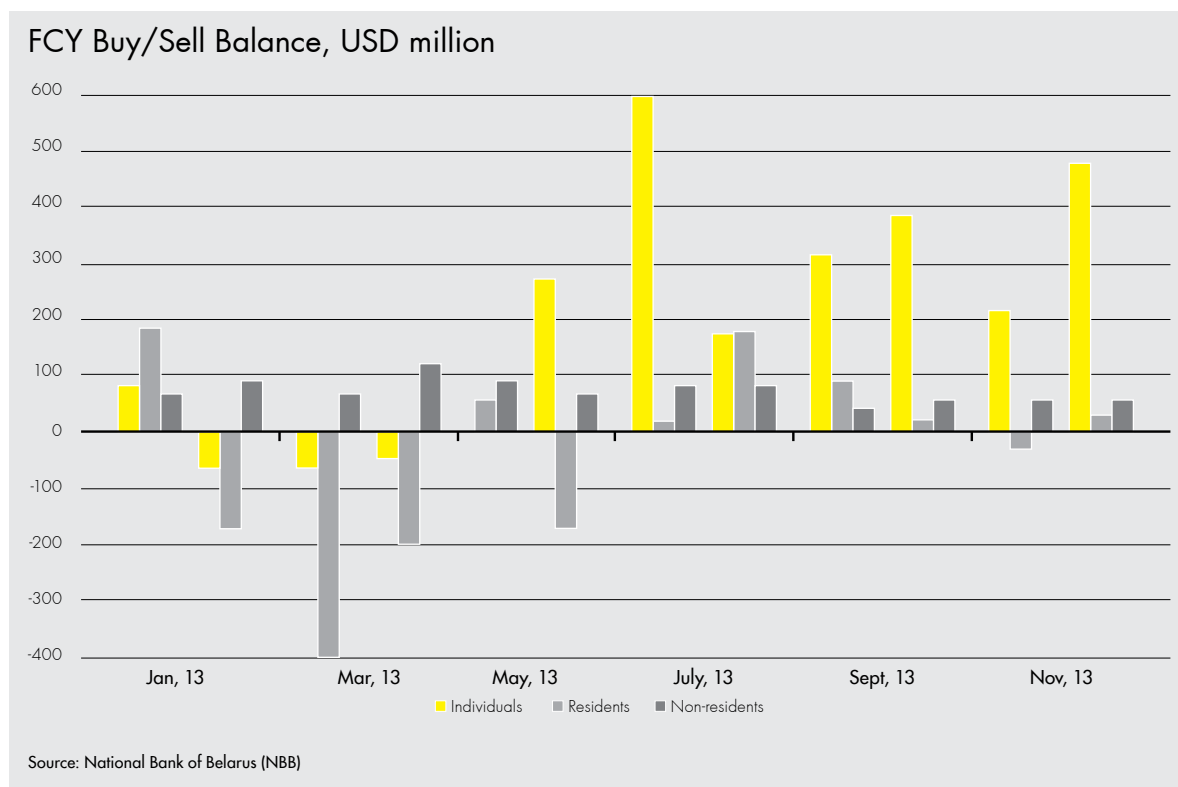
Throughout 2013, the BYR exchange rate was influenced by foreign currency (FCY) demand and supply on the local FOREX market, as well as by weak foreign trade results.

### Exchange Rate Dynamics



Source: National Bank of Belarus (NBB)





In 2013, on the local FOREX market the foreign currency demand exceeded its supply by USD 2.9 billion. Therefore, the non-residents' net purchase of FCY amounted to USD 0.9 billion (against USD 1.8 billion in the previous year), the net sale of the FCY by residents fell to USD 0.4 billion (against USD 1.0 billion in the previous year), the net purchase of households reached USD 2.4 billion (against USD 685.7 million in 2012). While in early 2013 households preferred to sell FCY, due to attractive interest rates on deposits in local currency (LCY) and stable BYR/FCY exchange rate, in June 2013 the situation reversed and remained unchanged till the year-end.

## Foreign Trade and Trade Balance

According to the balance of payments methodology, in 2013 the trade balance of goods and services was negative and amounted to USD 1,723.8 million (-2.4% of GDP). At the same time, the trade balance of goods was negative at USD 4,561.9 million, while the trade balance of services was positive at USD 2,838.1 million.

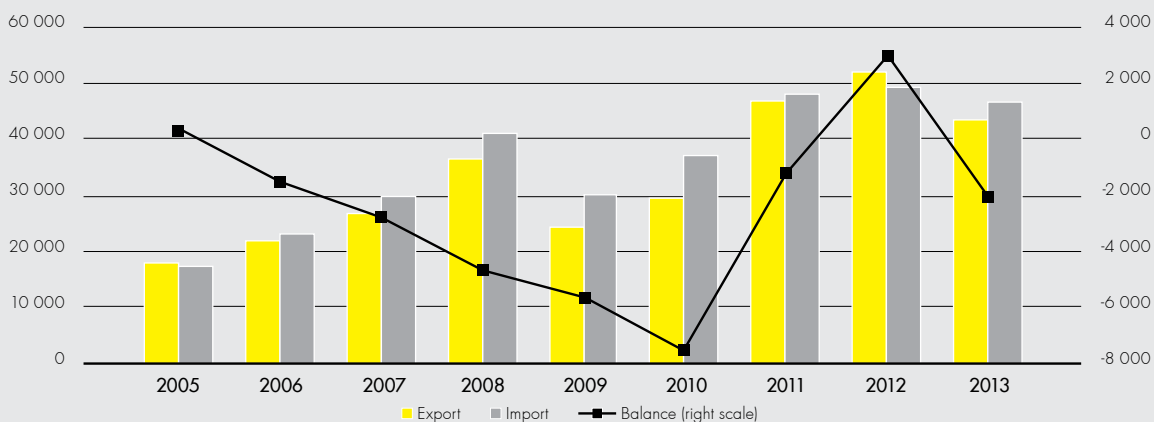
Foreign trade operations with goods (share in exports in 2013 was 83.4%) significantly affected total exports of goods and services. The share of services in exports was still low (16.6%), but there were positive growth dynamics: the share of services increased by 4.4% against 2012.

Export of goods and services decreased by 14.5% against 2012 to USD 43.9 billion, thereof export of goods amounted to USD 36.6 billion (decrease by 19.8%), export of services amounted to USD 36.6 billion (increase by 15.1%). The main export market was the Russian Federation – 45.2% of total exports; while 28.2% of all exported goods were delivered to the European Union.

Import of goods and services decreased by 6.7% to USD 45.6 billion, thereof import of goods amounted to USD 41.1 billion (decrease by 8.6%), import of services amounted to USD 4.5 billion (increase by 15.1%). While the average import prices reduced by 0.1%, the import volume shrank by 7.2%. The major importer remained the Russian Federation (53.2% of all imported goods), 24.4% of goods were imported from the EU countries.

Foreign trade turnover of goods and services decreased by 11.2% to USD 89.5 billion. Export-Import Coverage Ratio made up 96.3% (in 2012 – 106%).

### Foreign Trade of Goods and Services, USD million

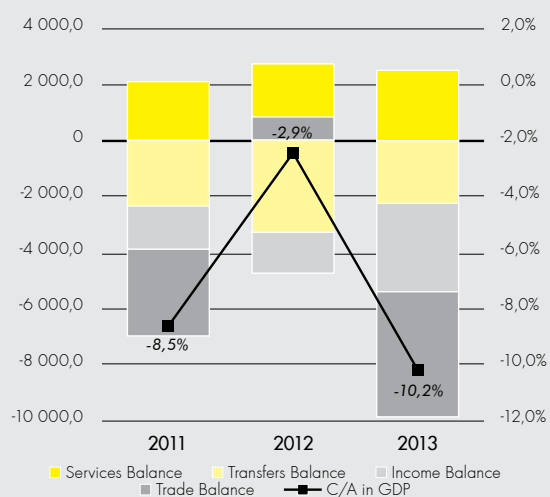


Source: National Statistics Committee of Belarus (NSC)

In 2013, the current account balance was negative at USD 7.3 billion, while in 2012 the negative balance was USD 1.8 billion, or 10.2% and 2.9% of GDP correspondingly. The main reason for a trade balance deterioration was a decline of exports and significant external debt repayments. The trade balance of goods reported deficit of USD 4.5 billion, as well as primary income balance and secondary income balance were negative at USD 2.7 billion and USD 2.6 billion respectively.

The trade balance of services was positive at USD 2.6 billion. The negative balance of transfers contracted against the previous year, owing to a reduction of the amount of export custom duties (by USD 550 million) amidst a decline of oil products export and growth of automobile fuel deliveries to Russia, while the income balance widened due to an increase of income payments to direct investors.

### Current Account Balance Dynamics, USD million



Source: National Bank of Belarus (NBB)

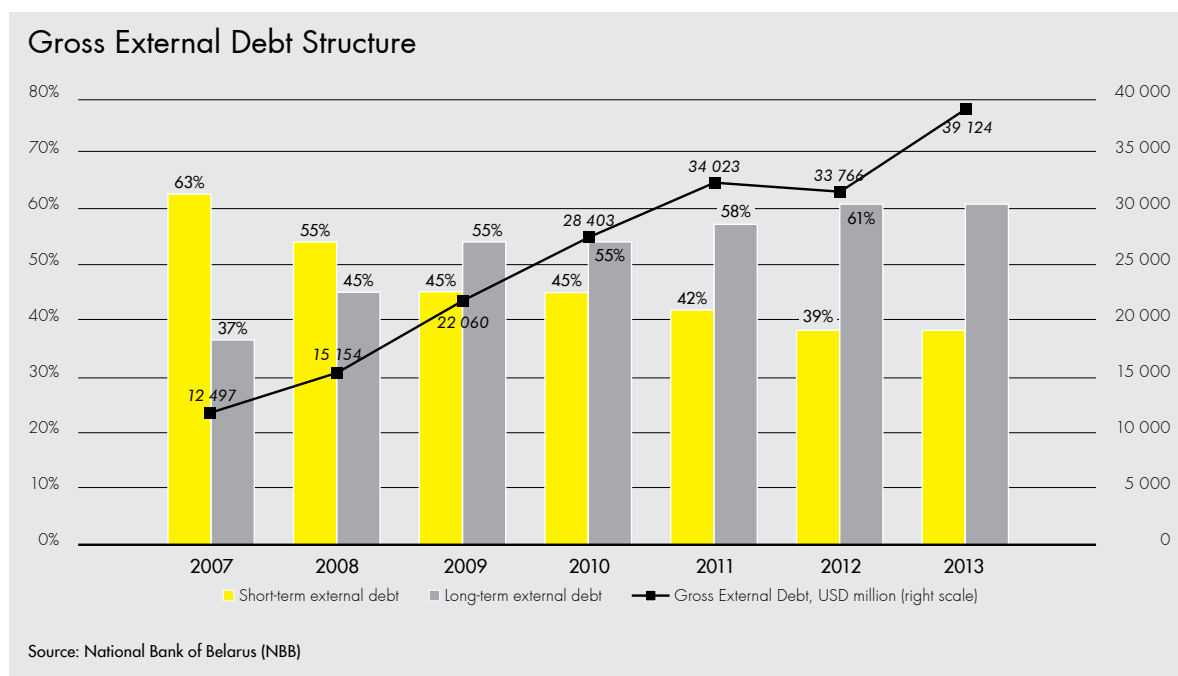
## External Debt

Gross External Debt as of January 1, 2014 increased by USD 5.4 billion or 15.9% to USD 39.1 billion (54.8% of GDP).

Last year the structure of Gross External Debt remained unchanged. As of January 1, 2014, the share of long-term obligations (more than 1 year) in Gross External Debt accounted for 61.2% or USD 23.9 billion (up by USD

2.9 billion or 14.2% against 2012). Short-term obligations increased by USD 2.4 billion or 18.5%, to USD 15.2 billion (the share in the Gross External Debt is 38.8%). The long-term external obligations of the Government amounted to 52.5% of the total long-term external debt.

In 2013, the Government spent USD 6.6 billion (9.3% of GDP or 15.1% of exports) on external debt repayments, thereof USD 5.3 billion – repayments on principal debt; USD 1.3 billion – interest payments.



## Banking Sector

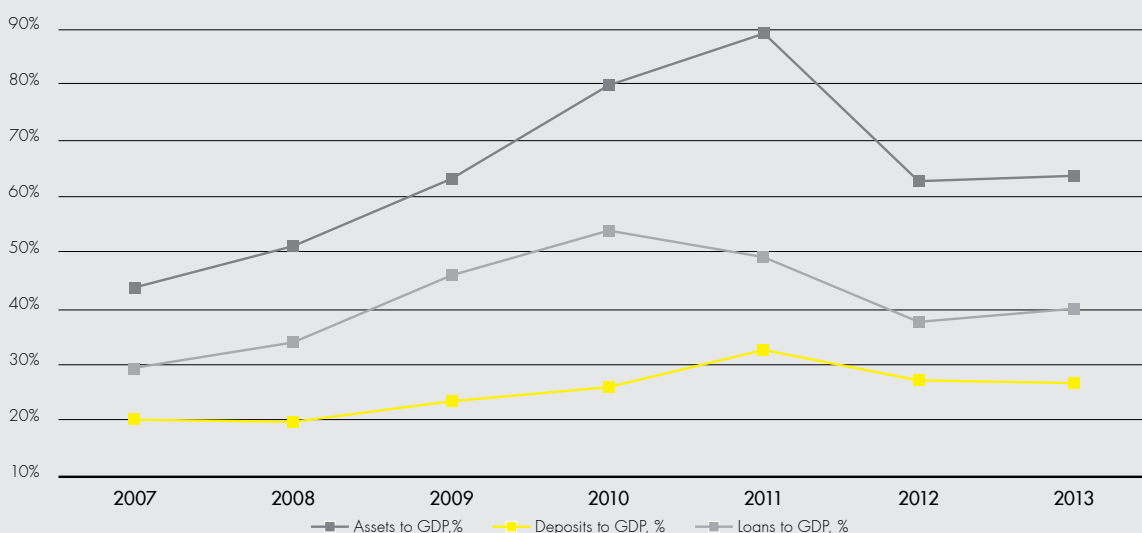
In 2013 the total assets of the banking sector increased by 23% to 395.2 trillion BYR. In 2013, the assets in BYR increased by 15.2% to 197.7 trillion BYR, in foreign currency – by 18.6% to USD 20.76 billion. In BYR equivalent FCY assets amounted to 197.5 trillion BYR and broadly equaled the assets in BYR.

In 2013, the claims of banks to the non-residents increased by 4.2% to 14 trillion BYR, the claims to the residents increased by 23.4% to 370.3 trillion BYR. While the claims to the National Bank decreased by 2.1 trillion BYR

(or by 3.7%) to BYR 54.4 trillion BYR; the claims to the Government increased by 9.3 trillion BYR (or by 59.2%) to 24.9 trillion BYR.

The banks' claims to the economy in 2013 increased by 28.5% to 283.4 trillion BYR. The banks' claims to enterprises increased by 27.3% to 228.5 trillion BYR. The high demand for loans from enterprises was caused by the lack of liquidity amidst an increase of inventories. The banks' claims to private individuals increased more than to legal entities (by 33.7% to 54.9 trillion BYR) despite high interest rates on loans. This can be explained by households' BYR devaluation expectations.

