Translation from the original in Russian

"Priorbank" JSC

Consolidated financial statements

Year ended 31 December 2013
Together with independent auditors' report

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Translation from the original in Russian

Совершенствуя бизнес, улучшаем мир

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Independent auditor's report on the 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
S. A. Kostyuchenko

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

We have audited the accompanying consolidated financial statements of “Priorbank” JSC and its subsidiaries (hereinafter the “Bank”), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes development, implementation and maintaining an appropriate system of internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or errors, and for selection and application of an appropriate accounting policy and reasonable estimates.

Auditors’ responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the Law of the Republic of Belarus "On Auditing Activity", Rules of auditing activity effective in the Republic of Belarus and with International Standards on Auditing. Those rules and standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

16 May 2014

Details of the audited entity

Name: Joint-Stock Company "Priorbank"
"Priorbank" JSC registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31A.

Details of the auditor

Name: Ernst & Young Foreign Limited Liability Company
Certificate of State Registration No. 577 issued by the Minsk City Executive Committee on 7 April 2005.
Address: Republic of Belarus 220004, Minsk, ul. Korolya, 51, 2d floor, Office 30

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)

	Notes	*2013*	*2012 Restated*	*2011 Restated*
Assets				
Cash and cash equivalents	6	3,308,721	3,670,158	4,643,209
Precious metals		4,375	7,391	13,231
Amounts due from credit institutions	7	156,195	334,600	139,964
Derivative financial assets	8	1,560,786	1,504,247	1,603,390
Loans to customers	9	12,238,642	11,146,402	11,041,426
Investment securities:				
- available-for-sale	11	41,164	29,443	23,384
- held-to-maturity	11	643,891	–	–
Property and equipment	12	1,049,015	999,256	896,437
Intangible assets	13	181,884	157,080	123,641
Current income tax assets		10	22,718	–
Deferred tax assets		78	–	–
Other assets	15	666,902	481,141	261,544
Total assets		**19,851,663**	**18,352,436**	**18,746,226**
Liabilities				
Amounts due to the National Bank of the Republic of Belarus		131	2,657	17,350
Amounts due to credit institutions	16	4,246,537	2,947,606	4,520,871
Derivative financial liabilities	8	1,478	33,852	4,476
Amounts due to customers	17	10,953,352	11,483,941	10,178,888
Amounts due to international financial institutions	18	248,406	118,477	233,817
Debt securities issued	19	229,468	309,060	649,946
Current income tax liabilities		16,967	6,315	146,315
Deferred tax liabilities	14	194,705	134,454	73,514
Provisions	10	6,964	24,733	68,699
Other liabilities	15	284,984	213,075	170,075
Total liabilities		**16,182,992**	**15,274,170**	**16,063,951**
Equity	20			
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
Total equity attributable to shareholders of the Bank		**3,607,312**	**3,032,251**	**2,650,731**
Non-controlling interests		**61,359**	**46,015**	**31,544**
Total equity		**3,668,671**	**3,078,266**	**2,682,275**
Total equity and liabilities		**19,851,663**	**18,352,436**	**18,746,226**

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

Sergey A. Kostyuchenko Chairman of the Board

Zoya P. Yarmosh Executive Director

16 May 2014

The accompanying notes on pages 6 to 55 are an integral part of these consolidated financial statements.

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)

	Notes	*2013*	*2012 Restated*
Interest income			
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	–
		2,188,109	**1,986,610**
Securities designated at fair value through profit or loss		14,091	31,265
		2,202,200	**2,017,875**
Interest expense			
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)
		(983,879)	**(1,137,212)**
Net interest income		**1,218,321**	**880,663**
Reversal of allowance for loan impairment	9	93,699	196,790
Net interest income after allowance for loan impairment		**1,312,020**	**1,077,453**
Fee and commission income		942,517	861,794
Fee and commission expense		(259,963)	(234,655)
Net fee and commission income	22	**682,554**	**627,139**
Net gains from foreign currencies:			
- dealing		189,427	203,806
- translation differences		122,652	157,994
Other income	23	81,899	74,589
Non-interest income		**393,978**	**436,389**
Personnel expenses	24	(498,679)	(419,755)
Depreciation and amortization	12,13	(126,444)	(114,032)
Other operating expenses	24	(400,042)	(433,325)
Taxes other than income tax		(12,365)	(8,066)
Reversal of provisions	10	14,248	31,714
Non-interest expenses		**(1,023,282)**	**(943,464)**
Loss on net monetary position		(289,557)	(278,407)
Income before income tax expense		**1,075,713**	**919,110**
Income tax expense	14	(266,611)	(293,095)
Profit for the year		**809,102**	**626,015**
Attributable to:			
- shareholders of the Bank		793,758	611,544
- non-controlling interests		15,344	14,471
		809,102	**626,015**

The accompanying notes on pages 6 to 55 are an integral part of these consolidated financial statements.

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)

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

The accompanying notes on pages 6 to 55 are an integral part of these consolidated financial statements.

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***
At 31 December 2011	**2,552,949**	**1,659**	**97,517**	**–**	**6,186**	**2,658,311**	**31,544**	**2,689,855**
Changes in accounting policies (Note 3)	–	–	(3,212)	(4,368)	–	(7,580)	–	(7,580)
At 31 December 2011 (restated)	**2,552,949**	**1,659**	**94,305**	**(4,368)**	**6,186**	**2,650,731**	**31,544**	**2,682,275**
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)
Total comprehensive income for the year	**–**	**–**	**611,544**	**(20,717)**	**4,969**	**595,796**	**14,471**	**610,267**
Dividends to shareholders of the Bank (Note 20)	–	–	(214,276)	–	–	(214,276)	–	(214,276)
At 31 December 2012	**2,552,949**	**1,659**	**491,573**	**(25,085)**	**11,155**	**3,032,251**	**46,015**	**3,078,266**
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)
Total comprehensive income for the year	**–**	**–**	**793,758**	**(20,228)**	**9,611**	**783,141**	**15,344**	**798,485**
Dividends to shareholders of the Bank (Note 20)	–	–	(208,080)	–	–	(208,080)	–	(208,080)
At 31 December 2013	**2,552,949**	**1,659**	**1,077,251**	**(45,313)**	**20,766**	**3,607,312**	**61,359**	**3,668,671**

The accompanying notes on pages 6 to 55 are an integral part of these consolidated financial statements.

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)

	Notes	*2013*	*2012 Restated*
Cash flows from operating activities			
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)
Cash flows from operating activities before changes in operating assets and liabilities		**1,118,331**	**1,026,732**
Net (increase)/ decrease in operating assets			
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)
Net increase/ (decrease) in operating liabilities			
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
Net cash flows from operating activities before income tax		**1,376,518**	**846,034**
Income tax paid		(153,941)	(352,218)
Net cash flows from operating activities		**1,222,577**	**493,816**
Cash flows from investing activities			
Purchase of investment securities		(618,354)	–
Proceeds from sale of property and equipment and intangible assets	12,13	16,327	9,101
Purchase of property and equipment and intangible assets	12,13	(237,730)	(302,370)
Net cash used in investing activities		**(839,757)**	**(293,269)**
Cash flows from financing activities			
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)
Net cash used in financing activities		**(230,408)**	**(386,018)**
Effect of exchange rates changes on cash and cash equivalents		50,044	73,364
Net increase in cash and cash equivalents		**202,456**	**(112,107)**
Effect of inflation on monetary items		(563,893)	(860,944)
Cash and cash equivalents at 1 January		**3,670,158**	**4,643,209**
Cash and cash equivalents at 31 December	6	**3,308,721**	**3,670,158**

The accompanying notes on pages 6 to 55 are an integral part of these consolidated financial statements.

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

1. Principal activities

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

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

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

As at 31 December 2013 and 2012, Priorbank had the following shareholding structure:

Shareholders	*2013* *%*	*2012* *%*
Raiffeisen CIS Region Holding GmbH	87.74	87.74
Other	12.26	12.26
Total	**100.00**	**100.00**

Raiffeisen Bank International AZ is the ultimate parent company of the Bank, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs Gmbh.

2. Basis of preparation

General

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

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

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

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

Inflation accounting

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

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

2. Basis of preparation (continued)

Inflation accounting (continued)

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

Year	*Index, %*	*Conversion coefficient*
2006	106.6	455.1
2007	112.1	406.0
2008	113.3	358.3
2009	110.1	325.5
2010	109.9	296.1
2011	208.7	141.9
2012	121.7	116.6
2013	116.6	100.0

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at 31 December 2013. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit as at 31 December 2013) are restated by applying the relevant index. The effect of inflation on the Bank's net monetary position is included in the consolidated income statement as loss on net monetary position.

