Translation from the original in Russian

"Priorbank" JSC

Consolidated financial statements

Year ended 31 December 2014
together with the audit report of an independent audit firm

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Совершенствуя бизнес, улучшаем мир

Ernst & Young LLC
Klary Tsetkin st., 51A, 15th floor
Minsk, 220004, Republic of Belarus
Tel: +375 (17) 240 4242
Fax: +375 (17) 240 4241
www.ey.com/by

ООО «Эрнст энд Янг»
Республика Беларусь, 220004, Минск
ул. Клары Цеткин, 51А, 15 этаж
Тел.: +375 (17) 240 4242
Факс: +375 (17) 240 4241

Audit report of an independent audit firm on the consolidated financial statements of "Priorbank" JSC for the period from 1 January 2014 to 31 December 2014

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

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 2014, 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.

Responsibility of the Management of the audited entity for the preparation of consolidated financial statements

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

Responsibility of the audit firm

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" of 12 July 2013, National Rules for Auditing Activities 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 audited entity, 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.

Совершенствуя бизнес,
улучшаем мир

Audit opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2014, and its financial performance and its cash flows for the year 2014 in accordance with International Financial Reporting Standards.

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

15 April 2015

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 audit firm

Name: Ernst & Young 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. Klary Tsetkin, 51A, 15th floor.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

	Notes	*2014*	*2013*
Assets			
Cash and cash equivalents	6	2,895,367	3,848,043
Amounts due from credit institutions	7	177,875	181,655
Derivative financial assets	8	953,897	1,815,194
Loans to customers	9	15,175,224	14,233,541
Investment securities:			
- available-for-sale	11	–	47,874
- held-to-maturity	11	1,366,148	748,845
Property and equipment	12	1,218,567	1,220,004
Intangible assets	13	229,365	211,531
Current income tax assets		3,160	12
Deferred tax assets	14	41	91
Other assets	15	744,716	780,695
Total assets		**22,764,360**	**23,087,485**
Liabilities			
Amounts due to the National Bank of the Republic of Belarus		–	152
Amounts due to credit institutions	16	4,721,131	4,938,723
Derivative financial liabilities	8	16,122	1,719
Amounts due to customers	17	12,091,135	12,738,748
Amounts due to international financial institutions	18	176,202	288,896
Debt securities issued	19	177,225	266,871
Current income tax liabilities		41,423	19,733
Deferred tax liabilities	14	329,247	226,442
Provisions	10	3,699	8,099
Other liabilities	15	457,697	331,437
Total liabilities		**18,013,881**	**18,820,820**
Equity	20		
Share capital		2,969,080	2,969,080
Additional paid-in capital		1,929	1,929
Retained earnings		1,710,647	1,252,843
Revaluation reserve for the net pension liability		(35,368)	(52,699)
Other reserves		–	24,151
Total equity attributable to shareholders of the Bank		**4,646,288**	**4,195,304**
Non-controlling interests		**104,191**	**71,361**
Total equity		**4,750,479**	**4,266,665**
Total equity and liabilities		**22,764,360**	**23,087,485**

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

15 April 2015

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

	Notes	*2014*	*2013*
Interest income			
Loans to customers		2,603,299	2,429,965
Cash and cash equivalents		62,444	82,679
Held-to-maturity securities		57,874	7,835
Amounts due from credit institutions		8,239	24,292
		2,731,856	**2,544,771**
Securities designated at fair value through profit or loss		36,091	16,388
		2,767,947	**2,561,159**
Interest expense			
Amounts due to customers		(808,514)	(847,099)
Amounts due to credit institutions		(233,842)	(223,801)
Debt securities issued		(21,270)	(66,556)
Amounts due to international financial institutions		(6,243)	(6,013)
Amounts due to the National Bank of the Republic of Belarus		(426)	(783)
		(1,070,295)	**(1,144,252)**
Net interest income		**1,697,652**	**1,416,907**
(Allowance)/reversal of allowance for loan impairment	9	(156,270)	108,972
Net interest income after allowance for loan impairment		**1,541,382**	**1,525,879**
Fee and commission income		1,126,954	1,096,147
Fee and commission expense		(319,270)	(302,337)
Net fee and commission income	22	**807,684**	**793,810**
Net gains from foreign currencies:			
- dealing		217,109	220,304
- translation differences		118,091	142,644
Net gains from available-for-sale investment securities		29,452	–
Other income	23	60,111	95,249
Non-interest income		**424,763**	**458,197**
Personnel expenses	24	(563,935)	(579,964)
Depreciation and amortization	12, 13	(164,789)	(147,055)
Other operating expenses	24	(471,883)	(465,248)
Taxes other than income tax		(19,913)	(14,380)
Reversal of other provisions	10	3,145	16,570
Non-interest expenses		**(1,217,375)**	**(1,190,077)**
Loss on net monetary position		(414,573)	(336,754)
Income before income tax expense		**1,141,881**	**1,251,055**
Income tax expense	14	(373,037)	(310,069)
Profit for the year		**768,844**	**940,986**
Attributable to:			
- shareholders of the Bank		746,437	923,141
- non-controlling interests		22,407	17,845
		768,844	**940,986**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