The Banks' Assets, Deposits and Loans to GDP, %

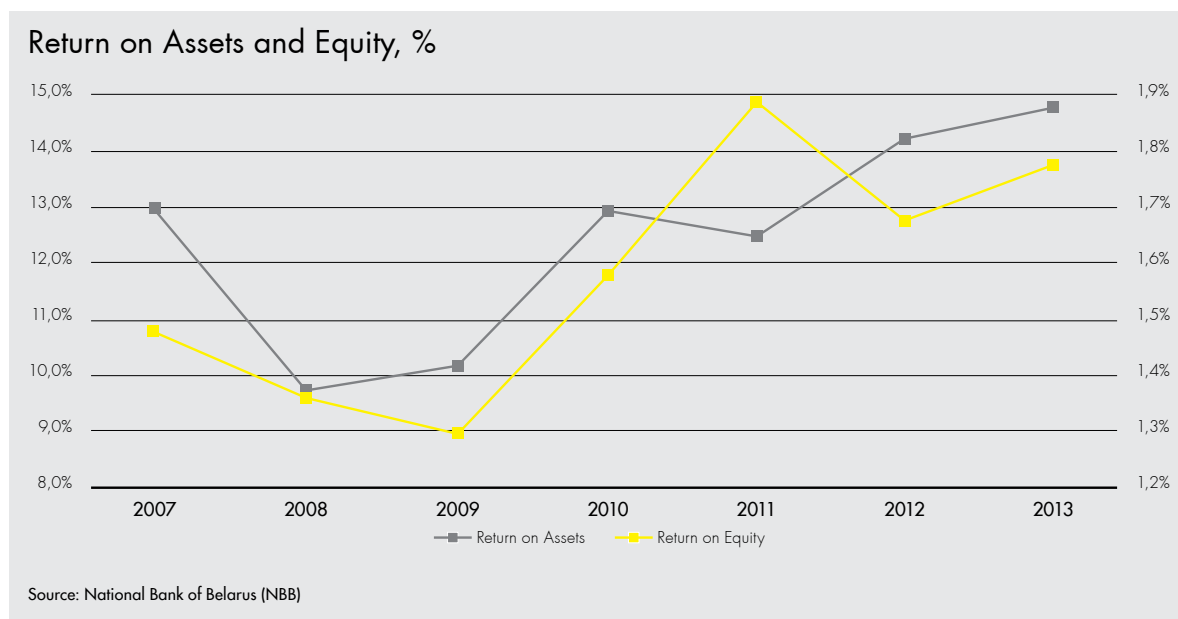


Source: National Bank of Belarus (NBB)

The average rate on new BYR deposits in December 2013 was 36.7% per annum (increase by 3.2% against December 2012), thereof for private individuals – 45.3% per annum (increase by 2.9%), for legal entities – 33.8% (increase by 2.2%). The average interest rate on new BYR loans was 41.9% (increase by 2.5% against December 2012), thereof the average interest rate on loans for

private individuals was 35.3% (decrease by 7.2%), for legal entities – 43.4% (increase by 4.6%).

In 2013, the banks increased their profit by 26.5% yoy to 6.8 trillion BYR. Return on Equity increased to 13.8% against 12.7% in 2012, Return on Assets increased to 1.87% from 1.82% in 2012.





Corporate Banking. Business  
with Small- and Medium-  
Sized Enterprises

# Corporate Banking. Business with Small- and Medium-Sized Enterprises

Priorbank offers modern servicing of legal entities – an excellent combination of the advantages of an individual approach with fast and convenient standard financial procedures and new products. Within the existing ‘Comprehensive Business Solutions’ cooperation strategy with corporate clients, the priorities of the Bank’s client policy in 2013 remained maintenance and improvement of relationships with the Bank’s clients.

In 2013, Priorbank maintained its Pioneer’s image on the Belarusian banking market and launched the sales of a principally new and extremely important service for corporate clients – “Comprehensive Business Solutions. Services Package. Corpo”.

“The Services Package” is an intellectually saturated Priorbank product, utilizing which the companies can increase their financial stability level, obtain more useful information necessary for their plans implementation in the conditions of the unstable economic situation, receive information support in planning and evaluation of the debt burden and financial risks adequacy.

The existing Bank products were also paid attention to. The Bank actively continued to increase “Smart Factoring” sales having kept the dominating market position. Thus, in 2013, factoring portfolio and client base increased more than twofold, factoring turnover increased fourfold.

Owing to the Bank’s participation in factoring associations International Factors Group (IFG) and Factors Chain International (FCI), Priorbank launched the sales of export bi-factor factoring to the Belarusian exporters: financing and protection from non-residents payment delinquencies. At present, we are the only bank offering this service on the Belarusian market.

In 2013, the existing cooperation with the petrochemical enterprises enabled Priorbank and RBI to finance crude oil deliveries to Belarus to the total amount of 1,030 million EUR at the average crude oil purchase price of USD 391 per ton.

A well balanced tariff policy on the background of high services quality enabled an increase in clients’ loyalty and expansion of the existing customer base.

Among the Bank’s clients are the largest private and public enterprises of the following industries: petrochemical, energy, telecommunications, medicine, retail trade, metal trade, etc.

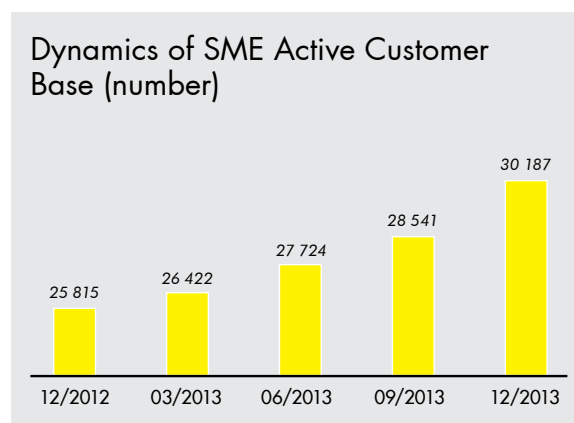
## Business with Small- and Medium-Sized Enterprises

The main goal in SME business development was maintaining a leading position in the country’s banking system not only in terms of financial performance, but also in quality of customer service.

Key priority directions in the development of SME business in 2013 were:

- Increasing the customer base;
- Increase and maintain the quality of lending portfolio;
- Improving the quality of customer service;
- Planning, monitoring and control of relationship with customers;
- IT and processes improvement.

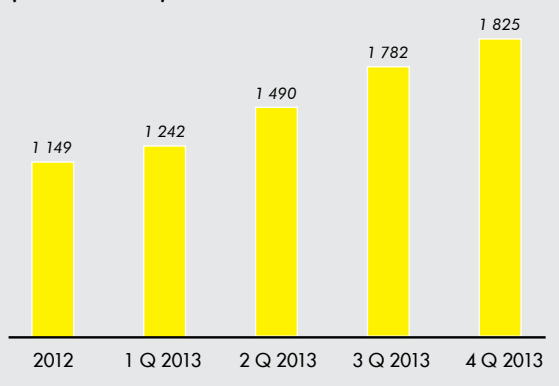
In 2013, succeeded high growth of the customer base – net increase in active customers amounted to 4,372 customers, or +17%.



Resource base growth in 2013 amounted to 13.4% in local currency and to 11.2% in foreign currency.

Annual loan portfolio growth amounted to 59%.

### Dynamics of SME loan portfolio growth (billion BYR)



In 2013 the Bank conducted market research and evaluation of customer satisfaction of service quality. The results of evaluation of customer satisfaction will be interpreted in the recommendations for further banking services quality improvement.

In order to create competitive advantages and stimulate customers acquisition in 2013 we continued our special promotion offers for new clients. In 2013 "Partnership Programme" was launched for existing customers, which received a discount on service package in case of recommendation of Priorbank's service to their business partners. As a result of the program 209 new customers were recommended by existing clients.

In 2013, EBRD provided Priorbank a credit line to the amount of 10 million Euro with a purpose of financing of small and medium-sized businesses. The first part to the amount of 2 million EUR was received at the end of 2013.

Moreover, Priorbank actively participated in the following events:

- 18<sup>th</sup> exhibition Association of International Road Carriers "BAMAP";
- TIBO-2013;
- Open Day "Tekhnodraiv 2013" Effect M8;
- Financial support and participation in the fair of innovative ideas and the development of innovative entrepreneurship (BUEE them. Kunyavsky);
- Exhibition "Bank. Insurance. Leasing".

Expanded cooperation according to the Presidential Decree of 21.05.2009 No 255 "On Some Measures of State Support of Small Business" at the expense of regional and Minsk city executive committees. In 2013, an agreement was signed with the Gomel Oblast Executive Committee. By the end of 2013 through concessional loans 16 customers were financed to the amount of 20.3 billion BYR.

In 2013, some projects aimed at business processes automatization were implemented:

- An electronic system for loan applications processing and electronic storage of credit files for SE customers.
- Organize of customers' lending documents receiving through the electronic payment system.

In May 2013, Priorbank was honoured by "Leadership Award 2012" in business with SE customers among RBI branches. Also Priorbank was mentioned as one of the best three network banks of RBI group in business with Micro customers.



## Leasing

The year 2013 has become the most efficient year in the company's history since its foundation in 2005; the company earned 6 million EUR having demonstrated the best result for the past 8 years.

A subsidiary company in Lithuania established by Raiffeisen-Leasing (RL) in 2011 acting through a permanent representative office in Belarus concluded a cooperation agreement with BAMAP in early 2012. Throughout the year the company provided international leasing of more than 130 trailer trains.

The key purpose of the Lithuanian enterprise is provision of international financing to Belarusian companies, including the companies focusing on international automobile cargo transportation.

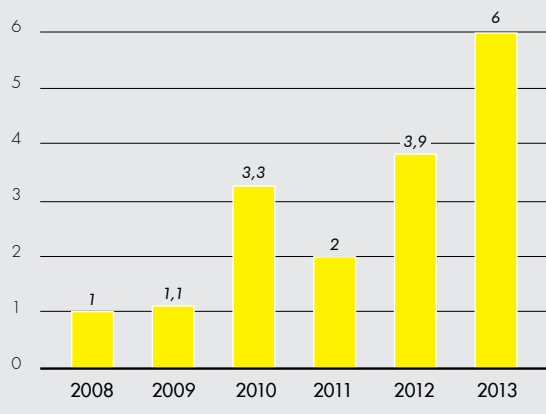
In 2013, RL financed the leasing of technological equipment to Belarusian enterprises, predominantly exporters, via international leasing to the amount of more than USD 14 million

In 2013, RL launched a new product – repurchase car leasing for private individuals.

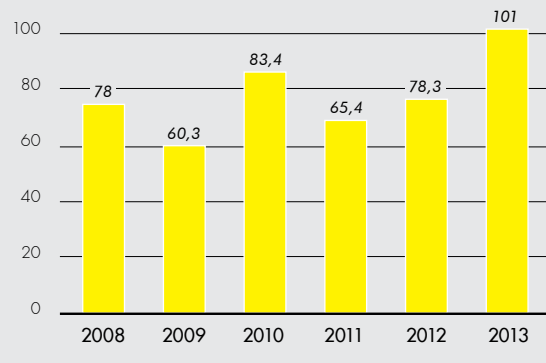
In 2013, the total assets of the company exceeded USD 147 million. The largest share in the company's industries portfolio belongs to commercial real estate and transport leasing, 40% and 30% respectively

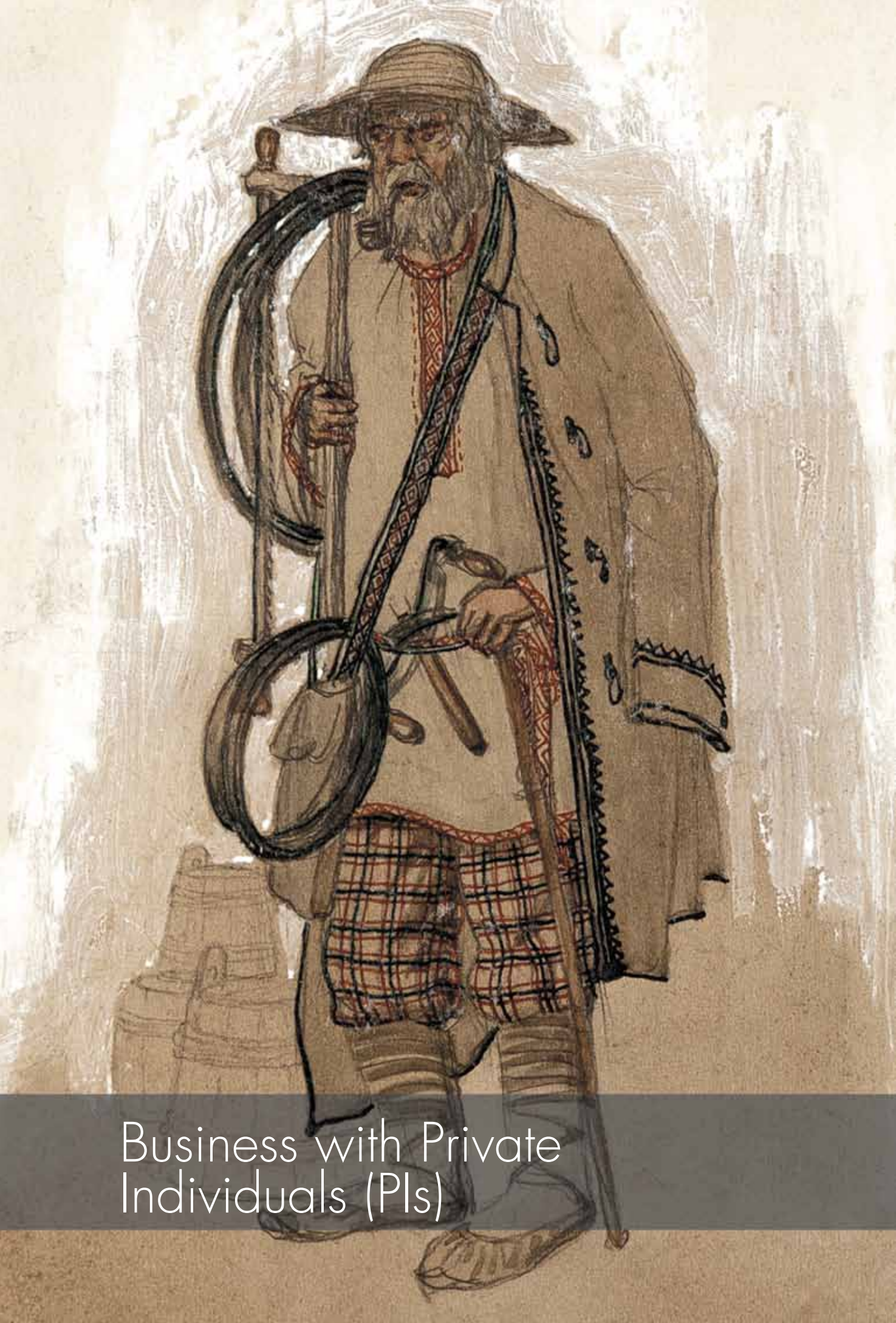
More than 440 clients prefer Raiffeisen Leasing as a reliable long-term partner.

Profit after Tax, million EUR



Active Portfolio with VAT, million EUR



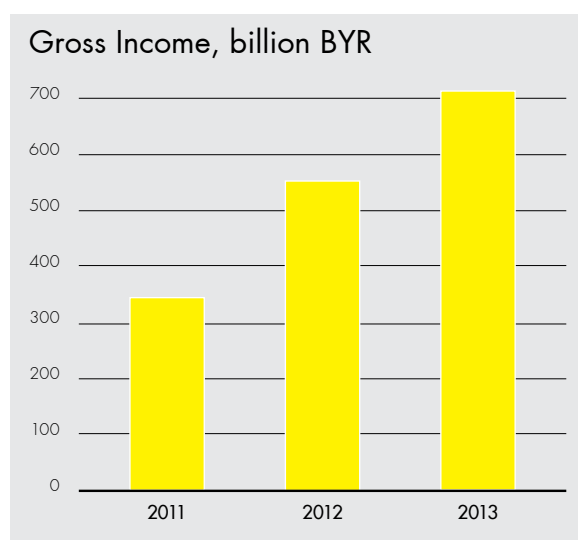


Business with Private  
Individuals (PIs)

# Business with Private Individuals (PIs)

## Financial Results of the Year

The key PIs business development priorities in 2013, alongside with the loan portfolio growth, was further development of payroll and pension programs in order to attract new clients. Thus, in 2013, the key sources of the earned income remained lending operations and payroll programs. In 2013 the total number of Priorbank's clients-PIs reached 687,700 having increased by 3.5% against the previous year. The Gross Income earned in 2013 exceeded the level of 2012 by 25.4%, and the Net Profit before tax increased by 0.1%.



## CRM – Cooperation with Existing Clients

Owing to long-term business with PIs on the Belarusian banking market, Priorbank possesses wide and stable client base. More than 160,000 clients have been serviced by the Bank for over than 10 years. Therefore, development of relations with existing customers fits well with one of the key priorities of the Bank's business.

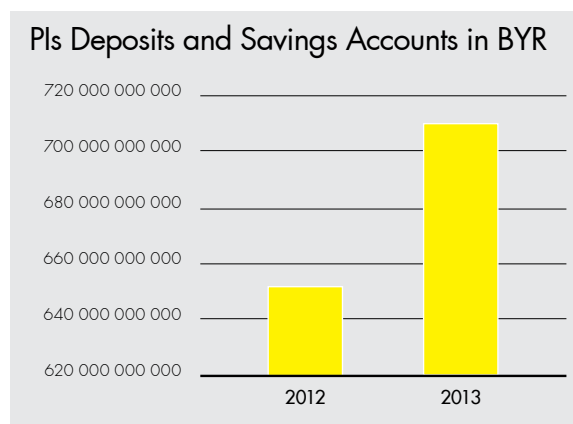
Throughout 2013, Priorbank conducted more than 350 special CRM campaigns. 390,000 active Bank's clients received individual offers of products and services for PIs. In our activities we focus on increase of individual offers to our clients (in 2013 this indicator increased to 60%), as well as on a variety of campaigns utilizing a wide range of communication channels (from servicing in the Bank BSCs and POSs according to the preliminary booked time convenient for the client to self-service through the Internet).