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Belarusian ruble recorded in the income statement. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, which results in a loss on the net monetary position. This loss/gain is derived as the difference resulting from the restatement of non-monetary assets and liabilities, equity and items in the statement of comprehensive income. Corresponding figures for the year ended 31 December 2012 have also been restated so that they are presented in terms of the purchasing power of the Belarusian Ruble as at 31 December 2013.

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2012 and 2013

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

3. Summary of accounting policies

Changes in accounting policies

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements. The standard also introduces guidance on the issues raised in SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The adoption of IFRS 13 had no material impact on fair value measurement by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures relating to financial instruments in accordance with IAS 34.16A (j) are applied to the interim condensed consolidated financial statements.

Amendment to IAS 19 Employee Benefits

The IASB published amendments to IAS 19 *Employee Benefits*, which become effective for annual periods beginning on or after 1 January 2013. The amendments introduce major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments limit changes in the net pension assets (liabilities) recognized in profit or loss to net interest income (expense) and service costs. The amendments had an impact on the Bank's financial position.

In 2013 the Bank applied IAS 19 retrospectively, as required by transitional provisions of the revised standard. The opening statement of financial position as at the earliest reported comparative period (1 January 2012) and the comparative information were accordingly restated.

In addition, IAS 19 changes the methodology of defined pension plans accounting. Below are some changes which affected the Bank:

- The past service costs are recognized at the earlier of the date when the plan is changed or curtailed, or the date of recognition of related restructuring or severance costs. As a result the past service costs relating to which no rights were vested, can no more be allocated to future periods and recognized recognized in the future vesting period. Upon adoption of IAS 19 this balance was recognized as the reduction in the amount of equity as at 1 January 2012.

Interest income and expected return on plan assets used in the previous version of IAS 19, in the revised IAS 19 were replaced by the amount of net interest calculated by multiplying the advance rate by net defined benefit plan liability at the beginning of each annual reporting period.

IAS 19 also requires additional disclosures. These disclosures are included in Note 25.

IAS 19 was applied retrospectively with the following allowable exceptions:

- The carrying value of other liabilities was not adjusted for the purpose of recognition of changes in employee benefit expenses relating to expenses incurred before 1 January 2012;
- Information on sensitivity of defined benefit plan liability for the comparative period (year ended 31 December 2012) was not disclosed.

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The overall effect of retrospective restatement of comparative financial information as at 31 December 2011 and 31 December 2012 and for the year then ended is summarized below:

Financial statement item	*As previously reported (after restating in accordance with the purchasing power of the Belarusian ruble as of 31 December 2013)*	*Effect of retrospective application of IAS 19*	*Total (restated)*
Consolidated statement of financial position as at 31 December 2011			
Other liabilities	162,495	7,580	170,075
Retained earnings	97,517	(3,212)	94,305
Revaluation reserve for the net pension liability	–	(4,368)	(4,368)
Consolidated income statement for the year ended 31 December 2011			
Personnel expenses	(397,902)	(3,212)	(401,114)
Profit for the year	105,779	(3,212)	102,567
Consolidated statement of comprehensive income for the year ended 31 December 2011			
Profit for the year	105,779	(3,212)	102,567
Actuarial loss on defined pension plans	–	(4,368)	(4,368)
Total comprehensive income	115,613	(7,580)	108,033
Consolidated statement of financial position as at 31 December 2012			
Other liabilities	186,208	26,867	213,075
Retained earnings	493,354	(1,781)	491,573
Revaluation reserve for the net pension liability	–	(25,085)	(25,085)
Consolidated income statement for the year ended 31 December 2012			
Personnel expenses	(424,382)	4,627	(419,755)
Loss on net monetary position	(279,758)	1,351	(278,407)
Income tax expense	(288,547)	(4,548)	(293,095)
Profit for the year	624,585	1,430	626,015
Consolidated statement of comprehensive income for the year ended 31 December 2012			
Profit for the year	624,585	1,430	626,015
Actuarial loss on defined pension plans	–	(25,265)	(25,265)
Effect of income tax from actuarial loss on defined pension plans	–	4,548	4,548
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	(20,717)	(20,717)
Total comprehensive income	629,554	(19,287)	610,267

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings and actuarial loss on defined pension plans). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. A subsidiary controlled with less than a majority of voting rights can serve as an example. IFRS 12 disclosures are provided in Note 2.

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

- Amendment to IAS 1 *Clarification of the Requirement for Comparative Information*
- Amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*

Basis of consolidation

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

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

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

Fair value measurement

The Group measures financial instruments, such as available-for-sale securities, derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 27.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

3. Summary of accounting policies (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Financial assets

Initial recognition

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

Date of recognition

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

'Day 1' profit

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

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

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

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

Determination of fair value

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

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

Offsetting

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

Reclassification of financial assets

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

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

Cash and cash equivalents

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

Precious metals

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

Repurchase and reverse repurchase agreements and securities lending

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

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

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements and securities lending (continued)

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

Derivative financial instruments

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

Borrowings

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

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

Leases

i. Finance – Bank as lessor

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

ii. Operating – Bank as lessee

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

iii. Operating – Bank as lessor

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

Impairment of financial assets

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

Amounts due from credit institutions and loans to customers

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

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying value based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.
For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

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

Held-to-maturity financial investments

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to the consolidated statement of profit or loss.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

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

Renegotiated loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

Financial guarantees

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

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

Taxation

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

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

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

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

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

Property and equipment

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

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

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

	Years
Buildings	50
Furniture, fixtures and other	5-10

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

3. Summary of accounting policies (continued)

Property and equipment (continued)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

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

Provisions

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

Retirement and other employee benefit obligations

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

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

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

The past service costs are recognized in income statement at the earlier of

- when the defined benefit plan is changed or curtailed;
- and when the related restructuring costs are recognized.

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities. The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated income statement as personnel expenses.

- service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan;
- net interest gains or losses.

Share capital

Share capital

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

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

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

3. Summary of accounting policies (continued)

Share capital (continued)

Dividends

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

Segment reporting

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction.
Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Dividend income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates at 31 December 2013 and 2012 were 9,510 Belarusian rubles and 8,570 Belarusian rubles to 1 US dollar, respectively.

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank’s financial assets but will have no impact on the classification and measurement of the Bank’s financial liabilities. The Bank will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment entities

The amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirements for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not expected to have any impact on the Bank, since none of the Bank's entities qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments become effective for annual periods beginning on or after 1 January 2014. The amendments are deemed to have no impact on the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

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

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments become effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current reporting period. However, these amendments would be considered for future novations.

4. Significant accounting judgments and estimates

Estimation uncertainty

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

Allowance for impairment of loans and receivables

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

Assessment of payment liabilities under the “Seventh Line” pension plan

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

Fair value of financial instruments

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

5. Segment information

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

Retail banking – principally handling individual customers’ deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services.

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

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

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

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

5. Segment information (continued)

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

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2013 or 2012.

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

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

2013	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	668,200	1,417,667	116,333	**2,202,200**
Interest expense	(421,108)	(329,201)	(233,570)	**(983,879)**
Net interest income	**247,092**	**1,088,466**	**(117,237)**	**1,218,321**
Reversal/(charge) of allowance for loan impairment	(4,589)	98,288	–	**93,699**
Net interest income after allowance for loan impairment	**242,503**	**1,186,754**	**(117,237)**	**1,312,020**
Net fee and commission income	222,946	459,539	69	**682,554**
Net income/ (expense) from foreign exchange operations	80,523	(185,709)	417,265	**312,079**
Other non-interest income	–	52,922	28,977	**81,899**
Non-interest expense	(115,148)	(843,519)	(64,615)	**(1,023,282)**
Segment financial results	**430,824**	**669,987**	**264,459**	**1,365,270**
Loss on net monetary position				**(289,557)**
Income tax expense				**(266,611)**
Profit for the year				**809,102**
Assets and liabilities				
Segment assets	1,782,436	11,023,788	7,045,439	**19,851,663**
Total assets				**19,851,663**
Segment liabilities	5,014,712	3,089,210	8,079,070	**16,182,992**
Total liabilities				**16,182,992**
Other segment information				
Capital expenditure	34,279	7,686	185,720	**227,685**
Depreciation and amortization	(19,990)	(12,286)	(94,168)	**(126,444)**
Reversal of provisions	–	14,248	–	**14,248**