	Notes	***2014***	***2013***
Profit for the year		**768,844**	**940,986**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on available-for-sale investment securities	20	–	13,632
Realized gains on available-for-sale investment securities, reclassified to profit or loss	20	(29,452)	–
Income tax effect	20	5,301	(2,454)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(24,151)**	**11,178**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) on defined pension plans	20	17,109	(28,689)
Income tax effect	20	222	5,164
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**17,331**	**(23,525)**
Other comprehensive income/(loss) for the year, net of tax		**(6,820)**	**(12,347)**
Total comprehensive income for the year		**762,024**	**928,639**
Attributable to:			
- shareholders of the Bank		739,617	910,794
- non-controlling interests		22,407	17,845
		762,024	**928,639**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

	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 2012	**2,969,080**	**1,929**	**571,699**	**(29,174)**	**12,973**	**3,526,507**	**53,516**	**3,580,023**
Profit for the year	–	–	923,141	–	–	923,141	17,845	940,986
Other comprehensive income/(loss) for the year	–	–	–	(23,525)	11,178	(12,347)	–	(12,347)
Total comprehensive income for the year	**–**	**–**	**923,141**	**(23,525)**	**11,178**	**910,794**	**17,845**	**928,639**
Dividends to shareholders of the Bank (Note 20)	–	–	(241,997)	–	–	(241,997)	–	(241,997)
At 31 December 2013	**2,969,080**	**1,929**	**1,252,843**	**(52,699)**	**24,151**	**4,195,304**	**71,361**	**4,266,665**
Profit for the year	–	–	746,437	–	–	746,437	22,407	768,844
Other comprehensive income/(loss) for the year	–	–	–	17,331	(24,151)	(6,820)	–	(6,820)
Total comprehensive income for the year	**–**	**–**	**746,437**	**17,331**	**(24,151)**	**739,617**	**22,407**	**762,024**
Dividends to shareholders of the Bank (Note 20)	–	–	(278,212)	–	–	(278,212)	–	(278,212)
Changes in non-controlling interests	–	–	(10,421)	–	–	(10,421)	10,421	–
Establishment of subsidiaries	–	–	–	–	–	–	2	2
At 31 December 2014	**2,969,080**	**1,929**	**1,710,647**	**(35,368)**	**–**	**4,646,288**	**104,191**	**4,750,479**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

	Notes	*2014*	*2013*
Cash flows from operating activities			
Interest received		2,709,153	2,485,856
Interest paid		(1,077,644)	(1,146,264)
Fees and commissions received		1,112,580	1,092,127
Fees and commissions paid		(305,557)	(302,294)
Gains less losses from dealing in foreign currencies		1,246,695	92,028
Other income received		62,163	94,115
Personnel expenses paid		(553,787)	(565,870)
Other operating expenses paid		(469,030)	(449,077)
Cash flows from operating activities before changes in operating assets and liabilities		**2,724,573**	**1,300,621**
Net (increase)/ decrease in operating assets			
Amounts due from credit institutions		(21,680)	216,145
Loans to customers		(2,059,795)	(1,771,748)
Other assets		(58,714)	(283,471)
Net increase/ (decrease) in operating liabilities			
Amounts due to the National Bank of the Republic of Belarus		(131)	(2,498)
Amounts due to credit institutions		(106,031)	1,546,156
Amounts due to international financial institutions		(89,859)	137,422
Amounts due to customers		18,739	393,074
Other liabilities		165,147	65,191
Net cash flows from operating activities before income tax		**572,249**	**1,600,892**
Income tax paid		(211,629)	(179,033)
Net cash flows from operating activities		**360,620**	**1,421,859**
Cash flows from investing activities			
Purchase of investment securities		(501,700)	(719,146)
Proceeds from sale of property and equipment and intangible assets		15,064	18,988
Purchase of property and equipment and intangible assets	12, 13	(211,518)	(276,480)
Proceeds from sale of available-for-sale investment securities		46,610	–
Establishment of subsidiaries		2	–
Net cash used in investing activities		**(651,542)**	**(976,638)**
Cash flows from financing activities			
Proceeds from issue of debt securities		30,296	108,136
Redemption of debt securities		(51,391)	(146,464)
Dividends paid to shareholders of the Bank		(265,016)	(229,637)
Net cash used in financing activities		**(286,111)**	**(267,965)**
Effect of exchange rates changes on cash and cash equivalents		204,192	58,201
Net increase in cash and cash equivalents		**(372,841)**	**235,457**
Effect of inflation on monetary items		(579,835)	(655,808)
Cash and cash equivalents at 1 January		**3,848,043**	**4,268,394**
Cash and cash equivalents at 31 December	6	**2,895,367**	**3,848,043**

The accompanying notes on pages 6-58 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 2014)

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 95 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, ul. V. Khoruzhey, Minsk, Republic of Belarus.