In 2013, we focused on the following directions:

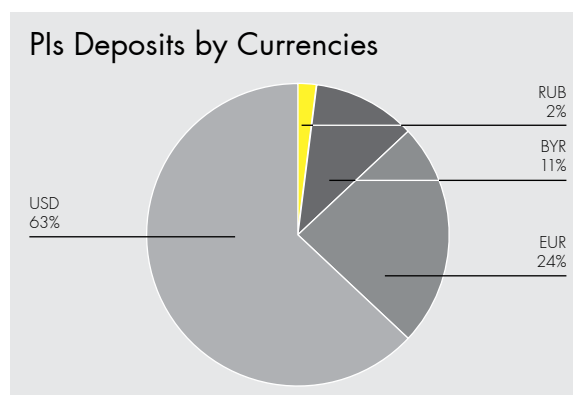
- Banking products and services sale;
- Clients retaining and loyalty increase;
- Offering of premium products and transfer of the clients to the Premium Segment
- Product upgrade;
- Stimulating of the alternative services channels utilization and increase of cashless transactions share;
- Clients base activation (50,000 contacts with passive clients throughout the year).

## PIs Deposits and Savings Accounts

Throughout 2013 PIs deposits showed continuous growth due to high interest rates.



Priorbank's deposits in FCY are traditionally associated with clients' trust in the Bank, stable interest rates level and funds safety guarantee.



In 2013, the Bank paid significant attention to the development of payroll and pension programs. The number of active accounts increased by more than 41,000 and came up to 303,000 payroll and 108,000 pension accounts.

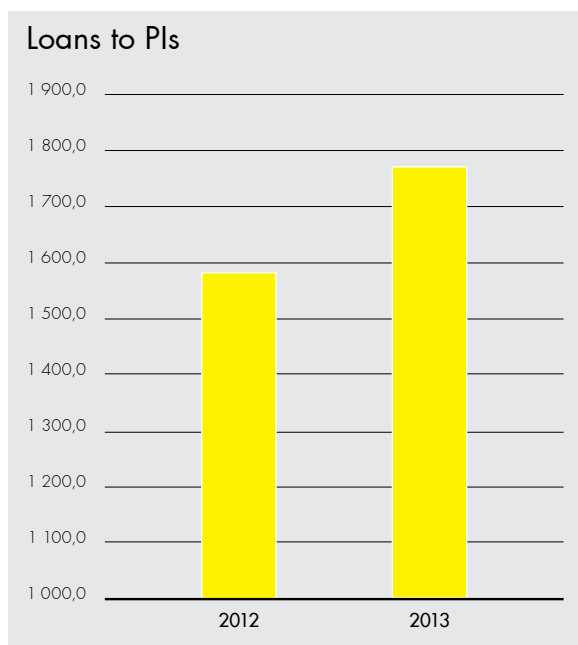
In 2013, the Bank continued its product line optimization. With orientation to long-term savings Priorbank launched a new deposit "New Peak", which in 2014 will be included into the main offers for Pls.

At present, the Bank is actively improving its distant channel services in order to provide the clients with an opportunity to place their savings, as well as to manage their funds without visiting the Bank's premises, which is one of the key development priority in 2014.

## Loans

In 2013, the Bank was actively developing the lending programmes, which enabled to increase the loan portfolio by 11.8%. The most popular loans were personal loans, credit cards and overdrafts to salary cards. The Bank also continued to disburse mortgages, car loans, consumer loans.

In 2013, special attention was paid to the underwriting procedures improvement and development of the alternative channels of loan applications acceptance. This resulted in the 'time to yes' (TTY) and 'time to cash' (TTC) reduction; many clients could receive the loans without the income statements, and if a client applied for the loan via the telephone or the Internet, the disbursement procedure consisted of only one visit to the Bank.



## Tariff Policy

Throughout 2013, the Bank was actively improving its distant banking services system, expanding its plastic bank cards range, arranging special loyalty programmes, promotional games and draws for clients, which was reflected in the tariff policy. Traditions of comprehensive banking servicing rendered by the Bank provide each customer with an opportunity to get the most popular services at significant discounts or free of charge within package offers. These are special conditions of payment cards issue, SMS notifications, servicing in the distant banking servicing system, receiving cash in ATMs, issue of payment cards in foreign currency and cards for the Internet payments – Visa Virtual Account.

In 2013, package offers line still included segmented services sets for premium clients, payroll clients, individual conditions for pensioners, as well as the unique offers "Services Package: Traveller" for amateur tourists and "Services Package: Trio" for the clients willing to distantly manage their multi-currency basket.

Taking into account the conducted poll of the existing clients, accumulated experience and cashless settlements concept development, in 2014, the Bank will continue to expand its services rendered through the distant channels, as well as will include additional services and preferences for all services packages users.

## Plastic Bank Cards

In 2013, Priorbank issued a total of more than 740,000 plastic bank cards for the payment systems: Visa International, MasterCard Worldwide and BelCard, with a market share of 6.5% in the Republic of Belarus.

Priorbank is one of the leaders in terms of issued debit cards. Throughout the year the Bank issued more than 200,000 debit cards, as well as more than 9,000 new credit cards.

In July 2013, Priorbank launched the issue of Visa International chipped payment cards. All clients obtained an opportunity to get debit chip cards Visa Classic, premium cards Visa Gold and Visa Platinum both in BYR and in FCY, as well as Visa Electron in FCY.

In 2013, Priorbank, supported by the International Payment Systems Visa International and MasterCard Worldwide, arranged and launched a number of advertising campaigns on promotion of the banking products based on the payment cards:

- promotional game "Visa to the Country of Prizes" held from 1 November 2012 till 15 March 2013 (including the periods of draw and prizes delivery); purpose – stimulation of plastic bank cards utilization and growth of cashless payments;

- promotional game “Priorbank Salary Card” held from 1 November 2012 till 31 December 2013 (including the periods of draw and prizes delivery); purpose – attraction of clients to the Bank for salary payroll servicing;
- promotional game “Austrian Shopping with MasterCard” held from 1 January 2013 till 4 July 2013 (including the periods of draw and prizes delivery); purpose – popularization of the settlements by MasterCard Standard;
- promotional campaign “Summer Time”; purpose – promotion of cashless payments abroad by Visa cards.

Furthermore, within winter Olympic Games 2014 in Sochi, Priorbank participated in the National Marketing Campaign, arranged by Visa International “Let’s Win with Visa”, as well as issued the payment card with a special Olympic Design and arranged internal promotional game for all holders of this card.

Gross turnover on Priorbank plastic cards in 2013 demonstrated a 1.4 times increase against 2012 and amounted to 2 billion EUR (1.4 billion EUR in 2012) (thereof 465 million EUR (290 million EUR in 2012) of cashless payments for goods and services; 1.53 billion EUR (1.13 billion EUR in 2012) of cash withdrawal transactions). The share of cashless payments by Priorbank cards accounted for 23% against 20% in 2012.

The total number of transactions exceeded 60 million (50 million in 2012) (thereof 46 million (32 million in 2012) transactions of cashless payments for goods and services; 18 million (17 million in 2012) of cash withdrawal transactions).

## Premium Banking for PIs

Priorbank continued to develop Premium Banking servicing of its clients launched in 2010. In 2013 the Bank opened 2 more Premium Banking offices in large regional centres. By the year-end 11 Priorbank Banking Services Centres and 14 managers carried out Premium Banking services. The number of premium clients, who could enjoy the Bank’s exclusive offers to the full extent, grew by more than 30%. According to the Premium Clients’ demand and lifestyle, Priorbank improved the products and services offered to them: the Bank increased lending limits, as well as expanded premium services packages, which completed the competitive offer for this client segment.

## Electronic Distribution Channels for PIs Development

Priorbank reached a closer level of the relationship with its customers and launched a fully functional Customer Relationship Management (CRM) System.

Today we can send personal offers to our clients through the Internet Bank Online and mobile applications.

The Internet-Bank and mobile applications users can receive information on the most interesting Bank’s promotions and offers, addressed directly to them. A client will see the offer in the form of a popup window upon entering the Internet-Bank. Such a message can either bear information or contain the Bank’s individual offer with options to accept, defer or refuse it. A client can also enter the section “Bank’s Offers” and view all the existing offers any time.

The advantage of the system is that it takes into account peculiarities of each client: its financial history, products in our Bank, etc. The Client receives information only about the offer that may be interesting especially for him.

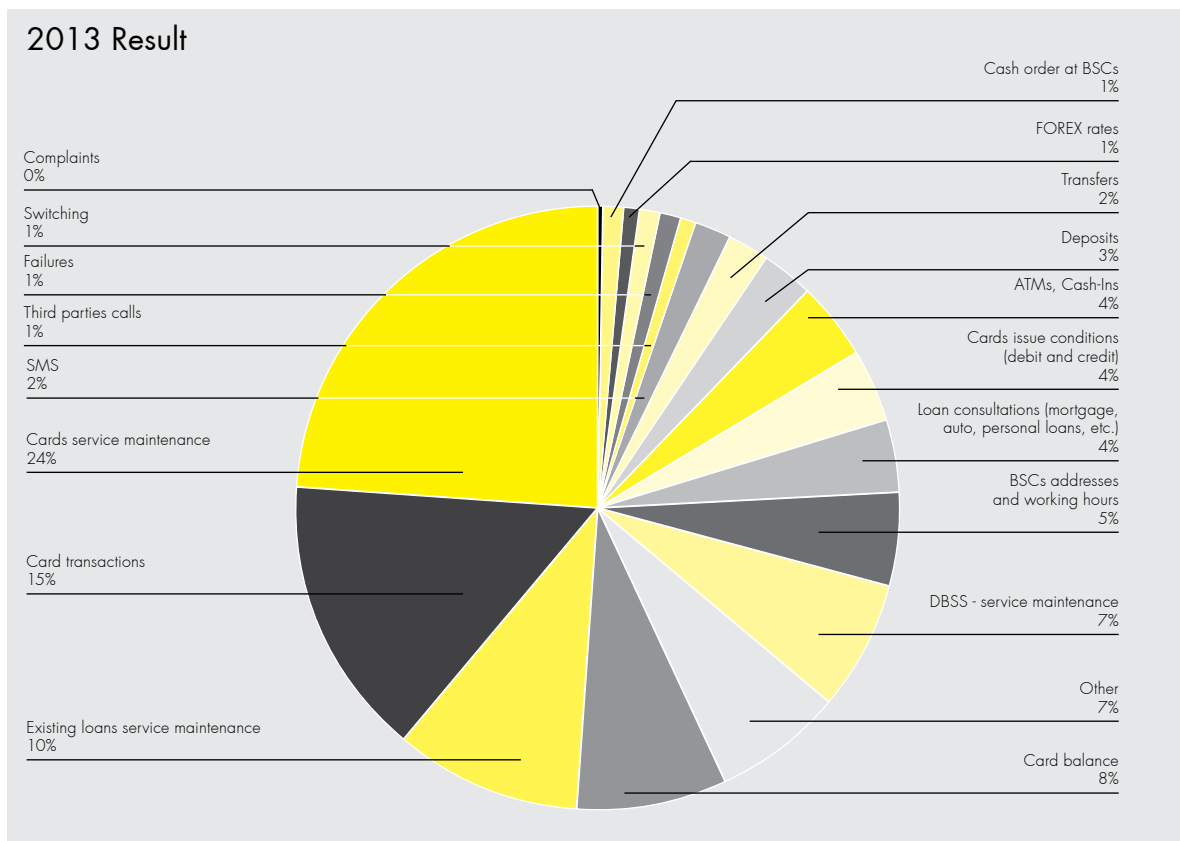
Soon, we are going to offer our clients a new option: opportunity to choose the time and the date of the Bank’s outlet visit, thus to preliminary plan the meeting with the Bank’s specialist and avoid queuing.

## Call Centre

The Call Centre is Priorbank’s strategic asset in the retail business segment.

In 2013, the Call Centre serviced the clients through both traditional telephone channel and electronic mail; the Call Centre received 755,000 telephone calls and more than 7,304 e-mail inquiries. The main share of the inquiries to the Call Centre belongs to PIs – 98%.

The highest share belongs to the clients’ inquiries regarding opening and service maintenance of the credit and debit cards – 52%. The significant share belongs to opening and service maintenance of loans (without personal loans in plastic) – 14%, the share of clients’ inquiries regarding the use of Distant Banking Servicing System (DBSS) instruments increased to 7%.



In 2013, the Call Centre sales group informed 88,000 Bank's clients – Pls about special offers regarding the Bank's products. More than 34,000 clients utilized the Bank's offers, thereof 2,531 clients received the loans, 2,269 clients opened pension accounts with the Bank, more than 29,000 clients re-issued their pension cards for a new period within the Customer Retention Programme. The Call Centre sales efficiency of the lending products was 6%, of pension accounts – 21%, customer retention efforts efficiency was 88%.

The Call Centre sales share accounted for 7% in the total Bank sales volume to Pls.

In 2013, the Call Centre achieved the customer telephone service level ratio of 76/20, which means that 76% of the incoming calls were answered by the operators within 20 seconds.

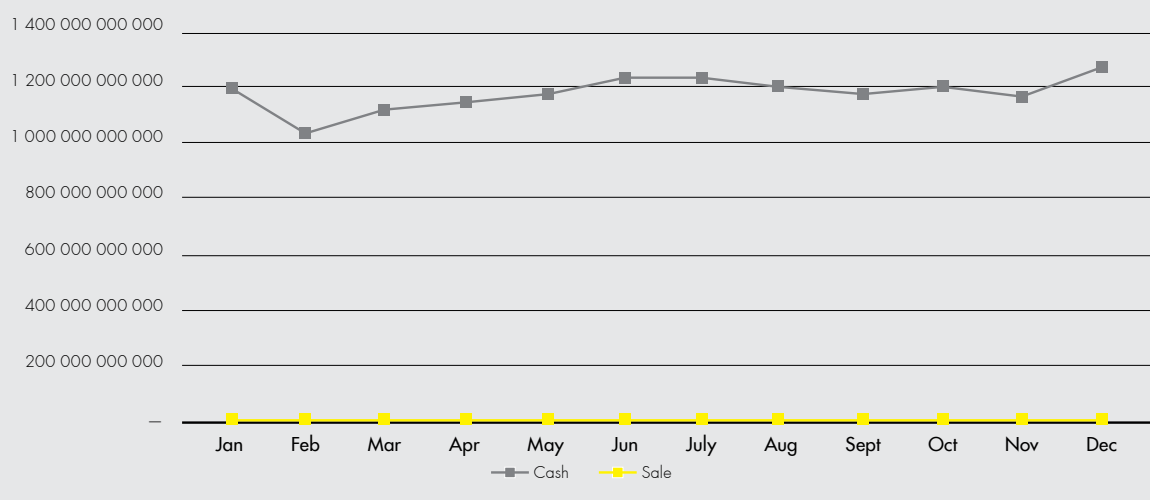
Starting from the 3<sup>rd</sup> quarter of 2013, the Call Centre introduced a new indicator – customer satisfaction level,

showing the share of the customers inquiries resolved by the Call Centre operators on the first try. As of late 2013 the indicator accounted for 81%, which evidences high customer service level at the Bank's Call Centre and good operators' professional skills.

In 2013, the Bank offered its clients–Pls an opportunity to change their mobile telephone number via the telephone call by the Call Centre operator, if the Client's telephone number is missing or incorrectly reported in the Bank's accounting systems for utilization of the Express-Balance service.

In 2013, Priorbank started to develop and prepare for launch new Pls service channels in the Call Centre – chat and call-back order through the Bank's site. At present, the Bank is testing the chat service at the corporate web site priorbank.by and the Internet-Bank prior.by. The chat launch is planned for the 1<sup>st</sup> quarter of 2014, the call-back launch is planned for the 2<sup>nd</sup> quarter of 2014.

## ATMs Turnover, BYR



## Acquiring

In 2013, Priorbank successfully upgraded ATMs' and Cash-Ins' software to the new software platform DORS, which enabled to secure a higher level of ATMs network accessibility, reduce maintenance expenses and effect high quality monitoring.

The Bank also provided its clients with a number of new opportunities of transactions via Cash-Ins:

- transfer of cash funds among Priorbank's cards;
- execute transactions by forming a payments' basket;
- the main menu contains "hot" icons of the most popular service providers (mobile communication operators).

In the year under report Priorbank installed 35 new ATMs and changed 15 ATMs. As of 01.01.2014, the total number of the Bank's ATMs amounted to 380 units, the number of Cash-Ins amounted to 205 units.

Monthly cash withdrawal amount through ATMs exceeded 1.3 trillion BYR.