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

5. Segment information (continued)

2012	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	617,946	1,212,209	187,720	**2,017,875**
Interest expense	(497,629)	(376,295)	(263,288)	**(1,137,212)**
Net interest income	**120,317**	**835,914**	**(75,568)**	**880,663**
Reversal of allowance for loan impairment	27,937	168,853	–	**196,790**
Net interest income after allowance for loan impairment	**148,254**	**1,004,767**	**(75,568)**	**1,077,453**
Net fee and commission income/(expense)	211,479	422,319	(6,659)	**627,139**
Net income from foreign exchange operations	97,786	87,986	176,028	**361,800**
Other non-interest income	–	60,147	14,442	**74,589**
Non-interest expenses	(447,588)	(395,654)	(100,222)	**(943,464)**
Segment financial results	**9,931**	**1,179,565**	**8,021**	**1,197,517**
Loss on net monetary position				**(278,407)**
Income tax expense				**(293,095)**
Profit for the year				**626,015**
Assets and liabilities				
Segment assets	1,842,379	9,710,757	6,799,300	**18,352,436**
Total assets				**18,352,436**
Segment liabilities	5,396,366	6,086,763	3,791,041	**15,274,170**
Total liabilities				**15,274,170**
Other segment information				
Capital expenditure	11,400	4,584	63,174	**79,158**
Depreciation and amortization	(1,796)	(91,452)	(20,784)	**(114,032)**
Reversal of provisions	–	31,714	–	**31,714**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	1,060,745	1,004,054
Current accounts with credit institutions	740,331	618,148
Current accounts with the National Bank of the Republic of Belarus	1,301,266	1,471,682
Time deposits with credit institutions up to 90 days	206,379	576,274
Cash and cash equivalents	**3,308,721**	**3,670,158**

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2013	*2012*
Obligatory reserves with the National Bank of the Republic of Belarus	117,924	116,862
Time deposits for more than 90 days	38,271	217,738
Amounts due from credit institutions	**156,195**	**334,600**

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

7. Amounts due from credit institutions (continued)

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

As at 31 December 2013, the Bank had time deposits with four Belarusian banks (2012: two Belarusian banks).

8. Derivative financial instruments

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

	2013			*2012*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	principal	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Foreign exchange contracts (forwards and swaps)						
BYR-EUR contract with NBRB	2,289,000	1,560,786	–	2,313,927	1,503,812	–
EUR-USD contract with OECD bank	85,577	–	(1,362)	2,576,352	–	(32,483)
CHF-USD contract with OECD bank	14,809	–	(116)	26,331	–	(1,015)
USD-EUR contract with customer	–	–	–	162,491	–	(333)
EUR-USD contract with OECD bank	–	–	–	161,738	415	–
USD-EUR contract with OECD bank	–	–	–	17,189	–	(21)
EUR-GBP contract with OECD bank	–	–	–	4,828	–	–
USD-EUR contract with customer	–	–	–	3,930	17	–
BYR-USD contract with OECD bank	–	–	–	1,745	3	–
Total derivative assets / (liabilities)		**1,560,786**	**(1,478)**		**1,504,247**	**(33,852)**

As at 31 December 2013, the Bank had positions in the following types of derivatives:

Forwards

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

Swaps

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

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

9. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate lending	8,930,666	8,378,870
Small business lending	1,793,608	1,370,634
Consumer lending	1,542,481	1,545,088
Residential mortgages	239,956	297,291
Gross loans to customers	**12,506,711**	**11,591,883**
Less – Allowance for loan impairment	(268,069)	(445,481)
Loans to customers	**12,238,642**	**11,146,402**

As at 31 December 2013, the Bank had a concentration of loans represented by BYR 2,690,097 million due from the ten largest third party borrowers (22% of gross loan portfolio) (2012: BYR 29,828,189 million, or 24%). An allowance of BYR 20,878 million (2012: BYR 62,415 million) was recognized against these loans.

Loans have been extended to the following types of customers:

	2013	*2012*
Private companies	9,630,886	8,237,253
Individuals	1,782,437	1,842,379
State companies	1,093,388	1,512,251
Loans to customers	**12,506,711**	**11,591,883**

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

	2013	*2012*
Manufacturing:	5,439,355	5,027,797
Chemicals, rubber, plastics	1,119,994	929,250
Base metals production	1,045,551	851,233
Food, beverages, tobacco products	747,273	589,640
Other manufacturing	636,095	586,575
Transport facilities	470,887	500,999
Machinery, equipment	412,738	396,522
Coking coal and oil products	251,058	583,856
Electric equipment	225,056	155,033
Pulp and paper industry	208,520	197,098
Textile industry	192,396	127,441
Wood processing	129,787	110,150
Wholesale trade	1,967,840	1,784,378
Individuals	1,782,437	1,842,379
Retail trade	1,294,962	1,231,316
Transport	705,891	653,104
Construction	490,171	304,757
Real estate	299,439	358,799
Electrical energy, gas, water supply	85,669	73,896
Mineral development and extraction	–	23
Other	440,947	315,434
Loans to customers	**12,506,711**	**11,591,883**

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

9. Loans to customers (continued)

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

	Corporate lending 2013	*Small business lending 2013*	*Consumer lending 2013*	*Residential mortgages 2013*	*Total 2013*
At 31 December 2012	**226,976**	**102,024**	**76,739**	**39,742**	**445,481**
Gain on net monetary position	(32,313)	(14,525)	(10,924)	(5,659)	**(63,421)**
(Reversal) / charge for the year	(73,204)	(32,039)	15,100	(3,556)	**(93,699)**
Amounts written off	(4,779)	(6,871)	(8,642)	–	**(20,292)**
At 31 December 2013	**116,680**	**48,589**	**72,273**	**30,527**	**268,069**
Individual impairment	498	21,253	17,772	18,103	**57,626**
Collective impairment	116,182	27,336	54,501	12,424	**210,443**
	116,680	**48,589**	**72,273**	**30,527**	**268,069**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**4,919**	**27,997**	**17,772**	**18,103**	**68,791**

	Corporate lending 2012	*Small business lending 2012*	*Consumer lending 2012*	*Residential mortgages 2012*	*Total 2012*
At 31 December 2011	**420,268**	**193,085**	**148,316**	**52,298**	**813,967**
Gain on net monetary position	(74,935)	(34,428)	(26,446)	(9,325)	**(145,134)**
Reversal for the year	(118,357)	(50,495)	(24,707)	(3,231)	**(196,790)**
Amounts written off	–	(6,138)	(20,424)	–	**(26,562)**
At 31 December 2012	**226,976**	**102,024**	**76,739**	**39,742**	**445,481**
Individual impairment	10,604	37,739	30,239	26,186	**104,768**
Collective impairment	216,372	64,285	46,500	13,556	**340,713**
	226,976	**102,024**	**76,739**	**39,742**	**445,481**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**15,624**	**49,033**	**30,241**	**26,186**	**121,084**

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

9. Loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as at 31 December 2013, comprised BYR 2,892 million (2012: BYR 3,753 million).

Collateral and other credit risk enhancements

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

The main types of collateral obtained are as follows:

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

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

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

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2013 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	476,255	714,194	181,171	**1,371,620**
Unearned future finance income on finance leases	(108,836)	(153,402)	(28,885)	**(291,123)**
Net investments in finance leases	**367,419**	**560,792**	**152,286**	**1,080,497**

Finance lease receivables as at 31 December 2012 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	420,749	596,626	71,525	**1,088,900**
Unearned future finance income on finance leases	(85,843)	(113,426)	(9,322)	**(208,591)**
Net investments in finance leases	**334,906**	**483,200**	**62,203**	**880,309**

10. Provisions

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*	*Total*
31 December 2011	**1,152**	**67,546**	**68,698**
Gain on net monetary position	(205)	(12,046)	**(12,251)**
Reversal	–	(31,714)	**(31,714)**
31 December 2012	**947**	**23,786**	**24,733**
Gain on net monetary position	(135)	(3,386)	**(3,521)**
Charge/ (reversal)	1,559	(15,807)	**(14,248)**
31 December 2013	**2,371**	**4,593**	**6,964**

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11. Investment securities

As at 31 December 2013, securities held-to-maturity investment securities comprised bonds issued by the Ministry of Finance of the Republic of Belarus with amortized cost of BYR 643,891 million (2012: nil) maturing in February 2016. As at 31 December 2013, interest income of bonds denominated in foreign currency was 7% per annum.

As at 31 December 2013, available-for-sale investment securities comprised corporate shares of Visa Inc. with fair value of BYR 41,164 million (2012: BYR 29,443 million).