As at 31 December 2014 and 2013, Priorbank had the following shareholding structure:

Shareholders	***2014 %***	***2013 %***
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, reporting 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, available-for-sale investment 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 2014)

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. The CPIs for the nine-year period and corresponding conversion coefficient since the time when the Republic of Belarus previously ceased to be considered hyperinflationary, i. e. since 1 January 2006, were as follows:

Year	*Index, %*	*Conversion coefficient*
2006	106.6	528.9
2007	112.1	471.8
2008	113.3	416.4
2009	110.1	378.2
2010	109.9	344.2
2011	208.7	164.9
2012	121.7	135.4
2013	116.6	116.2
2014	116.2	100

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary unit current as at 31 December 2014. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit as at 31 December 2014) 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 2013 have also been restated so that they are presented in terms of the purchasing power of the Belarusian Ruble as at 31 December 2014.

Subsidiaries

The consolidated financial statements include the following subsidiaries:

2013 and 2014

Subsidiary	*Ownership, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Unitary Enterprise "PriortransAgro"	100	Belarus	June 1991	Agriculture	–
Unitary Enterprise "Dom-Office 2000"	100	Belarus	February 2001	Construction	–
Unitary Insurance Enterprise "Priorlife"	100	Belarus	April 2001	Insurance	–
Raiffeisen Leasing JLLC	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
Insurance broker Studiya Strakhovaniya LLC	99	Belarus	September 2014	Insurance	September 2014

On 17 September 2014, Raiffeisen Leasing JLLC, a Priorbank's subsidiary, incorporated insurance broker Studiya Strakhovaniya LLC, a resident of the Republic of Belarus. The investments to this company have amounted to BYR 347 million, the ownership is 99%.

Insurance broker Studiya Strakhovaniya LLC provides intermediary insurance services.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

3. Summary of accounting policies

Changes in accounting policies

During the year the Bank has adopted the following amended IFRS effective for annual reporting periods beginning on 1 January 2014:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception from the consolidation requirement 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 had no impact on the Bank, since the Bank does not qualify 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. These amendments had no impact on the Bank.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the legislation, is performed. 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 had no impact on the Bank's consolidated financial statements as it has applied the recognition principles under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with the requirements of IFRIC 21 in prior years.

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 had no impact on the Bank, since the Bank has not novated its derivatives during the current period.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets.* In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognized or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

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 a 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 or retained earnings, as appropriate.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

3. Summary of accounting policies (continued)

Fair value measurement

The Bank measures financial instruments, such as available-for-sale securities and derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized 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 Bank. 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 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 the best and most effective way or by selling it to another market participant that would use the asset in the best and most effective way.

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

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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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. 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.

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 classified as at fair value through profit or loss unless they are designated as effective hedging instruments. Gains and losses on financial assets 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

3. Summary of accounting policies (continued)

Financial assets (continued)

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.

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.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above 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.
- Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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 at the date of reclassification. Any gain or loss previously recognized in the income statement is not reversed. The fair value of the financial asset at 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.

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

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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, debt securities issued and other

3. Summary of accounting policies (continued)

Borrowings (continued)

borrowed funds. 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 consolidated 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 cost 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.

Measurement of financial instruments at initial recognition

Upon initial recognition, financial instruments are measured at fair value adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

At initial recognition the fair value of a financial instrument is best evidenced by the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

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Offsetting of financial instruments

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. The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

3. Summary of accounting policies (continued)

Impairment of financial assets

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

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

Amounts due from credit institutions and loans to customers

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

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

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.

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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.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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 Bank 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 value and the present value of estimated future cash flows. The carrying value of the asset is reduced and the amount of the loss is recognized 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 recognized, any amounts formerly charged are credited to the consolidated income statement.

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.

The accounting treatment of such restructuring is as follows:

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- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying value before restructuring as an expense for impairment in the reporting period. In case the loan is not impaired after restructuring, the Bank recalculates the effective interest rate.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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 and their recoverable amount is calculated using the loan's original or current 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 in the consolidated statement of financial position 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.
- The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

Financial liabilities

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

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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.

3. Summary of accounting policies (continued)

Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus 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 all 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 are initially carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the 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

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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, as adjusted for hyperinflation.

3. Summary of accounting policies (continued)

Intangible assets (continued)

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.

Precious metals

Non-monetary gold and other non-monetary precious metals are recorded at the lower of historical cost and net realizable value at balance sheet date.

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 "Priorlife" 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 the 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.

Past services costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and

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- The date that the Group recognizes restructuring-related costs.

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 recognized at restated cost.

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.

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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.

Recognition of income and expenses

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 fees for asset management, custody and other management and advisory services.

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 at the dates of the 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 2014 and 2013 were 11,850 Belarusian rubles and 9,510 Belarusian rubles to 1 US dollar, respectively.

Future changes in accounting policies

Standards issued but not yet effective

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt with by the respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early application permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The amendments become effective for annual periods beginning on or after 1 July 2014. It is not expected that these amendments would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset.