## Electronic Money

In 2013, Priorbank launched the issue of electronic money "iPay", which provide the clients with an opportunity to pay in favour of services suppliers using cash funds on the mobile phone account.

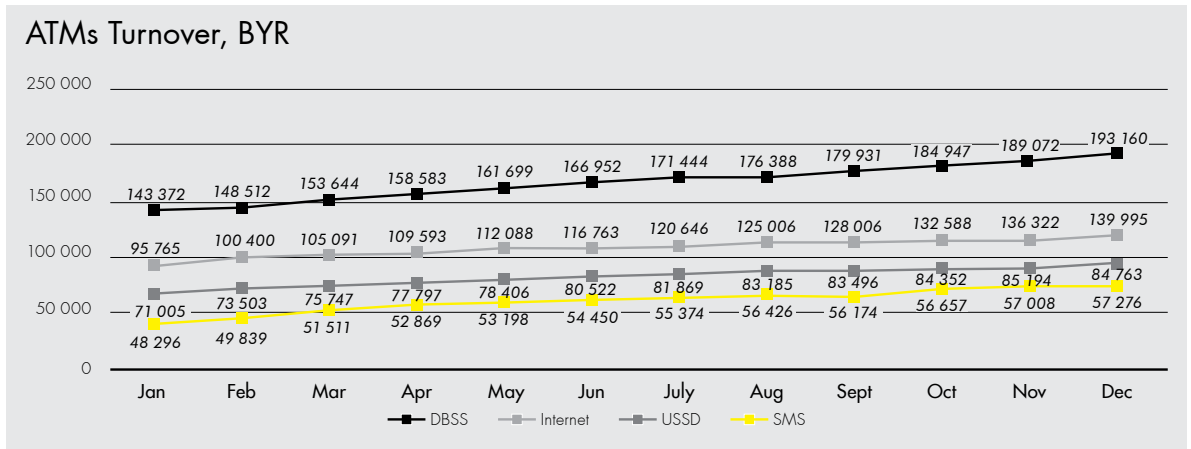
In 2013, the number of electronic money distribution agents in the electronic money system (QIWI terminals) increased by 15%, while the payments number increased by 550%, and the payments volume – by 560% against 2012.

In 2013, Priorbank launched the electronic money settlement system belqi. In 2013, the total transactions volume with the electronic money belqi exceeded 2.99 billion BYR. For the convenience of the belqi purse holders, Priorbank developed and launched the applications for the most popular platforms (Android, iOS and Windows Phone) enabling to use all the functionalities of the electronic purses belqi, if a client has no access to a computer.

The Bank is holding negotiations with the international service aggregators on inclusion of the belqi purse into the list of accessible payment methods.

## The Internet Banking Development

Priorbank is constantly taking care of its services quality and endeavouring to make them more convenient for its clients. In 2013, we continued to actively develop electronic distant banking services channels.



Priorbank was the 1<sup>st</sup> on the Belarusian market to launch a fully functional Internet-Bank for Pls. We also were the 1<sup>st</sup> to launch the applications for Android and iOS mobile devices. The most popular distant services among our clients are the Internet-Bank and mobile applications, the second place belongs to USSD-Bank and SMS-Bank.

In 2013, the Bank significantly expanded the Internet-Bank functionalities: "Automatic Payment" service was launched. The service enables to automate regular payments.

This service is designed for automatic execution of the client's regular payments set by the client from the list of the already executed payments according to the required schedule. The client has an opportunity to register the Automatic Payment of the following types:

- Periodic Automatic Payment – the payment executed automatically once within the particular period indicated by the client (one time, weekly, monthly, etc.) and for the predefined amount;
- Automatic Payment based on the amount drawn by a service supplier – the payment executed automatically on the date indicated by the client to the amount drawn by a service supplier;

- Transfer between the client's cards according to the set schedule – automatic transfer of the specified amount on the date indicated by the client.

For the efficient payments management the Bank created a special module – "Group Manager" with the help of which the payments can be easily grouped into folders and named. Additionally, for the clients' convenience the regular payments are automatically sorted in the alphabetic order, and the client has an opportunity to choose several services and pay for them by one button push through the service "One Button Payment". In 2013, the Bank launched DBSS fee payment technology, added the opportunity to look through the information on the overdraft accounts and register on-line loan application.

The Internet-Bank Prior Online service convenience was worthily appreciated by the Bank's clients. Throughout 2013, the number of the Internet-Bank clients-Pls increased from 92,321 to 139,995.

As of late 2013, 193,160 clients use the distant banking servicing system (DBSS). Given Priorbank client base of 650,000 customers, the DBSS penetration level reaches 30% – this result is considered good on the West-European markets.



In the modern world it is impossible to overstress the importance of a mobile phone. Under mobile operators data, smartphones penetration on the Belarusian market makes up 30%. Possessing a modern device, a user gets a wider functionalities range.

Being on the move in upgrading of its mobile applications, in 2013, the Bank launched the functionality helping to search Priorbank and its partners' ATMs detecting a user's location. Now, to find an ATM, a client has just to use the application; there is no need either to visit the Bank's outlet or to call to the Call Centre.

'One Button Payment' function was launched in the applications. A client can pay for several services by one button ticking the services from the 'Own Payments' list, having preliminary indicated the amounts. Now, it is also possible to name your plastic cards, agreements, current accounts.

For those who lay weight on time and money, the Bank launched a special menu section – "Finances", containing consolidated reporting on the client's finances: all client's accounts balance in various currencies (with filtration by currency and product type), preliminary deposits interest calculation, current monthly loan payment calculation, total loan amount outstanding.

Additionally, Priorbank launched the service "Currencies Converter", with the help of which a client can familiarize him/herself with FX rates fixed by the Bank and calculate FX transaction amount. In 2013, the Bank also added the opportunity to manage the client's payments in the "Automatic Payment" module, look through the Bank's messages, pay DBSS fee.

In the conditions of tough competition on the banking market, Priorbank is targeted at the investments into new technologies development, distant services popularization, and arrangement of closer relationships with each client.

In order to implement its challenging and ambitious plans, Priorbank will offer its clients the following new opportunities in the Internet-Bank:

- Register an Electronic deposit;
- Block a card;
- Change a card limit;
- Transfer money to a 3<sup>rd</sup> party's card;
- Open a virtual card;
- Change a payment card service package;
- Appoint a meeting at the Bank's premises;
- Alternative system subscription option;
- More beneficial FX rates via distant servicing channels;
- Software applications for tablets;
- Card balance widget;
- Additional information on discounts related to Priorbank cards in mobile applications.



Treasury Operations

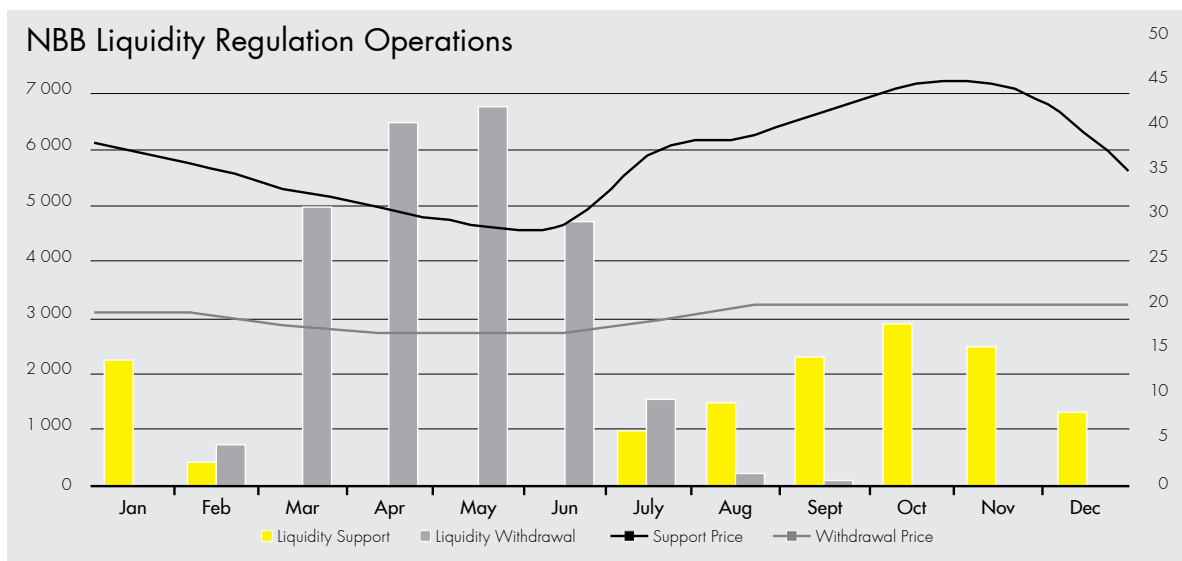
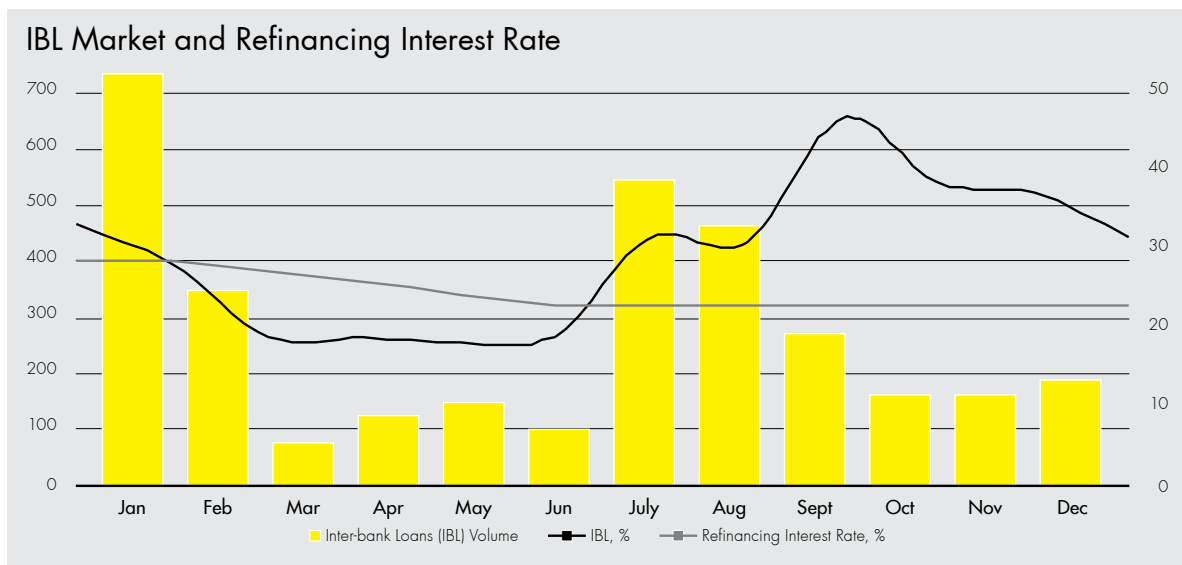
# Treasury Operations.

## Money Market in Local Currency

In the 1<sup>st</sup> half of 2013, the banking system liquidity in LCY can be characterized as abundant, owing to shrinking demand for loans from legal entities and Pls and increasing BYR supply from Pls. On the background of low devaluation expectations and high deposit interest rates, Pls actively placed BYR in deposits – both their regular income and BYR received from foreign currency (FCY) sale.

In the 2<sup>nd</sup> half of the year, as BYR interest rates dropped, BYR deposits growth slowed down, and in the autumn on the background of the devaluation expectations increase, the situation changed to the BYR funds outflow.

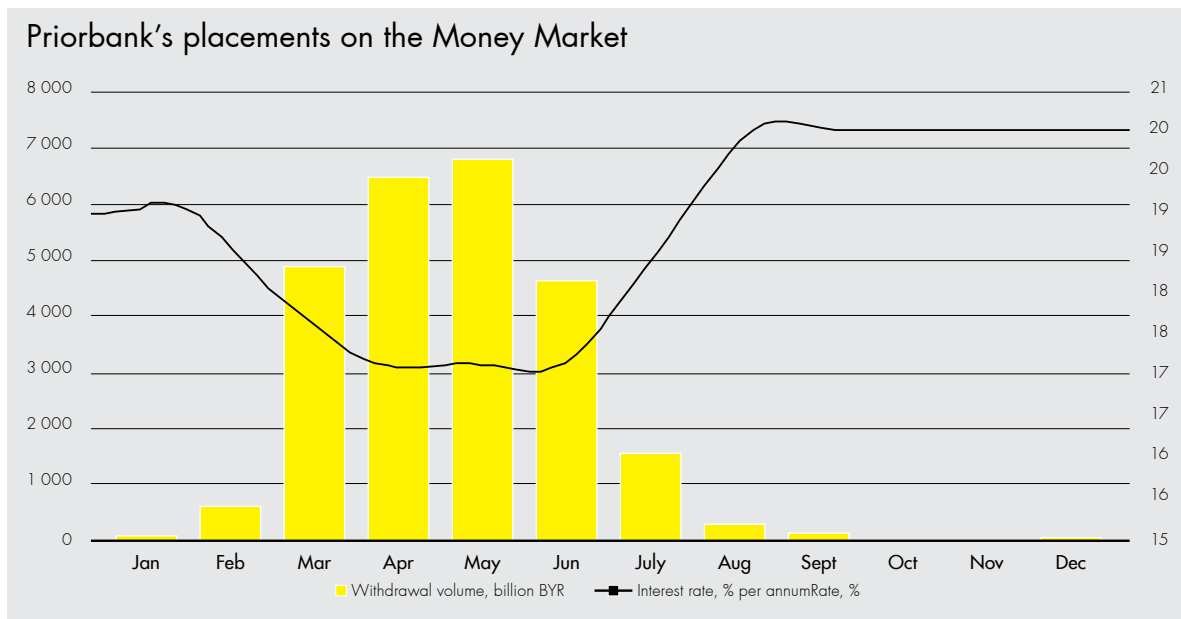
Restricting flow of Pls funds from LCY to FCY, the National Bank of Belarus (NBB) had to undertake measures of the money market stabilization: the regulator increased refinancing instruments interest rate for the banks to 45% per annum, declared moratorium on further refinancing interest rate decrease and increased obligatory reserve ratio deductions for the FCY funds raised by the banks by 2% to 14%. These measures resulted in the inter-bank resources price increase to more than 50% per annum in September 2013.



As in all previous years, Priorbank paid special attention to the liquidity management processes efficiency improvement. The Bank improved the existing management models, which enabled fast adjustment to the sharply changing situation on the local money market.

In 2013, income from BYR inter-bank loans and deposits amounted to 27.8 billion BYR at the average

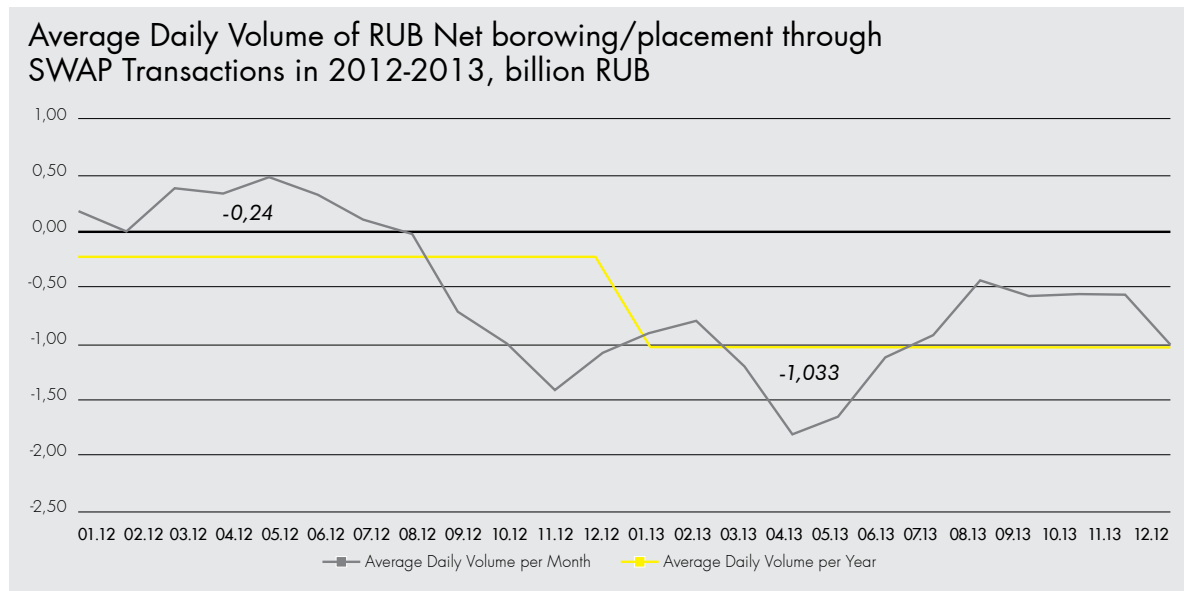
lending rate of 32.9% per annum. At the same time, the Bank paid the interest to the amount of 0.7 billion BYR on the raised inter-bank loans and deposits at the average borrowing rate of 38.5% per annum. Against the previous year, IBL income dropped by 57.1 billion BYR, and cost dropped by 3 billion BYR.