12. Property and equipment

The movements of property and equipment were as follows:

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2012	**751,379**	**827,865**	**1,579,244**
Additions	73,639	96,365	**170,004**
Disposals	(10,541)	(49,078)	**(59,619)**
At 31 December 2013	**814,477**	**875,152**	**1,689,629**
Accumulated depreciation			
At 31 December 2012	**(137,251)**	**(442,737)**	**(579,988)**
Depreciation	(15,000)	(73,546)	**(88,546)**
Disposals	485	27,435	**27,920**
At 31 December 2013	**(151,766)**	**(488,848)**	**(640,614)**
Net book value			
At 31 December 2012	**614,128**	**385,128**	**999,256**
At 31 December 2013	**662,711**	**386,304**	**1,049,015**

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2011	**664,353**	**763,330**	**1,427,683**
Additions	111,763	120,964	**232,727**
Disposals	(24,737)	(56,429)	**(81,166)**
At 31 December 2012	**751,379**	**827,865**	**1,579,244**
Accumulated depreciation			
At 31 December 2011	**(128,870)**	**(402,375)**	**(531,245)**
Depreciation	(11,554)	(71,177)	**(82,731)**
Disposals	3,173	30,815	**33,988**
At 31 December 2012	**(137,251)**	**(442,737)**	**(579,988)**
Net book value			
At 31 December 2011	**535,483**	**360,955**	**896,438**
At 31 December 2012	**614,128**	**385,128**	**999,256**

As at 31 December 2013, the Bank had fully depreciated furniture and fixtures that were still in use with a gross book value of BYR 232,699 million (2012: BYR 200,265 million).

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

13. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Other*	*Total*
Cost			
At 31 December 2012	**247,232**	**903**	**248,135**
Additions	67,137	589	**67,726**
Disposals	(7,115)	(353)	**(7,468)**
At 31 December 2013	**307,254**	**1,139**	**308,393**
Accumulated depreciation			
At 31 December 2012	**(90,848)**	**(207)**	**(91,055)**
Depreciation	(37,804)	(94)	**(37,898)**
Disposals	2,272	172	**2,444**
At 31 December 2013	**(126,380)**	**(129)**	**(126,509)**
Net book value			
At 31 December 2012	**156,384**	**696**	**157,080**
At 31 December 2013	**180,874**	**1,010**	**181,884**

	Computer software	*Other*	*Total*
Cost			
At 31 December 2011	**198,071**	**324**	**198,395**
Additions	69,018	626	**69,644**
Disposals	(19,857)	(47)	**(19,904)**
At 31 December 2012	**247,232**	**903**	**248,135**
Accumulated depreciation			
At 31 December 2011	**(74,605)**	**(153)**	**(74,758)**
Depreciation	(31,245)	(56)	**(31,301)**
Disposals	15,002	2	**15,004**
At 31 December 2012	**(90,848)**	**(207)**	**(91,055)**
Net book value			
At 31 December 2011	**123,466**	**171**	**123,637**
At 31 December 2012	**156,384**	**696**	**157,080**

14. Taxation

The corporate income tax expense comprises:

	2013	*2012*
Current tax charge	191,796	215,949
Deferred tax charge – origination and reversal of temporary differences	76,925	78,235
Less: deferred tax recognized in other comprehensive income	(2,110)	(1,089)
Income tax expense	**266,611**	**293,095**

Belarusian legal entities must file individual tax returns. In 2013 and 2012, statutory income tax rate for banks was 18%. In 2013 and 2012, statutory income tax rates for subsidiaries of "Priorbank" OJSC were 18%.

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

14. Taxation (continued)

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

	2013	*2012*
Profit before tax	**1,075,713**	**919,110**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**193,628**	**165,440**
Other tax exemptions and credits	(2,898)	651
Income of subsidiaries not subject to income tax	(4,096)	(3,850)
Non-deductible expenditures:		
- salaries and related expenses	15,955	16,247
- securities	–	5,768
- insurance	4,276	3,838
- translation differences	(6,801)	2,968
- consulting, advertising and representative expenses	2,260	2,261
- charity	2,807	2,236
- disposal of property and equipment	1,860	1,796
- depreciation and amortization	756	907
- maintenance and repairs	554	872
-provisions	924	572
- taxes other than income tax	295	229
- other	20,142	1,916
Loss on monetary position in respect of non-deductible expenses	(3,187)	(3,705)
Change in unrecognized deferred tax assets	852	(13)
Permanent differences in the indexation of hyperinflation	71,342	96,766
Reversal of statutory revaluation of property and equipment	(32,058)	(1,804)
Income tax expense	**266,611**	**293,095**

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14. Taxation (continued)

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

			Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	2011	*Net monetary position*	*In the income statement*	*In other comprehensive income*	*2012*	*Net monetary position*	*In the income statement*	*In other comprehensive income*	*2013*
Tax effect of deductible temporary differences									
Property and equipment	1,291	–	4,751	–	6,042	–	1,941	–	7,983
Loans to customers	2,419	–	1,619	–	4,038	–	(1,195)	–	2,843
Provisions	–	–	1,645	–	1,645	–	(458)	–	1,187
Other assets	24,338	–	(17,357)	–	6,981	–	(5,015)	–	1,966
Other liabilities	1,821	–	(782)	–	1,039	–	600	–	1,639
Deferred tax assets	**29,869**	**–**	**(10,124)**	**–**	**19,745**	**–**	**(4,127)**	**–**	**15,618**
Deferred tax assets not recognized in statement of financial position	(846)	–	(4,822)	–	(5,668)	–	(852)	–	(6,520)
Deferred tax asset, net amount	**29,023**	**–**	**(14,946)**	**–**	**14,077**	**–**	**(4,979)**	**–**	**9,098**
Tax effect of taxable temporary differences:									
Accrued income	(245)	–	212	–	(33)	–	33	–	–
Allowance for loan impairment	(33,307)	–	(351)	–	(33,658)	–	(65,111)	–	(98,769)
Fair value of available-for-sale securities	(7,043)	–	5,021	(1,089)	(3,111)	–	(1)	(2,110)	(5,222)
Amounts due from credit institutions	(406)	–	268	–	(138)	–	70	–	(68)
Provisions	(2,234)	–	(13,150)	–	(15,384)	–	3,171		(12,213)
Derivative financial assets	(4,389)	–	(13,191)	–	(17,580)	–	8,593	–	(8,987)
Loans to customers	(13,211)	–	(1,158)	–	(14,369)	–	11,224	–	(3,145)
Investments in subsidiaries	(6,242)	–	(6,273)	–	(12,515)	–	(845)	–	(13,360)
Other assets	(656)	–	656	–	–	–	(11,735)	–	(11,735)
Other liabilities	(29,632)	–	10,924	–	(18,708)	–	(8,782)	–	(27,490)
Property and equipment	(5,172)	–	(27,863)	–	(33,035)	–	10,299	–	(22,736)
Deferred tax liability	**(102,537)**	**–**	**(44,905)**	**(1,089)**	**(148,531)**	**–**	**(53,084)**	**(2,110)**	**(203,725)**
Net monetary position			(17,295)				(16,752)		
Deferred tax liabilities, net	**(73,514)**	**17,295**	**(77,146)**	**(1,089)**	**(134,454)**	**16,752**	**(74,815)**	**(2,110)**	**(194,627)**

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

15. Other assets and liabilities

Other assets comprise:

	2013	*2012*
Other financial assets		
Fees and commissions receivable	43,351	45,616
Settlements on currency conversion operations	188,079	144,698
	231,430	**190,314**
Other non-financial assets:		
Prepayments	109,062	89,773
Blocks of apartments owned by the Bank	109,257	90,657
Prepaid VAT and other prepaid taxes other than income tax	58,150	32,765
Other non-financial assets	159,003	77,632
	435,472	**290,827**
Total other assets	**666,902**	**481,141**

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

Other liabilities comprise:

	2013	*2012*
Other financial liabilities		
Salary and bonus payable	74,610	70,605
Defined benefit plan: pension liabilities (Note 25)	101,461	62,710
Trade and other payables	43,341	21,551
Pension liabilities payable by subsidiary to third parties	5,630	4,980
Other financial liabilities	37,230	37,099
	262,272	**196,945**
Other non-financial liabilities		
Tax liabilities (taxes other than income tax)	13,333	14,036
Other non-financial liabilities	9,379	2,094
	22,712	**16,130**
Total other liabilities	**284,984**	**213,075**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2013	*2012*
Current accounts	94,370	275,052
Time deposits and loans	4,152,167	2,672,554
Amounts due to credit institutions	**4,246,537**	**2,947,606**

As at 31 December 2013 time deposits and loans included amounts payable to the bank-founder comprising BYR 4,116,861 million (2012: BYR 2,572,608 million).