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As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Bank currently considers the possibility to apply these amendments for the purposes of preparation of its separate financial statements. These amendments will have no impact on the Bank's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognized only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early adoption permitted.

Annual improvements to IFRS: 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or a non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are "similar"

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- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying value. In addition, the accumulated depreciation or amortization is defined as the difference between the gross and carrying values of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements to IFRS: 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Bank. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 40 Investment Property

The description of ancillary services in IAS 30 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided that either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. Since the Bank prepares consolidated IFRS financial statements, this standard would not apply.

Annual improvements to IFRS: 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Bank. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that the replacement of one of these methods by another should be considered as

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continuation of the initial plan but not a new sale plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with early adoption permitted.

IFRS 7 Financial Instruments: Disclosures – Servicing Contracts

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that involves commission can constitute continuing involvement in a financial asset. An entity shall assess the nature of such agreement and commission in accordance with the guidance on continuing involvement provided in paragraphs B30 and 42C of IFRS 7 in order to determine if the disclosure is necessary. The amendment becomes effective for annual periods beginning on or after 1 January 2016. with early adoption permitted. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period preceeding period of the first application of the amendments by an entity.

IFRS 7 Financial Instruments: Disclosures – Applicability of the Offsetting Disclosures to Condensed Interim Financial Statements

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods." The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment becomes effective for annual periods beginning on or after 1 January 2016. Earlier adoption is permitted.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

IAS 19 Employee Benefits – Regional Market Issue Regarding Discount Rate

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. If the developed market of high-quality corporate bonds denominated in this currency does not exist, the yield-to -maturity for government bonds shall be applied. The amendment becomes effective for annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

IAS 34 Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

The amendment states that the required interim disclosures must either be presented in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the more general interim financial report (e.g., in the management commentary or risk report). The Board specified that other information within the interim financial statements shall be available to users on the same terms and at the same time as the interim financial statements. If users do not have access to other information on such terms, the interim financial report is considered incomplete. The amendment becomes effective retrospectively for annual periods beginning on or after 1 January 2016, with earlier adoption permitted.

4. Significant accounting judgments and estimates

Estimation uncertainty

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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 Priorlife 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. Sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 25.

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.

Deferred tax assets

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Bank. Further details regarding taxation issues are provided in Note 14.

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, except for banking financial institutions.

Other – Treasury and Finance Department (transactions with banks) and other central functions which are not directly allocated.

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

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

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

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No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2014 or 2013.

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

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

2014	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	852,451	1,753,229	162,267	**2,767,947**
Interest expense	(467,573)	(367,102)	(235,620)	**(1,070,295)**
Net interest income	**384,878**	**1,386,127**	**(73,353)**	**1,697,652**
Charge of allowance for loan impairment	(25,002)	(131,268)	–	**(156,270)**
Net interest income after allowance for loan impairment	**359,876**	**1,254,859**	**(73,353)**	**1,541,382**
Net fee and commission income	275,087	534,013	(1,416)	**807,684**
Net income from foreign exchange operations	87,706	88,372	159,122	**335,200**
Other non-interest income	6,083	31,601	51,879	**89,563**
Non-interest expenses	(619,499)	(534,272)	(63,604)	**(1,217,375)**
Segment financial results	**109,253**	**1,374,573**	**72,628**	**1,556,454**

5. Segment information (continued)

2014 (continued)	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
Loss on net monetary position				**(414,573)**
Income tax expense				**(373,037)**
Profit for the year				**768,844**
Assets and liabilities				
Segment assets	2,322,386	13,149,252	7,292,722	**22,764,360**
Total assets				**22,764,360**
Segment liabilities	6,130,090	6,488,035	5,395,756	**18,013,881**
Total liabilities				**18,013,881**
Other segment information				
Capital expenditure	32,053	13,546	148,483	**194,082**
Depreciation and amortization	(27,759)	(16,747)	(120,283)	**(164,789)**
Reversal of provisions	–	1,706	1,439	**3,145**

2013	*Retail*	*Corporate*	*Other/*	*Total*

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	banking	***banking***	***unallocated***	
External revenue				
Interest income	777,117	1,648,747	135,295	**2,561,159**
Interest expense	(489,749)	(382,861)	(271,642)	**(1,144,252)**
Net interest income	**287,368**	**1,265,886**	**(136,347)**	**1,416,907**
Reversal/(charge) of allowance for loan impairment	(5,337)	114,309	–	**108,972**
Net interest income after allowance for loan impairment	**282,031**	**1,380,195**	**(136,347)**	**1,525,879**
Net fee and commission income	259,286	534,445	79	**793,810**
Net income/(expense) from foreign exchange operations	93,648	(215,980)	485,280	**362,948**
Other non-interest income	–	61,548	33,701	**95,249**
Non-interest expenses	(578,711)	(536,219)	(75,147)	**(1,190,077)**
Segment financial results	**56,254**	**1,223,989**	**307,566**	**1,587,809**
Loss on net monetary position				**(336,754)**
Income tax expense				**(310,069)**
Profit for the year				**940,986**
Assets and liabilities				
Segment assets	2,072,973	12,820,664	8,193,848	**23,087,485**
Total assets				**23,087,485**
Segment liabilities	5,832,110	3,592,751	9,395,959	**18,820,820**
Total liabilities				**18,820,820**
Other segment information				
Capital expenditure	39,866	8,939	215,992	**264,797**
Depreciation and amortization	(23,248)	(14,289)	(109,518)	**(147,055)**
Reversal of provisions	–	16,570	–	**16,570**