# Money Market in Foreign Currency

In 2013, as compared to the previous years, the foreign money market operations structure changed significantly. Liabilities raising operations share substantially increased – from 0.18% in 2012 to 17% in 2013. The total volume of inter-bank loans and deposits in 2013 considerably shrank – by almost 70% to an equivalent of 6.03 billion EUR, as a consequence of the planned changes in the balance sheet structure.

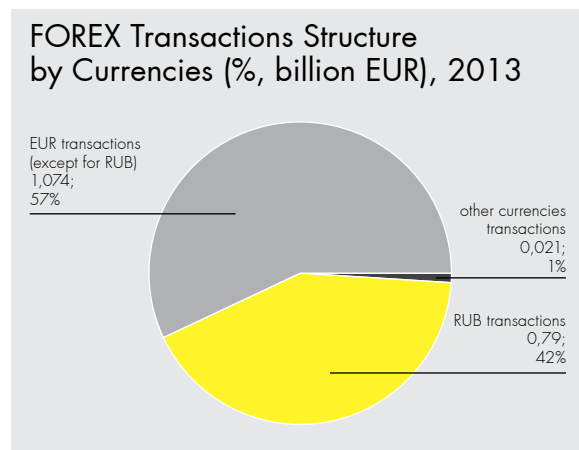
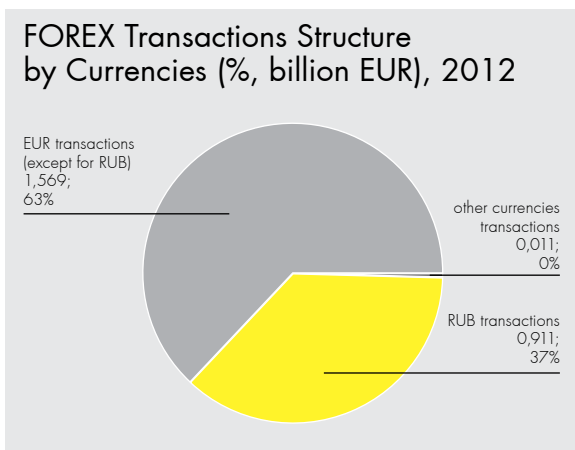
Furthermore, it is worth mentioning, that due to increase of the share of RUB in foreign trade transactions of the bank's clients, demand for RUB loans increased. Such loans were financed by means of exchange of hard currencies into RUB on the Russian FOREX market through SWAP transactions. Average daily volume of such transactions in 2013 increased by 4.3 times against 2012. The maximum volume of RUB raised – about 2.4 billion RUB – was achieved in April 2013.



## FOREX Operations

The volume of trading FOREX operations in 2013 decreased by 24.3% to 1.885 billion EUR against 2012, which is partially explained by the legal entities foreign trade volume drop. RUB transactions share

in these operations structure is increasingly high – in 2013 their share grew from 37% to 42%. Forward operations still occupy the significant share of the Bank's business on the FOREX market, owing to stable demand of the Bank's corporate clients for FX risk hedging instruments. In 2013, the share of term transactions accounted for 39%.



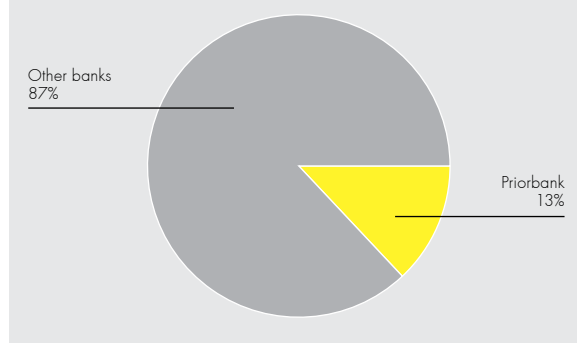
# Treasury Operations with Clients

In 2013, Priobank entered the eight largest Belarusian banks on the legal entities deposit market. The average monthly legal entities deposit portfolio for 2013 increased by 19.1% to 2,295.8 billion BYR.

Bonds still remain an attractive investment instrument on the financial market due to tax privileges. In 2013, Priobank actively executed own bonds buy/sell transactions on the primary and secondary markets; their total volume amounted to an equivalent of 913 billion BYR, thereof primary allocation to clients amounted to 412 billion BYR, USD 2.4 million, RUB 99.7 million.

In 2013, Priobank traditionally occupied the 3<sup>rd</sup> position among Belarusian banks in terms of FOREX transactions volume at the Belarusian Currency Stock Exchange. Annual transactions volume increase to 73,133.5 billion BYR throughout the last 3 years enabled to augment Priobank's share in this segment from 8.5% to 13%.

## Priobank's Share on the FOREX Counter Market

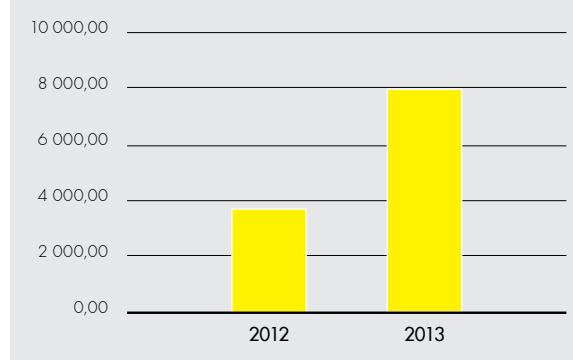


In 2013, the total volume of FOREX transactions of Priobank with legal entities on the over the counter market reached 25,958.8 billion BYR.

In 2013, Priobank clients maintained their high demand for a perspective on the Belarusian market banking product "Forward FOREX Operations". The volume of the concluded forward contracts amounted to 9,822 billion BYR.

The clients' interest to cashless operations with precious metals as a mean of trusted investments continued to grow. In 2013, the transactions volume increased by more than threefold, having reached 9.4 billion BYR.

## Priobank's Clients' Cashless Operations with Precious Metals



## Custody Services

In 2013, Priobank's Custody Division offered the services of forming and keeping registers of shareholders, safekeeping and settlement of securities, payment of dividends, informed about corporate actions of the issuers and rendered other custody services.

The Banks shareholders comprise of 501 legal entities owning 95.3% of shares and 15,182 private individuals owning 4.7% of shares. The majority share in the authorised capital of the Bank belongs to Raiffeisen Bank International AG. Priobank's subsidiaries do not own the Bank's shares.

The number of Priobank's ordinary shares is 123,058,441, and privileged shares are 10,000. The nominal value of a share is 3,350 BYR. The dividends size on the privileged shares made up 50% from the nominal value (1,675 BYR), on the ordinary shares – 1,450 BYR.



International Activities



# International Activities

## Correspondent Banking

Correspondent banking is an integral part of the streamlined, customer-oriented business process of cash management. This is a balanced combination of local and international business practices, innovative IT technologies, and established relationships with many correspondents in the country and abroad. We offer our customers the European quality banking services at reasonable price, taking the utmost care of customer satisfaction on the home market of RBI Group. No need to say that the same quality level is ensured with the assistance of our correspondents throughout the world. A special attention is paid to the countries having the considerable trade volumes with Belarus, like Germany, Italy, France, Poland, Russian Federation, Peoples' Republic of China.

Success in correspondent banking nowadays is not only the result of a close integration into the international clearing systems and well-managed network of correspondent accounts, but also the compliance with international banking standards on prudent and diligent management. Professional Compliance team and fully implemented Know Your Customer procedures gives our correspondent banks the necessary comfort when holding the correspondent accounts for Priorbank. On the threshold of the forthcoming FATCA implementation, Priorbank has been already registered with the IRS as participated FFIs as a member of EAG Raiffeisen Bank International AG.

## Trade Finance

2013 was a remarkable year for the development of trade finance business in Priorbank. Together with our customers we explored the new opportunities on the traditional markets, and took up the challenges on the new ones. Limits of RBI Group banks, limits of supnationals, and limits of third party banks are always at our customers service.

Trade Finance is an excellent capital-light product because it does not consume so much capital as for example lending does. Transparency and short tenors of transactions also speak well of trade finance from the risk point of view. Nowadays, when the capital and risks are the name of the game, trade finance shall stay at our focus even to a greater extent.

The volume of Priorbank cooperation with the EBRD in 2013 was very close to the historical peaks, bearing the title of the Most Active Issuing Bank in Belarus by the EBRD for the sixth time.

Further developing the "e-bank" concept, in 2013 Priorbank continued the implementation of interactive electronic platform on documentary business, that will cover all key processes in handling LCs and LGs. Increased efficiency and cost reduction is the feasible benefit valued both for the bank and the customer.

## Foreign Funding

Formerly the key targets for foreign funding were volumes and pricing. Today, however, even more important issue is to get the funding which is eligible under regulator's guidelines on FCY lending. It changed the idea of the wholesale funding, requesting to make it more connected to the customer financed out of foreign funding. We again successfully performed our mission, having adopted the international lending practice to the local banking customs.

We managed to satisfy the demand from our customers on FCY loans, both short and long term. As usually, the prevailing share of funds came from Raiffeisen,

demonstrating its commitment to support Priorbank, its leasing subsidiary and the Belarusian economy in general. Nevertheless, the Group policy allows and encourages the network units to diversify the funding sources, creating more stable funding structure. Funding support instruments available from Vienna excels the risk profile of the bank and allows us to negotiate in 2013 different funding possibilities, tailoring the financing according to customers' demand.

Last but not least, the financing available from foreign export support agencies was also an option for our customers. A number of contracts were financed in 2013 out of funds provided by an Eximbank from East Asia.

List of main correspondent banks					
Currency	Account	Correspondent	City	Country	SWIFT Code
CHF	02300000069025050000K	UBS AG	Zurich	Switzerland	UBSW CH ZH
CNY	0101000111902569094	INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD.	Beijing	China	ICBK CN BJ
DKK	500 000 6760	NORDEA BANK DANM ARK AS	Copenhagen	Denmark	NDEA DK KK
EUR	55.045.512	RAIFFEISEN BANK INTERNATIONAL AG	Vienna	Austria	RZBA AT WW
EUR	400886630301EUR	COMMERZBANK	Frankfurt	Germany	COBA DE FF
GBP	83-55.045.512	RAIFFEISEN BANK INTERNATIONAL AG	Vienna	Austria	RZBA AT WW
JPY	653-0428213	THE BANK OF TOKYO-MITSUBISHI	Tokyo	Japan	BOTK JP JT
KZT	KZ459260001000302000	KAZKOMMERTSBANK	Almaty	Kazakhstan	KZKO KZ KX
LTL	LT617044060000000164	AB SEB BANKAS	Vilnius	Lithuania	CBVI LT 2X
LVL	22000161049	AS SEB BANKA	Riga	Latvia	UNLA LV 2X
PLN	PL15175000090000000002886448	RAIFFEISEN BANK POLSKA SA	Warsaw	Poland	RCBW PL PW
RUB	30111810700000110023	RAIFFEISENBANK ZAO	Moscow	Russia	RZBM RU MM
RUB	30111810855550000010	JSC VTB BANK	Moscow	Russia	VTBR RU MM
RUB	30111810600013168183	ZAO UNICREDIT BANK	Moscow	Russia	IMBK RU MM
RUB	30111810200000000136	SAVINGS BANK OF RUSSIA	Moscow	Russia	SABR RU MM
SEK	99-40 945 049	SVENSKA HANDELSBANKEN	Stockholm	Sweden	HAND SE SS
UAH	1600564	RAIFFEISEN BANK AVAL	Kiev	Ukraine	AVAL UA UK
USD	36089449	CITIBANK NA	New York	USA	CITI US 33
USD	3582023207001	STANDARD CHARTERED BANK	New York	USA	SCBL US 33



Risk Management.  
The Bank's Loan Portfolio

# Risk Management. The Bank's Loan Portfolio

## Risk Management Organization in the Bank

Priorbank JSC implemented an efficient risk management system including credit, interest, FOREX, liquidity and operational risk management, which is constantly improving in compliance with the international requirements and standards.

In the Republic of Belarus the principal share in the commercial banks' assets operations, and, respectively, in the income structure, belongs to lending operations. Given this fact, the credit risk management plays an important role determining the Bank's assets quality, making decisions aimed at stable Bank functioning, as well as directly influencing the Bank's financial result in the period under report.

Credit risk management is executed by the Bank's risk management separately for each client segment both at the portfolio and individual level. At the portfolio level, the risk management is effected by developing jointly with business divisions of the Lending Policies, determining key loan portfolio target parameters; developing of standardized credit products, performance of the loan portfolio analysis, including compliance with the established risk indicators and the Bank's exposure to credit risk by stress testing of the credit risk level. At the individual level, the risk management is effected by independent risk assessment

on each individual client's limit, establishment of requirements on size and composition of collateral, control over the limits observation and performance of the set financing covenants

The interest risk is managed and controlled based on the various sensibility analysis methods, stress testing and assessment of interest rates changes influence on the Bank's income. The Bank also controls FOREX risk by limiting the positions under local and international standards, stress testing.

The Bank manages assets taking into account the liquidity, daily monitors future cash flow and liquidity. In order to assess actual Bank's need in liquid funds, the Bank's specialists monitor the liquidity with the help of the gap analysis, liquidity indicators method, liquid funds reserve and stress testing. Within the risk management system development, the Bank implemented the process of monitoring and management of new liquidity ratios offered by Basel III.

In order to minimize operational losses, as well as improve operational risk management system, the Bank monitors operational incidents, as well as other events negatively affecting the Bank's business activities, collects and analyses key risk indicators, assesses the Bank's exposure to operational risk based on the stress testing. The Bank constantly improves corporate culture of understanding of operational risk and methods on operational losses prevention.

## Credit Risk Management Development in 2013

In 2013, Priorbank continued to improve its risk management system. Maintenance of the Bank's loan portfolio high quality in 2013 was secured, but not limited to, improvement of Early Warning Signs (EWS) system, targeted at detecting of potentially problem clients in the legal entities segment. Special attention was paid to implementation of Credit Fraud Prevention Policy on lending transactions for legal entities. In order to improve borrowers' creditworthiness assessment quality, the Bank launched a new rating model for corporate clients, based on the Bank's statistical data analysis and operating a wide range of quantitative and qualitative parameters.

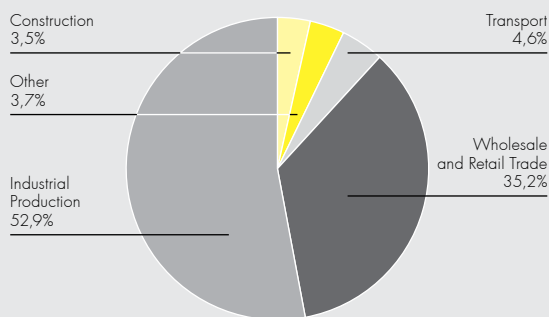
## The Bank's Loan Portfolio by Customer Categories

The largest share in the loan portfolio belongs to legal entities and individual entrepreneurs, which secured the loan portfolio growth (+24.5%).

Customer Category	01.01.2013	01.01.2014	Growth Rate
	Amount, billion BYR	Amount, billion BYR	%
Legal Entities and Individual Entrepreneurs	7,484.29	9,503.78	+27.0%
Private Individuals	1,491.61	1,667.86	+11.8%
<b>TOTAL loan portfolio</b>	<b>8,975.90</b>	<b>11,171.64</b>	<b>+24.5%</b>

The share of Pls loans in Priorbank loan portfolio structure as of 01.01.2014 accounted for 14.9%, reflecting the current situation on the Belarusian retail banking market, which is first of all characterised by high local currency loan prices for Pls.

## Legal Entities and Individual Entrepreneurs Loan Portfolio Structure by Industries



The loan portfolio structure by industries did not significantly change. In the loan portfolio of legal entities and individual entrepreneurs in early 2014 the dominating shares belong to processing production (52.9% of the loan portfolio) and wholesale and retail trade (35.2%).