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

17. Amounts due to customers

Amounts due to customers include the following:

	2013	*2012*
Time deposits	5,759,787	6,573,772
Current accounts	5,193,565	4,910,169
Amounts due to customers	**10,953,352**	**11,483,941**
Held as collateral against letters of credit	**57,116**	**229,214**
Held as security against guarantees	**66,005**	**23,889**

At 31 December 2013, amounts due to customers of BYR 647,612 million (6%) were due to the five largest third-party customers (2012: BYR 922,438 million or 8%).

Included in time deposits are deposits of individuals in the amount of BYR 3,869,892 million (2012: BYR 4,283,399 million). In accordance with the Belarus Banking Code, the Bank is obliged to repay such deposits upon the demand of a depositor upon advance notification of five days before the expected withdrawal.

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

	2013	*2012*
Private companies	5,304,647	5,357,062
Individuals	5,014,712	5,396,366
State companies and budgetary organizations	633,993	730,513
Amounts due to customers	**10,953,352**	**11,483,941**

An analysis of customer accounts by economic sector is as follows:

	2013	*2012*
Individuals	5,014,712	5,396,366
Manufacturing:	1,268,313	1,226,239
Chemicals, rubber, plastics	362,830	185,102
Food, beverages, tobacco products	181,246	134,882
Coking coal and oil products	152,158	196,572
Base metals production	116,336	154,930
Electric equipment	98,415	84,301
Machinery, equipment	82,815	92,981
Wood processing	67,810	42,014
Pulp and paper industry	46,571	45,865
Transport facilities	14,655	75,994
Pharmaceuticals industry	11,179	36,074
Textile industry	8,833	18,718
Other manufacturing	125,465	158,806
Retail trade	1,117,723	775,580
Wholesale trade	619,957	942,092
Real estate	319,841	741,843
Transport	301,196	211,795
Construction	126,136	264,740
Mineral development and extraction	115,395	459,958
Electrical energy, gas, water supply	29,410	59,480
Other	2,040,669	1,405,848
Amounts due to customers	**10,953,352**	**11,483,941**

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

18. Amounts due to international credit institutions

Amounts due to international credit institutions consist of the following:

	2013	*2012*
Due to the European Bank for Reconstruction and Development ("EBRD")	229,697	59,524
Due to Dutch Development Bank ("FMO")	18,709	58,953
Amounts due to international credit institutions	**248,406**	**118,477**

19. Debt securities issued

	2013	*2012*
Non-documentary bonds	229,468	309,060
Debt securities issued	**229,468**	**309,060**

Non-documentary bonds denominated in Belarusian rubles in the amount of BYR 52,606 million (2012: BYR 162,883 million) mature in the period from 2014 to 2017 and bear interest rate tied to the NBRB refinancing rate, which is revised every three months, once the regular coupon payment has been made; at 31 December 2013, the interest rates on these bonds ranged from 21.5% to 24.5% (2012: 29%-31%).

Non-documentary bonds denominated in Euros, US dollars and Russian rubles in the amount of BYR 176,862 million (2012: BYR 146,177 million) mature in 2017. EUR-denominated bonds and USD-denominated bonds bear a fixed interest rate of 3.5%, RUB-denominated bonds - 6.89%, which are revised every three months.

20. Equity

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

	Number of shares		*Nominal value*		*Inflation*	
	Preferred	*Ordinary*	*Preferred*	*Ordinary*	*adjustment*	*Total*
31 December 2011, 2012 and 2013	**10,000**	**123,058,441**	**33**	**412,246**	**2,140,670**	**2,552,949**

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

At the shareholders' meeting in March 2013, the Bank declared dividends in respect of the year ended 31 December 2012 as follows: BYR 1,691 (2012: BYR 1,741) per ordinary share, BYR 1,953 (2012: BYR 2,376) per preferred share.

In total, the amount of dividends amounted to BYR 208,060 million (2012: BYR 214,254 million) on ordinary shares and BYR 19.5 million (2012: BYR 22 million) on preferred shares.

According to the Belarusian legislation, only retained earnings and unreserved profit can be distributed as dividends based on the financial statements prepared in accordance with NSFO. As at 31 December 2013, the Bank's non-distributable reserves totaled BYR 1,316,511 million (2012: BYR 1,013,943 million (not hyperinflated)). As at 31 December 2013, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYR 29,082 million (2012: BYR 23,570 million (not hyperinflated)).

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

20. Equity (continued)

Movements in other capital items

Movements in other capital items were as follows:

	Unrealized gains on investment securities available-for-sale	*Actuarial loss on defined pension plans*	*Total*
At 1 January 2012	**6,186**	**(4,368)**	**1,818**
Net unrealized gains on investments securities available-for-sale	6,060	–	6,060
Revaluation of defined pension plans	–	(25,265)	(25,265)
Tax effect of net gains on investment securities available-for-sale and revaluation of defined pension plans	(1,091)	4,548	3,457
At 31 December 2012	**11,155**	**(25,085)**	**(13,930)**
Net unrealized gains on available-for-sale investment securities	11,721	–	11,721
Revaluation of defined pension plans	–	(24,668)	(24,668)
Tax effect of net gains on investment securities available-for-sale and revaluation of defined pension plans	(2,110)	4,440	2,330
At 31 December 2013	**20,766**	**(45,313)**	**(24,547)**

Unrealized gains on investment securities available-for-sale

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

Actuarial loss on defined pension plans

This reserve reflects changes in actuarial calculations for the reporting period.

21. Commitments and contingencies

Operating environment

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

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

The significant financial support provided by Russia (extension of loans in 2011 and 2012 and participation in privatization of state assets at the end of 2011) and a positive foreign trade balance contributed to a significant increase in reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. The representatives of the Government and the National Bank believe that reserves as at 31 December 2012 were sufficient to preserve stability, avoid foreign currency deficit and satisfy the country's needs in external funds in the short- and medium-term. The official NBRB BYR exchange rate in 2012 remained virtually unchanged. The inflation rate in 2012 was 21.8%, the prime refinancing rate was reduced to 30% as at 31 December 2012.

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

21. Commitments and contingencies (continued)

Operating environment (continued)

The year 2013 demonstrated obvious signs of stabilization of the macroeconomic situation as compared to 2012. Inflation rate dropped to 16.5% in 2013. The basic refinancing rate was reduced to 23.5% as at 31 December 2013. The GDP grew by 0.9% in 2013. In the second half of 2013, the banking system faced liquidity crisis, which led to higher rates in Belarusian rubles at resource market against the beginning of 2013. In the first half of 2013, the official NBRB BYR exchange rate was relatively stable, however, in June the Belarusian ruble gradually weakened against major currencies. In December 2013, Russia provided additional financial support in the form of loan disbursement in the amount of US$ 2 billion, of which US$ 440 million was granted in late December. This had a positive effect on the rate policy at the end of the year.

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

Legal

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

Taxation

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

As at 31 December 2013 management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Financial commitments and contingencies

As at 31 December 2013, the Bank’s financial commitments and contingencies comprises the following:

	2013	*2012*
Credit-related commitments:		
Undrawn loan commitments	925,482	893,315
Letters of credit	283,674	718,568
Guarantees	1,006,286	1,216,711
	2,215,442	**2,828,594**
Lease commitments		
Not later than 1 year	16,897	14,187
1 to 5 years	18,832	14,262
Later than 5 years	**10,112**	**–**
	45,841	**28,449**
Less - Provisions	(4,593)	(23,786)
Financial commitments and contingencies (before deducting collateral)	**2,256,690**	**2,833,257**
Less: Cash held as security against letters of credit and guarantees	(123,121)	(253,103)
Financial commitments and contingencies	**2,133,569**	**2,580,154**

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

22. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Settlement transactions	705,079	622,431
Currency conversion operations	171,641	166,474
Guarantees and letters of credit	49,825	57,597
Agency services	12,425	12,281
Other	3,547	3,011
Fee and commission income	**942,517**	**861,794**
Settlement transactions	(229,526)	(200,074)
Guarantees	(19,761)	(23,235)
Currency conversion operations	(10,375)	(11,175)
Securities operations	(138)	(141)
Other	(163)	(30)
Fee and commission expense	**(259,963)**	**(234,655)**
Net fee and commission income	**682,554**	**627,139**

23. Other income

Other income comprises:

	2013	*2012*
Income from agriculture services	39,597	41,599
Income from rendering of services for office buildings maintenance	–	2,887
Income from operating lease	5,391	5,049
Income on debt previously written off	7,276	5,087
Income from additional services for finance lease agreements	35	1,818
Income from sale of property and equipment	975	71
Income from sale of constructed housing	863	1,483
Other	27,762	16,595
Total other income	**81,899**	**74,589**