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6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2014	*2013*
Cash on hand	1,552,671	1,233,647
Current accounts with credit institutions	326,750	861,005
Current accounts with the National Bank of the Republic of Belarus	964,466	1,513,372
Time deposits with credit institutions up to 90 days	51,480	240,019
Cash and cash equivalents	**2,895,367**	**3,848,043**

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2014	*2013*
Obligatory reserves with the National Bank of the Republic of Belarus	109,083	137,146
Time deposits for more than 90 days	68,792	44,509
Amounts due from credit institutions	**177,875**	**181,655**

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 2014, the Bank had time deposits with four Belarusian banks (2013: four Belarusian banks).

8. Derivative financial instruments

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

	2014			*2013*		
	Notional principal	***Fair value***		***Notional principal***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts (forwards and swaps)						
BYR-EUR contract with NBRB	1,438,000	936,619	–	2,662,107	1,815,194	–
EUR-USD contract with OECD bank	1,719,049	15,586	–	101,852	–	(1,584)
USD-EUR contract with OECD bank	8,811	–	(73)	–	–	–
USD-EUR contract with customer	750,857	–	(12,118)	–	–	–
EUR-RUB contract with customer	10,725	1,692	–	–	–	–
RUB-EUR contract with CIS bank	8,972	–	(1,668)	–	–	–
RUB-USD contract with CIS bank	211,155	–	(2,099)	–	–	–
USD-EUR contract with Belarusian bank	93,470	–	(164)	–	–	–
CHF-USD contract with OECD bank	–	–	–	17,223	–	(135)
Total derivative assets/(liabilities)		**953,897**	**(16,122)**		**1,815,194**	**(1,719)**

As of 31 December 2014, 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

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

9. Loans to customers

Loans to customers comprise:

	2014	*2013*
Corporate lending	10,829,940	10,386,365
Small business lending	2,383,915	2,085,966
Consumer lending	2,148,515	1,793,905
Residential mortgages	219,955	279,069
Gross loans to customers	**15,582,325**	**14,545,305**
Less – Allowance for loan impairment	(407,101)	(311,764)
Loans to customers	**15,175,224**	**14,233,541**

As at 31 December 2014, the Bank had a concentration of loans represented by BYR 3,118,681 million due from the ten largest third party borrowers (20% of gross loan portfolio) (2013: BYR 3,128,583 million, or 22%). An allowance of BYR 99,589 million (2013: BYR 24,282 million) was recognized against these loans.

Loans have been extended to the following types of customers:

	2014	*2013*
Private companies	11,395,967	11,200,720
Individuals	2,368,470	2,072,974
State companies	1,817,888	1,271,611
Loans to customers	**15,582,325**	**14,545,305**

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9. Loans to customers (continued)

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

	2014	*2013*
Manufacturing, including:	6,514,642	6,325,969
Chemicals, rubber, plastics	1,557,739	1,302,553
Base metals production	1,035,597	1,215,976
Other manufacturing	863,023	739,778
Food, beverages, tobacco products	808,066	869,078
Coking coal and oil products	629,391	291,980
Transport facilities	440,496	547,642
Machinery, equipment	393,008	480,014
Electric equipment	252,441	261,740
Pulp and paper industry	190,368	242,509
Wood processing	182,110	150,942
Textile industry	162,403	223,757
Wholesale trade	2,823,194	2,288,598
Individuals	2,368,470	2,072,974
Retail trade	1,150,713	1,506,041
Real estate	801,419	348,248
Transport	715,318	820,951
Construction	586,114	570,069
Electrical energy, gas, water supply	99,611	99,633
Mineral development and extraction	946	–
Other	521,898	512,822
Loans to customers	**15,582,325**	**14,545,305**

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

	Corporate lending 2014	*Small business lending 2014*	*Consumer lending 2014*	*Residential mortgages 2014*	*Total 2014*
At 31 December 2013	**135,699**	**56,509**	**84,053**	**35,503**	**311,764**
Gain on net monetary position	(19,019)	(7,920)	(11,779)	(4,976)	**(43,694)**
(Reversal)/charge for the year	112,543	18,725	32,370	(7,368)	**156,270**
Amounts written off	(239)	(3,430)	(13,570)	–	**(17,239)**
At 31 December 2014	**228,984**	**63,884**	**91,074**	**23,159**	**407,101**
Individual impairment	140,382	31,279	30,168	15,916	**217,745**
Collective impairment	88,602	32,605	60,906	7,243	**189,356**
	228,984	**63,884**	**91,074**	**23,159**	**407,101**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**340,228**	**47,133**	**30,168**	**15,916**	**433,445**