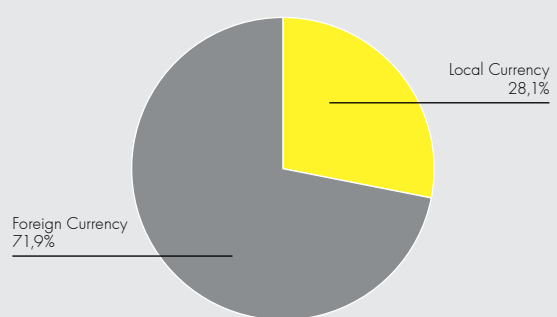
Priority financing in processing productions are as follows:

- Metal Working 8.0% of the total loan portfolio of legal entities and individual entrepreneurs;
- Chemical industry 5.9%;
- Oil Processing 5%;
- Manufacture of Furniture 3.2%.

Priority financing in the retail and wholesale trade segments are as follows:

- Specialized Wholesale Trade (solid, liquid and gas fuel, metal and mettalic ore, timber, etc.) 7.6% of the total loan portfolio of legal entities and individual entrepreneurs.
- Retail trade of food, beverages and cigarettes 4.2%.

## The Bank's Loan Portfolio by Currencies



The share of FCY financing is stably high – about 70%, therefore special attention was paid to FOREX risk level assessment. As a rule, upon financing the preference was given to export oriented clients and import substituty productions.

In 2013, the share of Problem loans insignificantly increased from 0.96% of the Bank's loan portfolio under local standards to 1.32% as of 01.01.2014.

Improvement of criteria, procedures and risks management systems enabled to secure a stably low of Problem loans. One of the key factor of this success is the high efficiency of Priorbank's credit risk management system. Its further development is the most important priority of the Bank's activities.



Personnel



# Personnel

Key HR priorities in 2013 were:

- Talent pool management through the process of talents detection, their potential development, setting up their individual development plan, and training of the successors to fill key positions;
- leadership development skills through organization of rotations and programmes of international traineeships;
- further development of Performance Management system with the focus on the objectives setting quality as a key tool of personnel motivation;
- personnel selection quality improvement and optimization through running development assessment centers;
- clients service quality improvement by means of coaching tools improvement, as well as incentive schemes development;
- Lean methodology support;
- increasing of the Bank's employees awareness regarding the issues on anti-money laundering (AML), conflict of interests.

As of 01.01.2014, Priorbank's total headcount amounted to 2,529 employees, thereof the share of male employees accounts for 20% and female employees – 80%. 80% of the Bank's employees have higher education. Personnel turnover in 2013 made up 7%. The average age of the Bank's employees was 36.6 years.

In 2013, Priorbank hired 292 employees, thereof 167 employees aged 18-24 years from the special pool of the most talented university graduates, who were on traineeships in the Bank, having work experience in the Bank, as well as trained at Prior School. Over the period of Prior School operation through 2013, 211 university students underwent training at it, 117 students became the Bank's employees.

Students get an opportunity at Prior School to familiarize themselves with the Bank's structure and departments work, career opportunities, acquire knowledge in banking business.

Prior School participants enjoy a priority right to undergo a traineeship in Priorbank and further get a job in the Bank.

Prior School graduates-employees actively participate in the development programme "International Young Potentials".

The purpose of the programme is to develop young talented employees at the international level let them exchange experience with RBI.

In 2013, the HR Training and Development team:

- Organised in the Republic of Belarus and overseas 343 training events (in class training, seminars, tests, courses, contests, on the job training). The number of employees participated in the training events amounted to 943;
- Designed 18 e-learning courses, 2,275 employees enrolled on the courses;
- Organized 55 on-line seminars.

One of the key projects in 2013 was further implementation and support of the Lean Methodology in the Bank, which purpose is to optimize and increase business processes efficiency. Within this initiative experts in this area were prepared, e-learning courses created.

## Branch Network Development

As of 1<sup>st</sup> January 2014, Priorbank branch network includes 98 outlets. Priorbank business outlets split in the following way: 34 Banking Services Centers (BSC), 64 Specialized Points of Sale.

Throughout 2013, we continued to implement RBI Group projects in order to improve branches' efficiency and increase customers satisfaction and loyalty.



Information Technologies

# Information Technologies

The year 2013 was favourable for information technologies development in the Bank. This allowed to perform rather ambitious plans and give start to new projects and initiatives to be implemented in 2014. The bank still does not change its priorities and invests substantial funds into information technologies. These decisions evidences the Bank's content in the value, that IT brings to business and simultaneously demonstrate faith in IT inexhaustible potential for the banking business.

In spite of Priorbank market positioning as a universal bank, the key priorities in IT development in 2013 were focused on Pls business. If previously the bank focused on back-office activities automation and electronic channels development, in 2013, much more attention was paid to products, i.e. the direction where the value from IT utilization can be experienced by a final consumer. A number of new card products were launched, technical capability to issue VISA chipped cards was arranged. In 2013, as alternative to traditional payment instruments, the Bank offered its clients a new product – an electronic purse belqui. This project contained significant IT component and was implemented with utilization of the technological platforms that had not been previously applied in the Bank.

Moreover, in 2013, Priorbank launched a number of serious projects in other banking activities directions, in particular:

electronic workflow in operations with clients – the mechanism enabling the clients to execute and transfer electronic bank guarantee applications to the Bank; Group projects in Compliance: Anti-Money Laundering (AML) processes and procedures were automated; a number of initiatives in Credit Risk Management, among them the most important are: restructuring schedules for Pls based on the data warehouse platform and implementation of the limit approach in lending to Pls and legal entities. Within the project of migration of centralized automated banking system from SYBASE to ORACLE Platform, reports preparation algorithms were reviewed and substantially optimized.

Simultaneously with the Bank's divisions initiatives implementation, IT Department implemented a great number of tasks aimed at IT management procedures improvement, and tasks aimed at IT infrastructure development. IT Department underwent organizational changes and changes in processes. The IT Division with the functions of management and coordination of relationships with the Bank's divisions was created. IT architecture management process was developed and IT Architecture Management Committee was established. Processes of cooperation with the key IT services suppliers were substantially reviewed. IT infrastructure was upgraded, hardware performance was improved, additional functions enabling to secure higher accessibility level of IT systems were implemented.

## Development of Services to Legal Entities and Individual Entrepreneurs

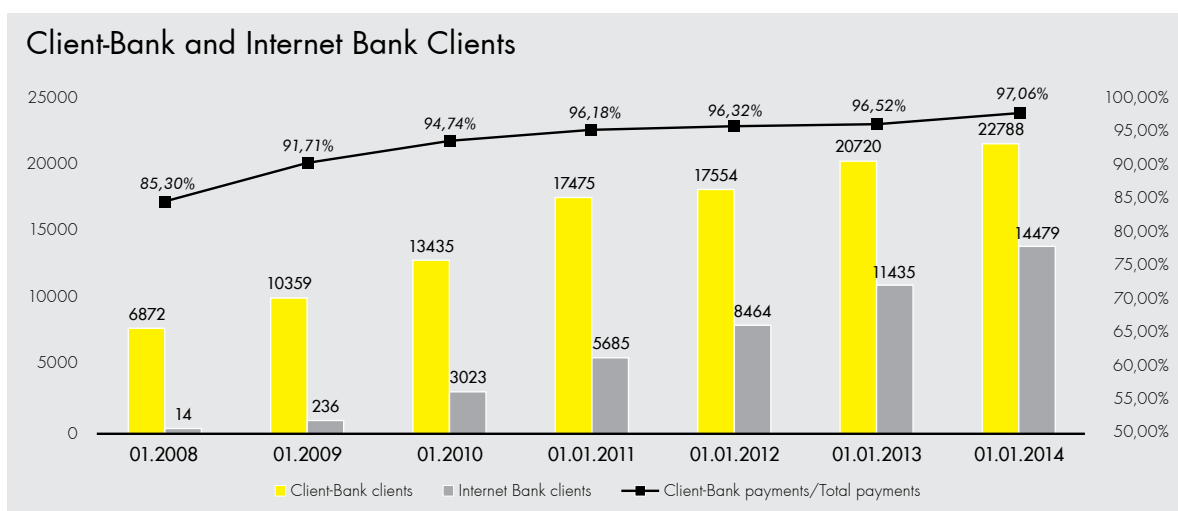
Targeted and successful work with the 'Client Bank' system resulted in a 10% increase of clients connected to the 'Client Bank' as compared to 2012, with a total number of 22,788 clients, resulting in the share of payment instructions transmitted electronically to be increased from 97.06%

Throughout 2013, the Bank continued development of the Internet Bank system for legal entities and individual entrepreneurs; the system for the distant banking servicing

and accounts management via the Internet. In 2013, the number of clients using the system increased by 26% to 14,479 clients.

In 2013, 'Client-Bank' and 'Internet-Bank' functionalities were expanded resulting in launch of 16 new electronic documents and execution of 30 applications for the 'Client-Bank' system upgrade. In the 'Internet-Bank' system 22 new electronic documents, including payments, were launched, and 12 applications for the 'Internet-Bank' system upgrade were executed.

The Bank also worked on the clients' servicing quality and efficiency improvement, as well as setting of the system in compliance with the legislation requirements and local standard acts of the Bank.







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 +375 (17) 268 5298  
 e-mail: auditel@mail.ru

# Auditor's report to annual financial statement of Priorbank JSC for the period 01 January to 31 December 2013

Priorbank JSC Chairman of the Management Board S. Kostyuchenko

## Legal entity to be audited:

**Priorbank Joint Stock Company (Priorbank JSC);**

Legal address: 31A V. Khoruzhey Street, 220002 Minsk;

State registration: registered by the National Bank of the Republic of Belarus 12.07.1991, registration number 12. UNP (PIN – Payer's Identification Number) 100220190

## Auditing company:

**Auditing Limited Liability Company AUDITEL (ALLC Auditel);**

Legal address: 220090, Logoisky Trakt, 22a, off 46, r. 410 Minsk;

State registration: certificate on the state registration of a commercial organization issued by Minsk City Executive Committee, Resolution N 1097 dated 28.09.2000.

UNP (Payer's Identification Number) 100591487.

We have audited the attached annual financial reporting of Priorbank JSC, consisting of:

Balance Sheet as of 01.01.2014;

Profit And Loss Statement, Statement of capital changes and Statement of Cash Flow for 2013;

Explanatory Memorandum, as well as statements compiled based on the annual report of Priorbank JSC under the forms 2801 'Standard Capital Adequacy Calculation', 2807 'Report on Provisions for Covering of Possible Losses from Off-Balance Assets and Operations', 2809 'Liquidity Calculation'.

Priorbank JSC management bears liability for preparation and submission of the annual financial reporting in compliance with the legislation of the Republic of Belarus regulating accounting and reporting. This liability is extended to the development, launch and maintenance of the due internal control system functioning, which shall secure preparation of the credible annual financial reporting without significant distortions caused by mistakes or careless actions; to the choice and application of the due accounting policy, as well as reasoned accounting estimates.

We bear liability for our expressed opinion on the credibility of this annual financial reporting and compliance of the banking and other operations executed by the Bank with the legislation, based on the conducted audit results.

We have conducted the audit in compliance with the Law of the Republic of Belarus 'On Audit Activities' and Republican Audit Activities Rules. These Rules oblige us to observe the Professional Ethics Code, to plan and conduct the audit in such a way that to secure a sufficient confidence regarding the presence or absence of the significant distortions in the submitted annual financial reports.

In the course of the audit we have performed the auditing procedures for obtaining the auditing evidence, confirming the figures and disclosure of the information in the annual financial reports. The auditing procedures were selected based on the professional judgment taking into account assessment of the risk of the annual financial reporting significant distortion caused by mistakes or careless actions. Upon assessment of the risk of the annual financial reporting, we examined Priorbank JSC internal control system in order to plan further auditing procedures depending on the assessed risks, but not with the purpose to express our opinion regarding its efficiency.

The audit also included the assessment of the applied accounting policy appropriateness, accounting estimates soundness, and annual financial reporting general overview.

We opine, that in the course of the audit we have obtained sufficient and due audit evidence, which can form the basis for the audit opinion expression.

In our opinion, Priorbank JSC annual financial reporting, prepared in compliance with the legislation of the Republic of Belarus regulating accounting and reporting, reflects the Bank's financial situation as of 1 January 2014, and its business activities' results for 2013 credibly in all material respects. At the same time, banking and other operations executed by the Bank comply with the legislation in all material respects. The existing Priorbank JSC internal control system complies with the character, scope and conditions of the Bank's activities. In the year under report, we note a number of cases of non-performance by the Bank of Short-Term Liquidity Ratio, Risk Concentration Restriction Standard – maximum risk size per insider and connected parties and maximum risk size per debtor (group of connected debtors); Permits of the National Bank of the Republic of Belarus are in place.

We confirm the credibility of the information, included in the reporting under the forms 2801 'Standard Capital Adequacy Calculation', 2807 'Report on Provisions for Covering of Possible Losses from Off-Balance Assets and Operations', 2809 'Liquidity Calculation'.

Director of ALLC AUDITEL



A.I. Papkovsky

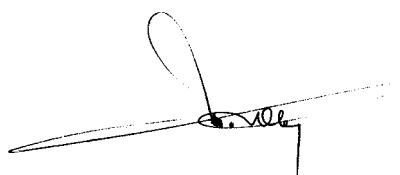
Audit Director



S.S. Shmarlovskaya

17 February 2014

The audit report received by:  
Priorbank JSC Chairman of the Board



S. Kostyuchenko

The audit report received on: 17 February 2014

# Balance Sheet

as of January 1, 2014

## Priorbank Joint Stock Company

(million Belarusian Roubles – BYR)

Item	Index	Note	2013	2012
1	2	3	4	5
<b>1 ASSETS</b>				
2 Cash	1101	3.1	995 900,3	880 217,5
3 Precious metals and stones	1102	3.2	4 375,5	6 338,7
4 Assets with the National Bank	1103	3.3	1 419 191,6	1 307 998,8
5 Loans and advances to banks	1104	3,4	1 022 442,7	1 377 207,5
6 Securities	1105	3.5	645 786,1	1 895,2
7 Loans to customers	1106	3.6	11 171 642,2	8 975 901,0
8 Derivative financial assets	1107	3.11	1 513 075,8	1 210 301,4
9 Long-term investments	1108	3.7	27 873,9	27 873,9
10 Fixed and intangible assets	1109	3.8	1 132 094,5	981 360,8
11 Assets for sale	1110	3.9	1 359,8	975,9
12 Other assets	1111	3.10	220 226,7	177 265,4
<b>13 TOTAL ASSETS</b>	<b>11</b>		<b>18 153 969,1</b>	<b>14 947 336,1</b>
<b>14 LIABILITIES</b>				
15 Amounts due to the National Bank	1201	3.12	130,8	3 193,5
16 Loans and other amounts due to banks	1202	3.13	3 768 317,3	2 306 627,4
17 Amounts due to customers	1203	3,14	11 044 470,4	9 877 460,1
18 Securities issued by the bank	1204	3,15	234 680,9	265 060,1
19 Derivative financial liabilities	1205	3,11	2 347,4	29 032,7
20 Other liabilities	1206	3.10	219 321,9	175 703,3
<b>21 TOTAL LIABILITIES</b>	<b>120</b>		<b>15 269 268,7</b>	<b>12 657 077,1</b>
<b>22 CAPITAL</b>				
23 Authorized capital	1211		412 279,3	412 279,3
24 Paid in capital	1212		–	–
25 Reserve fund	1213	3.16.2	654 306,5	437 806,3
26 Balance sheet items revaluation fund	1214		662 204,0	576 136,5
27 Accrued profit	1215		1 155 910,6	864 036,9
28 Total capital	121	3.16.1	2 884 700,4	2 290 259,0
<b>29 TOTAL LIABILITIES AND CAPITAL</b>	<b>12</b>		<b>18 153 969,1</b>	<b>14 947 336,1</b>

Chairman of the Board

S. Kostyuchenko

Chief Accountant

V. Mantsivoda

Director of ALLC AUDITEL

A.I. Papkovsky



# Profit And Loss Statement for 2013

## Priorbank Joint Stock Company

(million Belarusian Roubles – BYR)

Item	Index	Note	2013	2012
1	2	3	4	5
1	Interest income	2011	1 719 716,2	1 273 411,7
2	Interest expenses	2012	879 377,9	870 401,3
3	Net interest income	201	3,18	840 338,3
4	Fee and commission income	2021	1 081 730,3	900 242,0
5	Fee and commission expenses	2022	167 313,6	123 340,3
6	Net Fee and commission income	202	3.19	914 416,7
7	Net precious metals and stones income	203	1 192,3	3 112,3
8	Net securities income	204	3.20	86,1
9	Net FOREX income	205	3.21	(37 682,4)
10	Net financial derivatives income	206	3.22	314 333,9
11	Net reserve assignments	207	3.23	289 513,8
12	Other income	208	3.24	92 073,2
13	Operational expenses	209	3.25	802 931,6
14	Other expenses	210	174 437,8	138 866,5
15	Profit before tax	211	857 874,9	756 736,7
16	Income tax	212	174 049,2	161 806,5
17	<b>PROFIT</b>	<b>2</b>	<b>683 825,7</b>	<b>594 930,2</b>
18	<b>Information on a profit per share in BYR</b>			
19	Basic profit on an ordinary share	22	3.16.6	5 557
20	Watered profit on an ordinary share	23	3.16.6	5 557