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	369,652	321,995
Social security costs	101,953	87,530
Retirement benefits (Note 25)	24,978	8,005
Other employment taxes	2,096	2,225
Personnel expenses	**498,679**	**419,755**

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24. Personnel and other operating expenses (continued)

	2013	*2012*
Occupancy and rent	65,615	89,275
Deposit insurance fees	63,938	62,987
Data processing	59,153	53,075
Marketing and advertising	35,260	33,940
Plastic cards operations	30,895	27,459
Loss on disposal of property and equipment	21,371	43,049
Office supplies	21,274	22,337
Legal and consultancy	20,968	21,733
Transportation expenses	15,559	18,059
Communications	11,472	10,673
Repair and maintenance of equipment	7,107	7,391
Personnel training	5,358	5,995
Business travel and related expenses	5,344	6,722
Security	1,823	3,136
Expenses from additional leasing services	449	1,866
Other	34,456	25,628
Other operating expenses	**400,042**	**433,325**

25. Post-employment benefits

Defined benefit plan

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

Liability according to a defined plan with stated payment is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

Net benefit expense (recognized under personnel expenses):

	2013	*2012*
Current service cost	7,555	4,761
Interest cost on benefit obligation	8,130	3,244
Past service cost	9,293	–
Net benefit expense (Note 24)	**24,978**	**8,005**

Retirement benefit liability

	2013	*2012*
Retirement benefit liability (Note 15)	**(101,461)**	**(62,710)**

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

25. Post-employment benefits (continued)

Defined benefit plan (continued)

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

	2013	***2012***
Opening defined benefit obligation	62,710	31,337
Current service cost	7,555	4,761
Interest expense	8,130	3,244
Increase of obligations due to changes in pension plan terms	9,293	–
Actuarial (gains)/losses arising from changes in demographic assumptions	12,521	(1,707)
Actuarial losses arising from changes in finance assumptions	8,758	13,721
Current regulating amendments	3,389	13,251
Benefits paid	(1,967)	(1,897)
Gain on net monetary position	(8,928)	–
Closing defined benefit plan obligation	**101,461**	**62,710**

Changes in plan obligations:

	2013	***2012***
Opening plan obligation	(62,710)	(31,337)
Net benefit expense	(24,978)	(8,005)
Revaluation of defined benefit plans recognized in other comprehensive income	(24,668)	(25,265)
Benefits paid	1,967	1,897
Gain on net monetary position	8,928	–
Closing defined benefit obligation	**(101,461)**	**(62,710)**

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

	2013	***2012***
Discount rate	17.5%	7.1%
Future inflation rate	11.7%	–

The average term of defined benefit plan obligations at the end of the reporting period was 14.3 years (2012: 9.5 years).

The best estimate of the amounts of the employer's contributions to be paid in the annual period, after the estimation date amounted to BYR 1,845 million (2012: BYR 3,798 million).

Sensitivity analysis

	Changes in assumptions	***Effect on the benefit obligation***
Discount rate	+ / - 1 pp	12,040
Future inflation rate	+ / - 1 pp	3,682
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / - 0.5 pp	863

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26. Risk management

Introduction

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

Risk management structure

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

Supervisory Board

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

Executive Committee

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

Management Board

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

Risk committee, Credit committee, Financial committee and Problem loans committee

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

Risk management

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

Bank's treasury

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

Internal audit

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

Risk measurement and reporting systems

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

26. Risk management (continued)

Introduction (continued)

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

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

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

Regular meetings are held with Risk committee, Credit committee, Financial committee and Problem loans committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

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

Credit risk

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

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

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26. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

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

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

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

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

Credit quality per class of financial assets

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

High grade: customers with credit rating 1C-4C (corporate customers and average customers with the limit over EUR 1.5 million) and 4B-6A (average customers) - good profitability; has sufficient equity, the probability that the repayment of debt - is very high in the long run.

Standard grade: customers with credit rating 5A-5C (corporate customers and average customers with the limit over EUR 1.5 million) and 6B-7A (average customers) - stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in medium term.

Sub-standard grade: customers with credit rating 6A-9C (corporate customers and average customers with the limit over EUR 1.5 million) and 7B-9B (average customers) - low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations.

Individually impaired loans: customers with credit rating 10A-10C (default. Financial obligations cannot be promptly and fully fulfilled).

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26. Risk management (continued)

Credit risk (continued)

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

		Neither past due nor individually impaired						
	Notes	***High grade 2013***	***Standard grade 2013***	***Sub-standard grade 2013***	***Not rated***	***Past due but not individually impaired 2013***	***Individually impaired 2013***	***Total 2013***
Cash and cash equivalents (net of cash on hand)	6	412,419	1,835,557	–	–	–	–	**2,247,976**
Amounts due from credit institutions	7	117,924	38,271	–	–	–	–	**156,195**
Derivative financial assets	8	–	1,560,786	–	–	–	–	**1,560,786**
Investment securities available-for-sale	11	–	41,164	–	–	–	–	**41,164**
Investment securities held-to-maturity	11	–	643,891	–	–	–	–	**643,891**
Loans to customers:	9							
Corporate lending		1,160,251	2,131,463	5,479,629	–	154,404	4,919	**8,930,666**
Small business lending		111,234	571,816	770,690	287,188	24,684	27,996	**1,793,608**
Consumer lending		–	–	–	1,471,021	53,688	17,772	**1,542,481**
Residential mortgages		–	–	–	212,216	9,637	18,103	**239,956**
		1,271,485	**2,703,279**	**6,250,319**	**1,970,425**	**242,413**	**68,790**	**12,506,711**
Other assets	15	–	231,430	–		–	–	**231,430**
Total		**1,801,828**	**7,054,378**	**6,250,319**	**1,970,425**	**242,413**	**68,790**	**17,388,153**

		Neither past due nor individually impaired						
	Notes	***High grade 2012***	***Standard grade 2012***	***Sub-standard grade 2012***	***Not rated***	***Past due but not individually impaired 2012***	***Individually impaired 2012***	***Total 2012***
Cash and cash equivalents	6	692,535	1,973,569	–	–	–	–	**2,666,104**
Amounts due from credit institutions	7	116,862	217,738	–	–	–	–	**334,600**
Derivative financial assets	8	–	1,504,247	–	–	–	–	**1,504,247**
Investment securities available-for-sale	11	–	29,443	–	–	–	–	**29,443**
Loans to customers:	9							
Corporate lending		1,077,501	4,878,248	2,406,885	–	612	15,624	**8,378,870**
Small business lending		48,324	341,674	742,448	173,189	15,966	49,033	**1,370,634**
Consumer lending		–	–	–	1,480,832	34,015	30,241	**1,545,088**
Residential mortgages		–	–	–	259,970	11,135	26,186	**297,291**
		1,125,825	**5,219,922**	**3,149,333**	**1,913,991**	**61,728**	**121,084**	**11,591,883**
Other assets	15	–	190,314	–		–	–	**190,314**
Total		**1,935,222**	**9,135,233**	**3,149,333**	**1,913,991**	**61,728**	**121,084**	**16,316,591**

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26. Risk management (continued)

Credit risk (continued)

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

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

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

	Less than 30 days 2013	***31 to 90 days 2013***	***More than 90 days 2013***	***Total 2013***
Loans to customers				
Corporate lending	61,240	93,165	–	**154,405**
Small business lending	22,225	1,410	1,048	**24,683**
Consumer lending	34,781	12,397	6,510	**53,688**
Residential mortgages	3,935	4,970	732	**9,637**
Total	**122,181**	**111,942**	**8,290**	**242,413**

	Less than 30 days 2012	***31 to 90 days 2012***	***More than 90 days 2012***	***Total 2012***
Loans to customers:				
Corporate lending	612	–	–	**612**
Small business lending	4,565	11,098	303	**15,966**
Consumer lending	24,908	5,909	3,198	**34,015**
Residential mortgages	5,178	2,798	3,159	**11,135**
Total	**35,263**	**19,805**	**6,660**	**61,728**

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

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

26. Risk management (continued)

Credit risk (continued)