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9. Loans to customers (continued)

	Corporate lending 2013	*Small business lending 2013*	*Consumer lending 2013*	*Residential mortgages 2013*	*Total 2013*
At 31 December 2012	**263,973**	**118,654**	**89,249**	**46,220**	**518,096**
Gain on net monetary position	(37,581)	(16,893)	(12,706)	(6,580)	**(73,760)**
(Reversal)/charge for the year	(85,135)	(37,261)	17,561	(4,137)	**(108,972)**
Amounts written off	(5,558)	(7,991)	(10,051)	–	**(23,600)**
At 31 December 2013	**135,699**	**56,509**	**84,053**	**35,503**	**311,764**
Individual impairment	579	24,717	20,668	21,054	**67,018**
Collective impairment	135,120	31,792	63,385	14,449	**244,746**
	135,699	**56,509**	**84,053**	**35,503**	**311,764**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**5,721**	**32,561**	**20,669**	**21,054**	**80,005**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as of 31 December 2014, comprised BYR 13,053 million (2013: BYR 3,363 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 2014 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	626,895	1,034,720	225,766	**1,887,381**
Unearned future finance income on finance leases	(149,831)	(252,626)	(27,426)	**(429,883)**
Net investments in finance leases	**477,064**	**782,094**	**198,340**	**1,457,498**

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	553,885	830,608	210,702	**1,595,195**
Unearned future finance income on finance	(126,576)	(178,407)	(33,593)	**(338,576)**

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leases				
Net investments in finance leases	**427,309**	**652,201**	**177,109**	**1,256,619**

10. Provisions

The movements in provisions were as follows:

	Legal claims	*Guarantees and commitments*	*Total*
31 December 2012	**1,101**	**27,664**	**28,765**
Gain on net monetary position	(156)	(3,940)	**(4,096)**
Charge/(reversal)	1,813	(18,383)	**(16,570)**
31 December 2013	**2,758**	**5,341**	**8,099**
Gain on net monetary position	(386)	(750)	**(1,136)**
Reversal	(1,439)	(1,705)	**(3,144)**
Utilization	(120)	-	**(120)**
31 December 2014	**813**	**2,886**	**3,699**

11. Investment securities

As at 31 December 2014, held-to-maturity investment securities comprised bonds issued by the Ministry of Finance of the Republic of Belarus denominated in USD with a carrying value of BYR 1,366,148 million (2013: BYR 748,845 million) maturing in February 2016 (carrying value: BYR 802,325 million) and October 2017 (carrying value: BYR 563,823 million). As at 31 December 2013, held-to-maturity investment securities had maturities in February 2016. As at 31 December 2014, interest income of bonds denominated in USD was 7% per annum (bonds maturing in February 2016) and 7.15% per annum (bonds maturing in October 2017).

Available-for-sale investment securities with fair value of BYR 47,874 million as at 31 December 2013 (corporate shares of Visa Inc.) were sold in September 2014.

12. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2013	**947,236**	**1,017,803**	**1,965,039**
Additions	36,163	102,503	**138,666**
Disposals	(9,375)	(96,159)	**(105,534)**
At 31 December 2014	**974,024**	**1,024,147**	**1,998,171**
Accumulated depreciation			
At 31 December 2013	**(176,505)**	**(568,530)**	**(745,035)**
Depreciation	(19,108)	(91,432)	**(110,540)**
Disposals	730	75,241	**75,971**
At 31 December 2014	**(194,883)**	**(584,721)**	**(779,604)**
Net book value			
At 31 December 2013	**770,731**	**449,273**	**1,220,004**
At 31 December 2014	**779,141**	**439,426**	**1,218,567**

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12. Property and equipment (continued)

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2012	**873,854**	**962,807**	**1,836,661**
Additions	85,642	112,075	**197,717**
Disposals	(12,260)	(57,079)	**(69,339)**
At 31 December 2013	**947,236**	**1,017,803**	**1,965,039**
Accumulated depreciation			
At 31 December 2012	**(159,624)**	**(514,902)**	**(674,526)**
Depreciation	(17,445)	(85,535)	**(102,980)**
Disposals	564	31,907	**32,471**
At 31 December 2013	**(176,505)**	**(568,530)**	**(745,035)**
Net book value			
At 31 December 2012	**714,230**	**447,905**	**1,162,135**
At 31 December 2013	**770,731**	**449,273**	**1,220,004**

As at 31 December 2014, the Bank had fully depreciated furniture and fixtures that were still in use with a gross book value of BYR 270,932 million (2013: BYR 270,629 million).

13. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Other*	*Total*
Cost			
At 31 December 2013	**357,336**	**1,325**	**358,661**
Additions	72,132	720	**72,852**
Disposals	(743)	(201)	**(944)**
At 31 December 2014	**428,725**	**1,844**	**430,569**
Accumulated depreciation			
At 31 December 2013	**(146,980)**	**(150)**	**(147,130)**
Depreciation	(54,093)	(156)	**(54,249)**
Disposals	139	36	**175**
At 31 December 2014	**(200,934)**	**(270)**	**(201,204)**
Net book value			
At 31 December 2013	**210,356**	**1,175**	**211,531**
At 31 December 2014	**227,791**	**1,574**	**229,365**

	Computer software	*Other*	*Total*
Cost			
At 31 December 2012	**287,531**	**1,050**	**288,581**
Additions	78,080	685	**78,765**
Disposals	(8,275)	(410)	**(8,685)**
At 31 December 2013	**357,336**	**1,325**	**358,661**
Accumulated depreciation			
At 31 December 2012	**(105,656)**	**(241)**	**(105,897)**

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Depreciation	(43,966)	(109)	**(44,075)**
Disposals	2,642	200	**2,842**
At 31 December 2013	**(146,980)**	**(150)**	**(147,130)**
Net book value			
At 31 December 2012	**181,875**	**809**	**182,684**
At 31 December 2013	**210,356**	**1,175**	**211,531**

14. Taxation

The corporate income tax expense comprises:

	2014	*2013*
Current tax charge	233,050	223,059
Deferred tax charge – origination and reversal of temporary differences	134,464	84,300
Comprising: deferred tax recognized directly in other comprehensive income	5,523	2,710
Income tax expense	**373,037**	**310,069**

Belarusian legal entities must file individual tax returns. In 2014 and 2013, statutory income tax rate for banks was 18% In 2014 and 2013, statutory income tax rates for Priorbank's subsidiaries were 18%. Since 1 January 2015, the income tax rate for banks and insurance companies in the Republic of Belarus was set at 25%. This rate was used to calculate deferred tax liabilities.

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:

	2014	*2013*
Profit before tax	**1,141,881**	**1,251,055**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**205,539**	**225,190**
Other tax exemptions and credits	(42,392)	(3,370)
Income of subsidiaries not subject to income tax	(419)	(4,764)
Non-deductible expenditures:		
- salaries and related expenses	14,047	18,556
- insurance	6,184	4,973
- translation differences	(351)	(7,910)
- consulting, advertising and representative expenses	2,413	2,628
- charity	2,498	3,265
- disposal of property and equipment	1,628	2,163
- depreciation and amortization	746	879
- maintenance and repairs	614	644
- provisions	–	1,075
- taxes other than income tax	9,950	343
- other	17,003	23,425
Loss on monetary position in respect of non-deductible expenses	(3,960)	(3,706)
Change in unrecognized deferred tax assets	(7,132)	991
Permanent differences in the indexation of hyperinflation	99,552	82,970
Reversal of statutory revaluation of property and equipment	(17,049)	(37,283)
Effect of change in tax rate	84,166	-
Income tax expense	**373,037**	**310,069**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

14. Taxation (continued)

As at 31 December 2014, deferred tax asset in the amount of BYR 41 million was recognized in relation to the Bank's subsidiary Unitary Insurance Enterprise "Priorlife" in the consolidated statement of financial position.
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*		
	2012	*Net monetary position*	*In the income statement*	*In other comprehensive income*	*2013*	*Net monetary position*	*In the income statement*	*In other comprehensive income*	*2014*
Tax effect of deductible temporary differences									
Property and equipment	7,027	–	2,258	–	9,285	–	(8,834)	–	451
Loans to customers	4,696	–	(1,390)	–	3,306	–	(478)	–	2,828
Derivative financial assets	–		–		–		17,399	–	17,399
Amounts due to customers	–		–		–		15		15
Provisions	1,913	–	(533)	–	1,380	–	4,064	–	5,444
Other assets	8,120	–	(5,832)	–	2,288	–	1,598	–	3,886
Other liabilities	1,208	–	(4,466)	5,164	1,906	–	7,242	222	9,370
Deferred tax assets	**22,964**	**–**	**(9,963)**	**5,164**	**18,165**	**–**	**21,006**	**222**	**39,393**
Deferred tax assets not recognized in statement of financial position	(6,592)	–	(991)	–	(7,583)	–	7,132	–	(451)
Deferred tax asset, net amount	**16,372**	**–**	**(10,954)**	**5,164**	**10,582**	**–**	**28,138**	**222**	**38,942**
Tax effect of taxable temporary differences									
Accrued income	(38)	–	38	–	–	–	–	–	–
Allowance for loan impairment	(39,144)	–	(75,724)	–	(114,868)	–	(102,476)	–	(217,344)
Fair value of available-for-sale securities	(3,619)	–	–	(2,454)	(6,073)	–	772	5,301	–
Amounts due from credit institutions	(160)	–	81	–	(79)	–	(62)	–	(141)
Provisions	(17,892)	–	3,688	–	(14,204)	–	(13,922)		(28,126)
Derivative financial assets	(20,446)	–	9,994	–	(10,452)	–	10,452	–	–
Loans to customers	(16,711)	–	13,053	–	(3,658)	–	(404)	–	(4,062)
Investments in subsidiaries	(14,555)	–	(983)	–	(15,538)	–	(3,595)	–	(19,133)
Other assets	–	–	(13,648)	–	(13,648)	–	3,978	–	(9,670)
Other liabilities	(21,757)	–	(10,214)	–	(31,971)	–	(8,321)	–	(40,292)
Property and equipment	(38,420)	–	11,978	–	(26,442)	–	(22,938)	–	(49,380)
Deferred tax liability	**(172,742)**	**–**	**(61,737)**	**(2,454)**	**(236,933)**	**–**	**(136,516)**	**5,301**	**(368,148)**
Deferred tax liabilities, net	**(156,370)**	**14,319**	**(87,010)**	**2,710**	**(226,351)**	**31,609**	**(139,987)**	**5,523**	**(329,206)**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