Chairman of the Board

S. Kostyuchenko

Chief Accountant

V. Mantsivoda

Director of ALLC AUDITEL

A.I. Papkovsky

# Statement of Capital Changes for 2013

## Priorbank Joint Stock Company

(million Belarusian Roubles – BYR)

		Capital Items							
Indicators	Index	Authorized capital	Paid in capital	Reserve fund	Accrued profit (loss)	Balance items revaluation fund	Total capital		
1	2	3	4	5	6	7	8	9	
Section I. For the year preceding the year under report									
<b>1</b>	<b>Balance as of 1 January 2012</b>	3011	412 279,3	–	151 149,1	706 773,5	403 225,9	1 673 427,8	
1,1	Thereof: the result from changes in the accounting policy and(or) correction of the material mistakes	30111	–	–	–	–	–	–	
<b>2</b>	<b>Change of the equity articles</b>	3012	–	–	286 657,2	157 263,4	172 910,6	616 831,2	
2,1	Thereof: gross income	30121	x	x	x	594 930,2	172 910,6	767 840,8	
2,2	profit directed to replenishment of funds	30122	–	x	286 657,2	(286 657,2)	x	–	
2,3	transactions with founders (shareholders):	30123	–	–	x	(151 009,6)	x	(151 009,6)	
2,4	founders' (shareholders') contribution to authorized capital	301231	–	–	x	x	x	–	
2,5	payment of shareholders' dividends	301232	x	x	x	(151 009,6)	x	(151 009,6)	
2,6	transactions with own shares repurchased	301233	–	x	x	x	x	–	
2,7	redistribution among equity articles	30125	–	–	–	–	–	–	
2,8	other changes	30126	–	–	–	–	–	–	
<b>3</b>	<b>Balance as of 1 January 2013</b>	3013	412 279,3	–	437 806,3	864 036,9	576 136,5	2 290 259,0	
Section II. For the year under report									
<b>4</b>	<b>Balance as of 1 January 2013</b>	3011	412 279,3	0,0	437 806,3	864 036,9	576 136,5	2 290 259,0	
5	Change of the equity articles	3012	–	–	216 500,2	291 873,7	86 067,5	594 441,4	
5,1	Thereof: gross income	30121	x	x	x	683 825,7	89 067,3	772 893,0	

		Capital Items						
Indicators	Index	Authorized capital	Paid in capital	Reserve fund	Accrued profit (loss)	Balance items revaluation fund	Total capital	
5,2	profit directed to replenishment of funds	30122	–	x	216 500,2	(216 500,2)	x	–
5,3	transactions with founders (shareholders):	30123	–	–	x	(178 451,5)	x	(178 451,5)
5,4	founders' (shareholders') contribution to authorized capital	301231	–	–	x	x	x	–
5,5	payment of shareholders' dividends	301232	x	x	x	(178 451,5)	x	(178 451,5)
5,6	transactions with own shares repurchased	301233	–	x	x	x	x	–
5,7	redistribution among equity articles	30125	–	–	–	2 999,7	(2 999,7)	–
5,8	other changes	30126	–	–	–	–	(0,1)	(0,1)
<b>6</b>	<b>Balance as of 1 January 2014</b>	<b>3013</b>	<b>412 279,3</b>	<b>–</b>	<b>654 306,5</b>	<b>1 155 910,6</b>	<b>662 204,0</b>	<b>2 884 700,4</b>

Chairman of the Board

S. Kostyuchenko

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Director of ALLC AUDITEL

A.I. Papkovsky

# Information on Total Gross Income for 2013

## Priorbank Joint Stock Company

(million Belarusian Roubles – BYR)

Item	Symbol	Note	2013	2012
1	2	3	4	5
1	Profit	301211	683 825,7	594 930,2
2	Other gross income components	301212	89 067,3	172 910,6
2,1	Thereof: fixed assets revaluation	3012121	3.8.1 85 850,4	167 143,7
2,2	revaluation of incomplete construction and uninstalled equipment	3012122	3.8.1 3 216,9	5 766,9
2,3	securities revaluation	3012123	–	–
2,4	hedge tools revaluation	3012124	–	–
2,5	other balance sheet items revaluation	3012125	–	–
<b>3</b>	<b>TOTAL Gross Income</b>	<b>30121</b>	<b>772 893,0</b>	<b>767 840,8</b>

Chairman of the Board

S. Kostyuchenko

Chief Accountant

V. Mantsivoda

Director of ALLC AUDITEL

A.I. Papkovsky

# Cash Flow Statement for 2013

## Priobank Joint Stock Company

(million Belarusian Roubles – BYR)

Item	Index	Note	2013	2012
1	2	3	4	5
1	2	3	4	5
<b>1 OPERATIONS CASH FLOWS</b>				
2 Interest income received	70100		1 670 104,2	1 277 043,2
3 Interest expenses paid	70101		(883 110,9)	(874 343,4)
4 Fee and commission income received	70102		1 080 177,3	890 573,2
5 Fee and commission income paid	70103		(167 410,2)	(120 808,8)
6 Net precious metals and stones income	70104		1 192,3	3 112,3
7 Net securities income	70105		86,1	1 669,1
8 Net FOREX income	70106		31 943,0	116 874,4
9 Net financial derivatives income	70107		314 333,9	35 231,1
10 Other income received	70108		81 625,8	180 558,7
11 Other expenses paid	70109		(842 179,7)	(646 349,1)
12 Income tax paid	70110		(157 218,9)	(147 425,9)
<b>13 Total profit (loss) before changes in assets and liabilities</b>	<b>701</b>		<b>1 129 542,9</b>	<b>716 134,8</b>
14 Net decrease (increase) of funds with the National Bank	70200		(17 586,8)	(44 107,9)
15 Net decrease (increase) of loans and other funds with banks	70201		494 282,5	995 252,0
16 Net decrease (increase) of funds in securities (except for securities retained till repayment)	70202		–	–
17 Net decrease (increase) of loans disbursed to clients	70203		(1 420 333,7)	(996 899,1)
18 Net decrease (increase) of cash funds from financial derivatives	70204		(302 774,4)	(97 557,7)
19 Net decrease (increase) of funds invested in other assets	70205		(39 913,0)	(289 270,1)
<b>20 Total cash flows from change in assets</b>	<b>702</b>		<b>(1 286 325,4)</b>	<b>(432 582,8)</b>
21 Net increase (decrease) of cash funds of the National Bank	70300		(2 298,3)	(9 616,2)
22 Net increase (decrease) of loans and other banks' cash funds	70301		1 347 582,4	(908 865,6)
23 Net increase (decrease) of clients' funds	70302		343 766,3	1 907 951,8
24 Net increase (decrease) of cash funds from securities issued by the bank	70303		(33 687,5)	(178 896,6)
25 Net decrease (increase) of cash funds from financial derivatives	70304		(26 685,3)	25 878,9
26 Net increase (decrease) of funds in other liabilities	70305		(218 433,4)	331 730,4
<b>27 Total cash flows from change in liabilities</b>	<b>703</b>		<b>1 410 244,2</b>	<b>1 168 182,7</b>
28 Net operational cash flow	70		1 253 461,7	1 451 734,7

(million Belarusian Roubles – BYR)

Item	Index	Note	2013	2012
<b>29 INVESTMENT CASH FLOWS</b>				
30 Purchase of fixed, intangible, and other long-term assets	71100		(163 322,0)	(250 605,7)
31 Sale of fixed, intangible, and other long-term assets	71101		(3 777,5)	19 177,2
32 Purchase of long-term financial investments to authorized capital of other legal entities	71102		–	(21 509,5)
33 Sale of long-term financial investments to authorized capital of other legal entities	71103		–	14 800,0
34 Purchase of securities retained till repayment	71104		(618 410,0)	–
35 Repayment (sale) of securities retained till repayment	71105		–	–
<b>36 Net investment cash flows</b>	<b>71</b>		<b>(785 509,5)</b>	<b>(238 138,0)</b>
<b>37 FINANCIAL CASH FLOWS</b>				
38 Issue of shares	72100		–	–
39 Re-purchase of own shares	72101		–	–
40 Sale of previously re-purchased own shares	72102		–	–
41 Payment of dividends	72103		(178 092,1)	(150 680,6)
<b>42 Net financial cash flows</b>	<b>72</b>		<b>(178 092,1)</b>	<b>(150 680,6)</b>
<b>43 Influence of official exchange rate fluctuations on cash funds and their equivalents</b>	<b>73</b>	<b>3,21</b>	<b>68 060,8</b>	<b>19 772,0</b>
<b>44 Net increase (decrease) of cash funds and their equivalents</b>	<b>74</b>		<b>357 920,9</b>	<b>1 082 688,1</b>
<b>45 Cash funds and their equivalents as of the beginning of the period under report</b>	<b>740</b>		<b>x</b>	<b>2 639 343,5</b>
<b>46 Cash funds and their equivalents as of the beginning of the period under report</b>	<b>741</b>	<b>3,1</b>	<b>2 997 264,4</b>	<b>x</b>

Chairman of the Board

S. Kostyuchenko

Chief Accountant

V. Mantsivoda

Director of ALLC AUDITEL

A.I. Papkovsky

Translation from the original in Russian



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# Independent auditor's report on the summary consolidated financial statements of "Priorbank" JSC for the period from 1 January 2013 to 31 December 2013

To Chairman of the Management Board of the "Priorbank" JSC Mr. S. A. Kostyuchenko

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

The accompanying summary consolidated financial statements, which comprise the summary consolidated statement of financial position as of 31 December 2013, the summary consolidated income statement, summary consolidated statements of comprehensive income, of changes in equity and summary consolidated cash flow statement for the year then ended, are derived from the complete audited consolidated financial statements of "Priorbank" JSC and its subsidiaries (hereafter referred to as "Bank") for the year ended 31 December 2013. We expressed an unmodified audit opinion on those consolidated financial statements in our auditors' report dated 16 May 2014. Those consolidated financial statements, and the summary consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those consolidated financial statements.

The summary consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards applied in the preparation of the complete audited consolidated financial statements of the Bank. Reading the summary consolidated financial statements, therefore, is not a substitute for reading the complete audited consolidated financial statements of the Bank.

## Management's Responsibility for the Summary Consolidated Financial Statements

Management is responsible for the preparation of a summary of the audited consolidated financial statements on the basis described in the Note 1 to the summary consolidated financial statements of the Bank.

## Auditor's Responsibility

Our responsibility is to express an opinion on the summary consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

## Opinion

In our opinion, the summary consolidated financial statements derived from the complete audited consolidated financial statements of the Bank as at and for the year ended 31 December 2013 are consistent, in all material respects, with those consolidated financial statements.

P.A. Laschenko, Partner, FCCA, Director, Ernst & Young FLLC

16 May 2014

Translation from the original in Russian

## Summary consolidated statement of financial position as at 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

	2013	2012	2011
		Restated	Restated
<b>Assets</b>			
Cash and cash equivalents	3,308,721	3,670,158	4,643,209
Precious metals	4,375	7,391	13,231
Amounts due from credit institutions	156,195	334,600	139,964
Derivative financial assets	1,560,786	1,504,247	1,603,390
Loans to customers	12,238,642	11,146,402	11,041,426
Investment securities:			
- available-for-sale	41,164	29,443	23,384
- held-to-maturity	643,891	-	-
Property and equipment	1,049,015	999,256	896,437
Intangible assets	181,884	157,080	123,641
Current income tax assets	10	22,718	-
Deferred tax assets	78	-	-
Other assets	666,902	481,141	261,544
<b>Total assets</b>	<b>19,851,663</b>	<b>18,352,436</b>	<b>18,746,226</b>
<b>Liabilities</b>			
Amounts due to the National Bank of the Republic of Belarus	131	2,657	17,350
Amounts due to credit institutions	4,246,537	2,947,606	4,520,871
Derivative financial liabilities	1,478	33,852	4,476
Amounts due to customers	10,953,352	11,483,941	10,178,888
Amounts due to international financial institutions	248,406	118,477	233,817
Debt securities issued	229,468	309,060	649,946
Current income tax liabilities	16,967	6,315	146,315
Deferred tax liabilities	194,705	134,454	73,514
Provisions	6,964	24,733	68,699
Other liabilities	284,984	213,075	170,075
<b>Total liabilities</b>	<b>16,182,992</b>	<b>15,274,170</b>	<b>16,063,951</b>
<b>Equity</b>			
Share capital	2,552,949	2,552,949	2,552,949
Additional paid-in capital	1,659	1,659	1,659
Retained earnings	1,077,251	491,573	94,305
Revaluation reserve for the net pension liability	(45,313)	(25,085)	(4,368)
Other reserves	20,766	11,155	6,186
<b>Total equity attributable to shareholders of the Bank</b>	<b>3,607,312</b>	<b>3,032,251</b>	<b>2,650,731</b>
<b>Non-controlling interests</b>	<b>61,359</b>	<b>46,015</b>	<b>31,544</b>
<b>Total equity</b>	<b>3,668,671</b>	<b>3,078,266</b>	<b>2,682,275</b>
<b>Total equity and liabilities</b>	<b>19,851,663</b>	<b>18,352,436</b>	<b>18,746,226</b>

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

Sergey A. Kostyuchenko

Zoya P. Yarmosh

16 May 2014



Chairman of the Board

Executive Director

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.



Translation from the original in Russian

## Summary consolidated income statement for the year ended 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

	2013	2012
		Restated
<b>Interest income</b>		
Loans to customers	2,089,394	1,837,004
Cash and cash equivalents	71,091	124,014
Amounts due from credit institutions	20,887	25,592
Held-to-maturity securities	6,737	–
	<b>2,188,109</b>	<b>1,986,610</b>
Securities designated at fair value through profit or loss	14,091	31,265
	<b>2,202,200</b>	<b>2,017,875</b>
<b>Interest expense</b>		
Amounts due to customers	(728,374)	(874,025)
Amounts due to credit institutions	(192,434)	(188,029)
Debt securities issued	(57,228)	(63,548)
Amounts due to international financial institutions	(5,170)	(11,589)
Amounts due to the National Bank of the Republic of Belarus	(673)	(21)
	<b>(983,879)</b>	<b>(1,137,212)</b>
<b>Net interest income</b>	<b>1,218,321</b>	<b>880,663</b>
Reversal of allowance for loan impairment	93,699	196,790
<b>Net interest income after allowance for loan impairment</b>	<b>1,312,020</b>	<b>1,077,453</b>
Fee and commission income	942,517	861,794
Fee and commission expense	(259,963)	(234,655)
<b>Net fee and commission income</b>	<b>682,554</b>	<b>627,139</b>
Net gains from foreign currencies:		
- dealing	189,427	203,806
- translation differences	122,652	157,994
Other income	81,899	74,589
<b>Non-interest income</b>	<b>393,978</b>	<b>436,389</b>
Personnel expenses	(498,679)	(419,755)
Depreciation and amortization	(126,444)	(114,032)
Other operating expenses	(400,042)	(433,325)
Taxes other than income tax	(12,365)	(8,066)
Reversal of provisions	14,248	31,714
<b>Non-interest expenses</b>	<b>(1,023,282)</b>	<b>(943,464)</b>
Loss on net monetary position	(289,557)	(278,407)
<b>Income before income tax expense</b>	<b>1,075,713</b>	<b>919,110</b>
Income tax expense	(266,611)	(293,095)
<b>Profit for the year</b>	<b>809,102</b>	<b>(626,015)</b>
Attributable to:		
- shareholders of the Bank	793,758	611,544
- non-controlling interests	15,344	14,471
	<b>809,102</b>	<b>626,015</b>

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.

Translation from the original in Russian

## Summary consolidated statement of comprehensive income for the year ended 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

	2013	2012
<b>Profit for the year</b>	<b>809,102</b>	<b>626,015</b>
<b>Other comprehensive income</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Unrealized gains on investment securities available-for-sale	11,721	6,060
Income tax effect	(2,110)	(1,091)
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>9,611</b>	<b>4,969</b>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on defined pension plans	(24,668)	(25,265)
Income tax effect	4,440	4,548
<b>Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods</b>	<b>(20,228)</b>	<b>(20,717)</b>
<b>Other comprehensive loss for the year, net of tax</b>	<b>(10,617)</b>	<b>(15,748)</b>
<b>Total comprehensive income for the year</b>	<b>798,485</b>	<b>610,267</b>
Attributable to:		
- shareholders of the Bank	783,141	595,796
- non-controlling interests	15,344	14,471
	<b>798,485</b>	<b>610,267</b>

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.