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

Geographical risk concentration

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

	2013				*2012*			
	Belarus	***OECD***	***CIS and other foreign banks***	***Total***	***Belarus***	***OECD***	***CIS and other foreign banks***	***Total***
Assets								
Cash and cash equivalents	2,684,075	385,266	239,380	**3,308,721**	2,856,727	639,951	173,480	**3,670,158**
Amounts due from credit institutions	156,195	–	–	**156,195**	334,600	–	–	**334,600**
Derivative financial assets	1,560,786	–	–	**1,560,786**	1 503 828	416	3	**1,504,247**
Loans to customers	12,238,642	–	–	**12,238,642**	11,146,402	–	–	**11,146,402**
Investment securities available-for-sale	–	41,164	–	**41,164**	–	29,443	–	**29,443**
Investment securities held-to-maturity	643,891	–	–	**643,891**	–	–	–	**–**
Other assets	231,430	–	–	**231,430**	190,314	–	–	**190,314**
	17,515,019	**426,430**	**239,380**	**18,180,829**	**16,031,871**	**669,810**	**173,483**	**16,875,164**
Liabilities								
Amounts due to the National Bank of the Republic of Belarus	131	–	–	**131**	2,657	–	–	**2,657**
Amounts due to credit institutions	55,707	4,143,492	47,338	**4,246,537**	241,915	2,527,611	133,080	**2,947,606**
Derivative financial liabilities	–	1,478	–	**1,478**	333	33,519	–	**33,852**
Amounts due to customers	10,529,735	238,648	184,969	**10,953,352**	11,142,711	175,696	165,534	**11,483,941**
Amounts due to international credit institutions	–	248,406	–	**248,406**	–	118,477	–	**118,477**
Debt securities issued	229,468	–	–	**229,468**	309,060	–	–	**309,060**
Other liabilities	256,287	5,748	237	**262,272**	196,945	–	–	**196,945**
	11,071,328	**4,637,772**	**232,544**	**15,941,644**	**11,893,621**	**2,900,303**	**298,614**	**15,092,538**
Net assets and liabilities	**6,443,691**	**(4,211,342)**	**6,836**	**2,239,185**	**4,138,250**	**(2,230,493)**	**(125,131)**	**1,782,626**

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

26. Risk management (continued)

Liquidity risk and funding management

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

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

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

	NBRB required minimum ratio value	*2013*	*2012*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	145.9%	102.5%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity or liabilities repayable within one year)	1.0	1.8	1.0
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	325.2%	179.6%
The Bank's liquidity and total assets ratio	20.0%	31.6%	27.2%

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2013	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to NBRB	131	–	–	–	–	**131**
Amounts due to credit institutions	96,576	331,844	2,103,239	1,948,415	–	**4,480,074**
Derivative financial instruments:						
• Contractual amounts payable	–	103,868	337,978	420,060	–	**861,906**
• Contractual amounts receivable	–	(102,387)	(981,000)	(1,308,000)	–	**(2,391,387)**
Amounts due to customers	5,193,416	2,488,721	1,947,046	1,497,333	3,051	**11,129,567**
Amounts due to international financial institutions	12	63,731	50,641	99,256	–	**213,640**
Debt securities issued	–	5,844	64,803	209,003	–	**279,650**
Other liabilities	915	–	261,357	–	–	**262,272**
Total undiscounted financial liabilities	**5,291,050**	**2,891,621**	**3,784,064**	**2,866,067**	**3,051**	**14,835,853**

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

26. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As at 31 December 2012	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to NBRB	2,657	−	−	−	−	**2,657**
Amounts due to credit institutions	274,179	610,703	1,661,145	541,350	−	**3,087,377**
Derivative financial instruments:						
• Contractual amounts payable	−	2,987,676	−	883,872	−	**3,871,548**
• Contractual amounts receivable	−	(2,954,603)	−	(2,313,927)	−	**(5,268,530)**
Amounts due to customers	5,175,167	4,199,566	1,470,350	819,534	6,446	**11,671,063**
Amounts due to international financial institutions	295	21,012	63,272	40,164	−	**124,743**
Debt securities issued	−	14,067	115,414	332,718	−	**462,199**
Other liabilities	845	196,100	−	−	−	**196,945**
Total undiscounted financial liabilities	**5,453,143**	**5,074,521**	**3,310,181**	**303,711**	**6,446**	**14,148,002**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2013	2,220,146	12,193	18,832	10,112	**2,261,283**
2012	2,832,685	10,096	14,263	−	**2,857,044**

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

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

Market risk

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

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the non-fixed rate non-trading financial assets and financial liabilities held as at 31 December 2013 and 2012. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, as at 31 December 2013 and 2012 for the effects of the assumed changes in interest rates.

Currency	***Increase in basis points 2013***	***Sensitivity of net interest income 2013***	***Sensitivity of equity less effect on net interest 2013***
BYR	+50 b.p.	3,081	−
EUR	+50 b.p.	4,202	−
USD	+50 b.p.	9,720	206

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

26. Risk management (continued)

Market risk (continued)

Currency	*Decrease in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of equity less effect on net interest 2013*
BYR	-50 b.p.	(3,081)	–
EUR	-50 b.p.	(4,202)	–
USD	-50 b.p.	(9,720)	(206)

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity less effect on net interest 2012*
BYR	+50 b.p.	3,895	–
EUR	+50 b.p.	6,814	–
USD	+50 b.p.	9,494	147

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity less effect on net interest 2012*
BYR	-50 b.p.	(3,895)	–
EUR	-50 b.p.	(6,814)	–
USD	-50 b.p.	(9,494)	(147)

Currency risk

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

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rates against the Belarusian ruble, with all other variables held constant on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity; meanwhile the positive amounts reflect the potentially possible increase.

Currency	*Change in currency rate in %, 2013*	*Effect on profit before tax 2013*	*Change in currency rate in %, 2012*	*Effect on profit before tax 2012*
USD	32.48	354,311	34.01	259,854
USD	-32.48	(354,311)	-34.01	(259,854)
EUR	33.90	246,025	32.08	200,208
EUR	-33.90	(246,025)	-32.08	(200,208)

Prepayment risk

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

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

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26. Risk management (continued)

Operational risk

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

27. Fair value of financial instruments

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

	Carrying value 2013	*Fair value 2013*	*Unrecognized gain/ (loss) 2013*	*Carrying value 2012*	*Fair value 2012*	*Unrecognized gain/ (loss) 2012*
Financial assets						
Cash and cash equivalents	3,308,721	3,308,721	–	3,670,158	3,670,158	–
Amounts due from credit institutions	156,195	156,195	–	334,600	334,600	–
Loans to customers	12,238,642	12,308,311	69,669	11,146,402	11,205,337	58,935
Other financial assets	231,430	231,430	–	190,314	190,314	–
Financial liabilities						
Amounts due to the National Bank of the Republic of Belarus	131	131	–	2,657	2,657	–
Amounts due to credit institutions	4,246,537	4,246,537	–	2,947,606	2,947,606	–
Amounts due to customers	10,953,352	10,953,352	–	11,483,941	11,483,941	–
Amounts due to international financial institutions	248,406	248,406	–	118,477	118,477	–
Debt securities issued	229,468	229,468	–	309,060	309,060	–
Other financial liabilities	262,272	262,272	–	196,945	196,945	–
Total unrecognized change in unrealized fair value			**69,669**			**58,935**

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

Assets for which fair value approximates carrying amount

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

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27. Fair value of financial instruments (continued)

Fixed rate and variable rate financial instruments

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

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

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

Financial instruments recorded at fair value

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

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	–	1,560,786	**1,560,786**
Investment securities available-for-sale	41,164	–	–	**41,164**
	41,164	**–**	**1,560,786**	**1,601,950**
Financial liabilities				
Derivative financial liabilities	–	1,478	–	**1,478**
	–	**1,478**	**–**	**1,478**

At 31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	435	1,503,812	**1,504,247**
Investment securities available-for-sale	29,443	–	–	**29,443**
	29,443	**435**	**1,503,812**	**1,533,690**
Financial liabilities				
Derivative financial liabilities	–	33,852	–	**33,852**
	–	**33,852**	**–**	**33,852**

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27. Fair value of financial instruments (continued)

The following table shows an analysis of financial assets and liabilities for which fair values are disclosed by level of the fair value hierarchy:

31 December 2013	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	–	–	3,308,721	**3,308,721**
Amounts due from credit institutions	–	–	156,195	**156,195**
Loans to customers	–	–	12,308,311	**12,308,311**
Other financial assets	–	–	231,430	**231,430**
	–	**–**	**16,004,657**	**16,004,657**
Financial liabilities for which fair values are disclosed				
Amounts due to the National Bank of the Republic of Belarus	–	–	131	**131**
Amounts due to credit institutions	–	–	4,246,537	**4,246,537**
Amounts due to customers	–	–	10,953,352	**10,953,352**
Amounts due to international financial institutions	–	–	248,406	**248,406**
Debt securities issued	–	229,468	–	**229,468**
Other financial liabilities	–	–	262,272	**262,272**
	–	**229,468**	**15,710,698**	**15,940,166**

Financial instruments recorded at fair value

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

Derivatives

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

Securities available-for-sale

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

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2013	*Gain / (loss) recorded in profit or loss on "Translation differences" position*	*Settlements*	*Transfers from Level 1 and Level 2*	*At 31 December 2013*
Financial assets					
Derivative financial instruments	1,503,812	56,974	–	–	1,560,786
Total Level 3 financial assets	**1,503,812**	56,974	**–**	**–**	**1,560,786**

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27. Fair value of financial instruments (continued)

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

	2013			***2012***		
	Realized gains / (losses)	***Unrealized gains / (losses)***	***Total***	***Realized gains / (losses)***	***Unrealized gains / (losses)***	***Total***
Gains/(losses) recorded in profit or loss	–	56,974	**56,974**	–	(94,603)	**(94,603)**

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

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

	31 December 2013		***31 December 2012***	
	Carrying value	***Effect of reasonably possible alternative assumptions***	***Carrying value***	***Effect of reasonably possible alternative assumptions***
Financial assets				
Derivative financial instruments	1,560,786	(2,431)	1,503,812	(3,830)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash inflows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 50 b.p. (2012: 50 b.p.).

When calculating the fair values of derivative financial instruments as at 31 December 2013 the bank used the following rates:

- for foreign currency component with maturity period over 1 year - the return rate of 7.47% of the Ministry of Finance of the Republic of Belarus Eurobonds with respective maturities;
- for foreign currency component with maturity period up to 1 year - the average interest rate of 2.91% of newly attracted bank deposits from legal entities in December 2013 in hard currencies with respective maturities;
- for ruble component with maturity period over 1 year - the average interest rate of 31.30% of newly attracted bank deposits from legal entities denominated in Belarusian rubles in December 2013 with respective maturities;
- for ruble component with maturity period up to 1 year - the average interest rate of 31.73% of newly attracted bank deposits from legal entities denominated in Belarusian rubles in December 2013 with respective maturities.

When calculating the fair values of derivative financial instruments as at 31 December 2012 the bank used the following rates:

- for foreign currency component - the return rate of 7.14% of the Ministry of Finance of the Republic of Belarus Eurobonds with respective maturities;
- for ruble component - the interest rate of 33% for Bank loans issued to legal entities, with maturity period of more than 1 year and credit-risk adjusted.

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28. Maturity analysis of assets and liabilities

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

	2013			*2012*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	3,308,721	–	**3,308,721**	3,670,158	–	**3,670,158**
Precious metals	4,375	–	**4,375**	7,391	–	**7,391**
Amounts due from credit institutions	27,469	128,726	**156,195**	5,290	329,310	**334,600**
Derivative financial assets	642,337	918,449	**1,560,786**	435	1,503,812	**1,504,247**
Loans to customers	8,456,161	3,782,481	**12,238,642**	7,333,694	3,812,708	**11,146,402**
Investment securities:						
- available-for-sale	–	41,164	**41,164**	–	29,443	**29,443**
- held-to-maturity	–	643,891	**643,891**	–	–	**–**
Property and equipment	101,477	947,538	**1,049,015**	99,128	900,128	**999,256**
Intangible assets	51,044	130,840	**181,884**	42,483	114,597	**157,080**
Deferred tax assets	–	78	**78**	–	–	**–**
Current income tax assets	10	–	**10**	22,718	–	**22,718**
Other assets	557,589	109,313	**666,902**	463,573	17,568	**481,141**
Total assets	**13,149,183**	**6,702,480**	**19,851,663**	**11,644,870**	**6,707,566**	**18,352,436**
Amounts due to NBRB	131	–	**131**	2,657	–	**2,657**
Amounts due to credit institutions	1,671,432	2,575,105	**4,246,537**	2,433,455	514,151	**2,947,606**
Derivative financial liabilities	1,478	–	**1,478**	33,852	–	**33,852**
Amounts due to customers	8,715,608	2,237,744	**10,953,352**	9,791,308	1,692,633	**11,483,941**
Amounts due to international financial institutions	149,965	98,441	**248,406**	79,632	38,845	**118,477**
Debt securities issued	51,736	177,732	**229,468**	79,703	229,357	**309,060**
Current income tax liabilities	16,967	–	**16,967**	6,315	–	**6,315**
Deferred tax liabilities	–	194,705	**194,705**	–	134,454	**134,454**
Provisions	6,964	–	**6,964**	24,733	–	**24,733**
Other liabilities	144,546	140,438	**284,984**	145,131	67,944	**213,075**
Total liabilities	**10,758,827**	**5,424,165**	**16,182,992**	**12,596,786**	**2,677,384**	**15,274,170**
Net	**2,390,356**	**1,278,315**	**3,668,671**	**(951,916)**	**4,030,182**	**3,078,266**

The Bank has received significant funds from various credit and international financial institutions (Notes 16 and 18). Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds the Bank would be given a reasonable notice so as to realize its liquid assets to enable repayment.

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29. Related party transactions

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

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

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG), shareholders with more than 5% ownership in the share capital of the Bank and the key management personnel of the Bank.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Bank, owning 100% of shares of the Bank's principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs Gmbh.

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

	2013		***2012***	
	RBI	***Key management personnel***	***RBI***	***Key management personnel***
Loans outstanding at 1 January, gross	84,707	5,203	32,586	4,185
Loss on monetary position	(12,796)	(741)	(5,932)	(747)
Foreign exchange differences	9,940	–	1,343	–
Loans issued during the year	39,286	411	58,093	3,404
Loan repayments during the year	(47,572)	(989)	(1,383)	(1,639)
Loans outstanding at 31 December, gross	**73,565**	**3,884**	**84,707**	**5,203**
Less: allowance for impairment at 31 December	–	–	–	–
Loans outstanding at 31 December, net	**73,565**	**3,884**	**84,707**	**5,203**
Deposits at 1 January	2,572,608	20,202	4,137,968	21,963
Loss on monetary position	(390,074)	(2,876)	(817,401)	(3,917)
Foreign exchange differences	322,059	1,984	146,805	652
Deposits received during the year	2,023,349	52,206	132,472	51,901
Deposits repaid during the year	(411,081)	(61,403)	(1,027,236)	(50,397)
Deposits at 31 December	**4,116,861**	**10,113**	**2,572,608**	**20,202**
Settlement and current accounts at 31 December	–	1,260	–	471
Commitments and guarantees issued	39,619	–	32,486	–
Commitments and guarantees received	37,147	–	62,354	–

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

29. Related party transactions (continued)

The income and expenses arising from related party transactions are as follows:

	For the year ended 31 December			
	2013		***2012***	
	RBI	***Key management personnel***	***RBI***	***Key management personnel***
Interest income on loans	4,962	749	4,493	550
Interest expense on deposits	(138,952)	(1,530)	(165,705)	(2,761)
Fee and commission income	379	106	840	105
Fee and commission expense	(4,042)	–	(8,298)	–
Personnel expenses	–	(13,453)	–	(13,806)
Other operating expenses	(19,532)	–	(20,609)	–

Compensation to key management personnel comprises the following:

	2013	***2012***
Salaries and other short-term benefits	11,618	12,095
Defined benefit plan	1,506	932
Social security costs	329	779
Total key management compensation	**13,453**	**13,806**

30. Capital adequacy

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

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

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

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

NBRB capital adequacy ratio

The NBRB requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets in 2013, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2013 and 2012, the Bank managed to comply with NBRB capital adequacy ratio.

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

30. Capital adequacy (continued)

Capital adequacy ratio under 1988 Basel Capital Accord

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2013 and 2012, comprised:

	2013	***2012***
Tier 1 capital	3,631,859	3,046,181
Tier 2 capital	20,766	11,155
Total equity	**3,652,625**	**3,057,336**
Risk-weighted assets	**17,298,750**	**15,710,118**
Tier 1 capital ratio	20.99%	19.39%
Total capital ratio	20.85%	19.30%

31. Events after the reporting period

At the meeting held on 28 January 2014, the Management Board of the Bank decided to increase the share capital of Unitary Insurance Enterprise "Seventh Line" by EUR 600,000 using the net profit.

At the shareholders' meeting in March 2014, dividends were declared in respect for the year ended 31 December 2013, totaling BYR 1,944 per ordinary share and BYR 1,675 - per preferred share. In total, the amount of dividends amounted to BYR 239,225 million on ordinary shares and BYR 17 million on preferred shares.

Since the beginning of 2014, the NBRB has reduced the refinancing rate to 22.5%.