Translation from the original in Russian

## Summary consolidated statement of changes in equity for the year ended 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

	Attributable to shareholders of the Bank							
	Share capital	Additional paid-in capital	Retained earnings	Revaluation reserve for the net pension liability	Other reserves	Total	Non-controlling interests	Total equity
<b>At 31 December 2011</b>	<b>2,552,949</b>	<b>1,659</b>	<b>97,517</b>	<b>–</b>	<b>6,186</b>	<b>2,658,311</b>	<b>31,544</b>	<b>2,689,855</b>
Changes in accounting policies	–	–	(3,212)	(4,368)	–	(7,580)	–	(7,580)
<b>At 31 December 2011 (restated)</b>	<b>2,552,949</b>	<b>1,659</b>	<b>94,305</b>	<b>(4,368)</b>	<b>6,186</b>	<b>2,650,731</b>	<b>31,544</b>	<b>2,682,275</b>
Profit for the year (restated)	–	–	611,544	–	–	611,544	14,471	626,015
Other comprehensive income/(loss) for the year	–	–	–	(20,717)	4,969	(15,748)	–	(15,748)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>611,544</b>	<b>(20,717)</b>	<b>4,969</b>	<b>595,796</b>	<b>14,471</b>	<b>610,267</b>
Dividends to shareholders of the Bank	–	–	(214,276)	–	–	(214,276)	–	(214,276)
<b>At 31 December 2012</b>	<b>2,552,949</b>	<b>1,659</b>	<b>491,573</b>	<b>(25,085)</b>	<b>11,155</b>	<b>3,032,251</b>	<b>46,015</b>	<b>3,078,266</b>
Profit for the year	–	–	793,758	–	–	793,758	15,344	809,102
Other comprehensive income/(loss) for the year	–	–	–	(20,228)	9,611	(10,617)	–	(10,617)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>793,758</b>	<b>(20,228)</b>	<b>9,611</b>	<b>783,141</b>	<b>15,344</b>	<b>798,485</b>
Dividends to shareholders of the Bank	–	–	(208,080)	–	–	(208,080)	–	(208,080)
<b>At 31 December 2013</b>	<b>2,552,949</b>	<b>1,659</b>	<b>1,077,251</b>	<b>(45,313)</b>	<b>20,766</b>	<b>3,607,312</b>	<b>61,359</b>	<b>3,668,671</b>

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.

Translation from the original in Russian

## Summary consolidated statement of cash flows for the year ended 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

	2013	2012
		Restated
<b>Cash flows from operating activities</b>		
Interest received	2,137,451	2,032,096
Interest paid	(985,610)	(1,141,048)
Fees and commissions received	939,060	843,723
Fees and commissions paid	(259,926)	(231,191)
Gains less losses from dealing in foreign currencies	79,130	230,130
Other income received	80,924	74,515
Personnel expenses paid	(486,561)	(393,477)
Other operating expenses paid	(386,137)	(388,016)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>1,118,331</b>	<b>1,026,732</b>
<b>Net (increase)/decrease in operating assets</b>		
Amounts due from credit institutions	185,851	(219,593)
Loans to customers	(1,523,429)	(1,611,164)
Precious metals and other assets	(243,741)	(248,126)
<b>Net increase/(decrease) in operating liabilities</b>		
Amounts due to the National Bank of the Republic of Belarus	(2,148)	(11,586)
Amounts due to credit institutions	1,329,455	(869,688)
Amounts due to international financial institutions	118,162	(76,338)
Amounts due to customers	337,983	2,848,049
Other liabilities	56,054	7,748
<b>Net cash flows from operating activities before income tax</b>	<b>1,376,518</b>	<b>846,034</b>
Income tax paid	(153,941)	(352,218)
<b>Net cash from operating activities</b>	<b>1,222,577</b>	<b>493,816</b>
<b>Cash flows from investing activities</b>		
Purchase of investment securities	(618,354)	–
Proceeds from sale of property and equipment and intangible assets	16,327	9,101
Purchase of property and equipment and intangible assets	(237,730)	(302,370)
<b>Net cash used in investing activities</b>	<b>(839,757)</b>	<b>(293,269)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of debt securities	92,980	159,810
Redemption of debt securities	(125,936)	(341,717)
Dividends paid to shareholders of the Bank	(197,452)	(204,111)
<b>Net cash used in financing activities</b>	<b>(230,408)</b>	<b>(386,018)</b>
Effect of exchange rate changes on cash and cash equivalents	50,044	73,364
<b>Net increase in cash and cash equivalents</b>	<b>202,456</b>	<b>(112,107)</b>
Effect of inflation on monetary items	(563,893)	(860,944)
<b>Cash and cash equivalents at 1 January</b>	<b>3,670,158</b>	<b>4,643,209</b>
<b>Cash and cash equivalents at 31 December</b>	<b>3,308,721</b>	<b>3,670,158</b>

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.

Translation from the original in Russian

## Note 1 to the summary consolidated financial statements for the year ended 31 December 2013

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2013)

### The basis of presentation of the summary consolidated financial statements of "Priorbank" JSC

#### General statements

The summary consolidated financial statements of the Bank have been prepared following the accepted practice.

The summary consolidated financial statements of the Bank have been prepared on the basis of the complete audited consolidated financial statements and consist of the summary consolidated statement of financial position as at 31 December 2013, the summary consolidated income statement, summary consolidated statements of comprehensive income, of changes in equity and summary consolidated cash flow statement for the year then ended. The consolidated financial statements of the Bank used for preparation of the summary consolidated financial statements have been prepared on the basis of and in accordance with the accounting policy used for preparation of the full package of the Bank's audited consolidated financial statements.

A complete set of audited consolidated financial statements prepared in accordance with International Financial Reporting Standards is available at request from the Bank.

# Priorbank's Network as of January 1<sup>st</sup>, 2014



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# Raiffeisen Bank International at a glance

## A leading bank in Central and Eastern Europe, including Austria

Priobank JSC is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For more than 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 15 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Over time, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also boasts a comprehensive product offering. At the end of 2013 around 55,000 staff served approximately 14,6 million customers in around 3,000 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world's financial centres and operates branches and representative offices in Asia. All in all, RBI employs about 58,000 staff and has total assets of around € 131 billion.

## RBI operates subsidiary banks in the following CEE markets:

Albania	Raiffeisen Bank Sh.a.
Belarus	Priobank JSC
Bosnia and Herzegovina	Raiffeisen Bank d.d. Bosna i Hercegovina
Bulgaria	Raiffeisenbank (Bulgaria) EAD
Croatia	Raiffeisenbank Austria d.d.

Czech Republic  
Hungary  
Kosovo  
Poland  
Romania  
Russia  
Serbia  
Slovakia  
Slovenia  
Ukraine

Raiffeisenbank a.s.  
Raiffeisen Bank Zrt.  
Raiffeisen Bank Kosovo J.S.C.  
Raiffeisen Bank Polska S.A.  
Raiffeisen Bank S.A.  
ZAO Raiffeisenbank  
Raiffeisen banka a.d.  
Tatra banka, a.s.  
Raiffeisen Banka d.d.  
Raiffeisen Bank Aval JSC

As the parent company of these banks, RBI's shareholding in them is at or near to 100 per cent in most cases.

## RBI's development

RZB was founded in 1927 as "Genossenschaftliche Zentralbank". Raiffeisen established its first subsidiary bank in Central and Eastern Europe already back in 1987. Other own subsidiaries have since been established. From 2000 onward, Raiffeisen's expansion into CEE countries has mainly been achieved by acquiring existing banks and subsequently combining them into a holding company that from 2003 operated under the name Raiffeisen International. In April 2005 Raiffeisen International was listed on the stock exchange in order to finance its future growth efficiently. Today's RBI was established in 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB).

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares as of 31 December 2013. The remaining approximate 21.5 per cent of RBI's shares were in free float. Due to the capital increase at the beginning of 2014, the free float rose significantly to about 39.3 per cent after RZB waived its subscription rights and participated in the amount of just € 750 million. As of the editorial deadline RZB held 60.7 per cent of RBI's shares.

# Raiffeisen Glossary

## Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

## Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. In CEE, RBI operates as a universal bank through a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 15 markets. At the end of 2013 around 55,000 staff served approximately 14,6 million customers in around 3,000 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world's financial centres

and operates branches and representative offices in Asia. All in all, RBI employs about 58,000 staff and has total assets of approximately € 131 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares as of 31 December 2013. The remaining approximate 21.5 per cent of RBI's shares were in free float. Due to the capital increase at the beginning of 2014, the free float rose significantly to about 39.3 per cent after RZB waived its subscription rights and participated in the amount of just € 750 million. As of the editorial deadline RZB held 60.7 per cent of RBI's shares.

## RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between RBG and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

## RZB Group

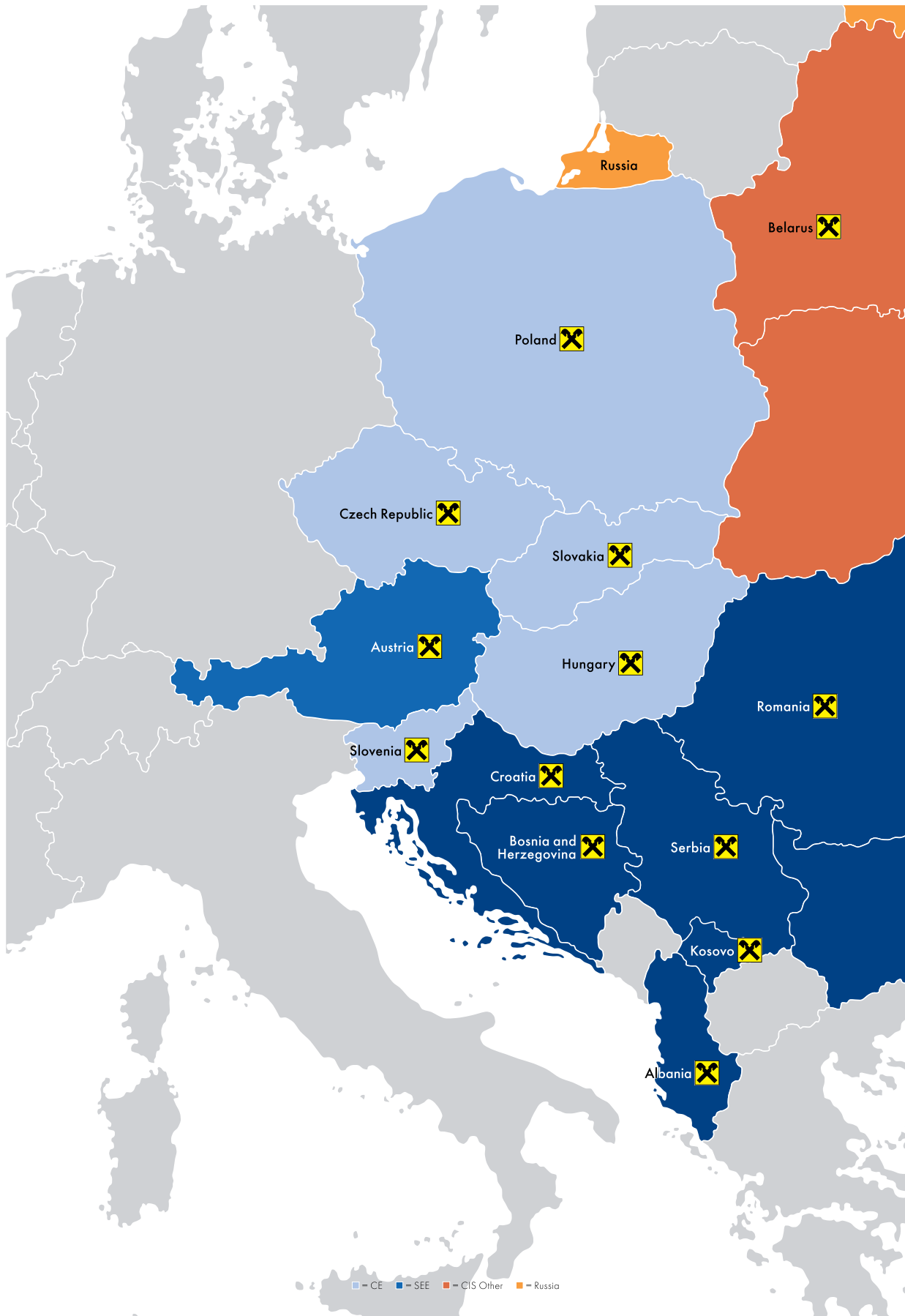
The Group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

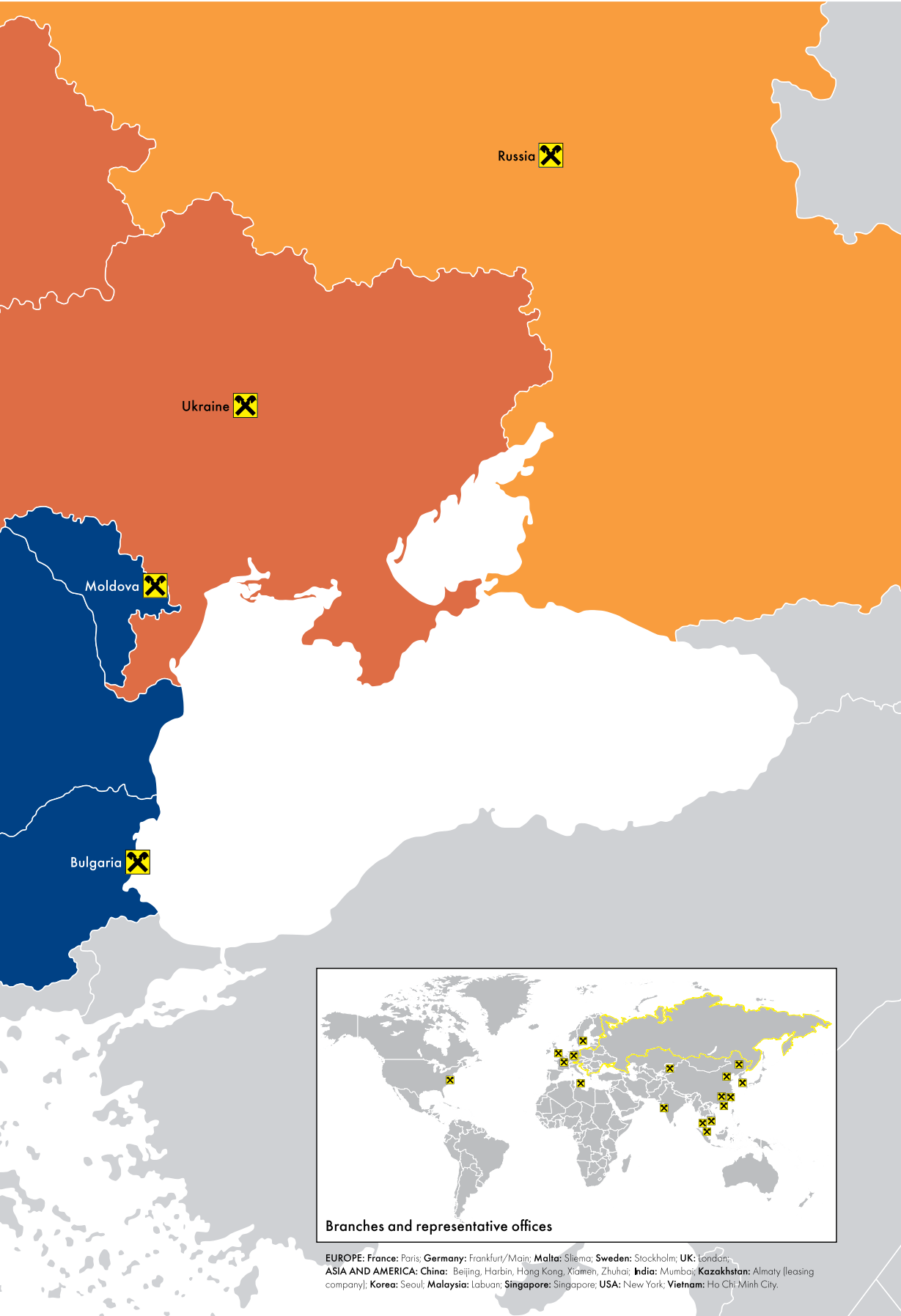
## Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria's largest banking group by total assets. As per year-end 2012, RBG's consolidated balance-sheet total amounted to more than € 291 billion. It represents about a quarter of all banking business in Austria and comprises the country's largest banking network with 2,285 business outlets and more than 29,700 employees. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its

group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as universal banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 90 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer Friedrich Wilhelm Raiffeisen (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.





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Unknown author. Pictures for "Batleika" (1928)  
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