15. Other assets and liabilities

Other assets comprise:

	2014	*2013*
Other financial assets		
Fees and commissions receivable	55,700	50,417
Settlements on currency conversion operations	160,248	218,736
	215,948	**269,153**
Other non-financial assets		
Precious metals	6,043	5,088
Prepayments	45,765	126,839
Blocks of apartments owned by the Bank	192,184	127,066
VAT and other prepaid taxes other than income tax	99,333	67,628
Other non-financial assets	185,443	184,921
	528,768	**511,542**
Total other assets	**744,716**	**780,695**

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:

	2014	*2013*
Other financial liabilities		
Salary and bonus payable	75,378	86,771
Defined benefit plan: pension liabilities (Note 25)	106,214	118,000
Trade and other payables	8,231	9,818
Pension liabilities payable by subsidiary to third parties	8,397	6,548
Other financial liabilities	54,766	43,297
	252,986	**264,434**
Other non-financial liabilities		
Tax liabilities (taxes other than income tax)	70,635	15,506
Prepayments for construction of blocks of apartments	87,001	40,588
Other non-financial liabilities	47,075	10,909
	204,711	**67,003**
Total other liabilities	**457,697**	**331,437**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2014	*2013*
Current accounts	224,541	107,505
Time deposits and loans	4,496,590	4,831,218
Amounts due to credit institutions	**4,721,131**	**4,938,723**

As at 31 December 2014, time deposits and loans included amounts payable to the bank from Raiffeisen Group comprising BYR 4,376,545 million (2013: BYR 4,787,909 million).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

17. Amounts due to customers

Amounts due to customers include the following:

	2014	*2013*
Time deposits	6,944,263	6,698,632
Current accounts	5,146,872	6,040,116
Amounts due to customers	**12,091,135**	**12,738,748**
Held as collateral against letters of credit	**50,033**	**66,426**
Held as security against guarantees	**35,690**	**76,764**

At 31 December 2014, amounts due to customers of BYR 624,966 million (5%) were due to the five largest third-party customers (2013: BYR 753,173 million or 6%).

Included in time deposits are deposits of individuals in the amount of BYR 4,651,238 million (2013: BYR 4,500,684 million). In accordance with the Belarusian 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 with the following types of customers:

	2014	*2013*
Private companies	5,722,292	6,169,304
Individuals	6,130,084	5,832,110
State companies and budgetary organizations	238,759	737,334
Amounts due to customers	**12,091,135**	**12,738,748**

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

	2014	*2013*
Individuals	6,130,084	5,832,110
Manufacturing:	1,355,320	1,475,049
Coking coal and oil products	407,757	176,960
Food, beverages, tobacco products	216,587	210,789
Chemicals, rubber, plastics	110,063	421,971
Wood processing	98,747	78,863
Electric equipment	93,660	114,457
Machinery, equipment	66,168	96,314
Base metals production	56,708	135,299
Pulp and paper industry	23,724	54,162
Pharmaceuticals industry	22,385	13,001
Transport facilities	20,575	17,044
Textile industry	8,070	10,273
Other manufacturing	230,876	145,916
Retail trade	1,185,138	1,299,912
Wholesale trade	940,353	721,010
Construction	381,603	146,696
Transport	212,136	350,291
Real estate	117,275	371,975
Electrical energy, gas, water supply	19,621	34,204
Mineral development and extraction	16,526	134,204
Other	1,733,079	2,373,297
Amounts due to customers	**12,091,135**	**12,738,748**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

18. Amounts due to international credit institutions

Amounts due to international credit institutions consist of the following:

	2014	*2013*
Due to the European Bank for Reconstruction and Development ("EBRD")	176,202	267,138
Due to Dutch Development Bank ("FMO")	–	21,758
Amounts due to international credit institutions	**176,202**	**288,896**

19. Debt securities issued

	2014	*2013*
Non-documentary bonds	177,225	266,871
Debt securities issued	**177,225**	**266,871**

Non-documentary bonds denominated in Belarusian rubles in the amount of BYR 28,742 million (2013: BYR 61,181 million) mature in 2016 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 2014, the interest rate on these bonds was 20% (2013: the interest rate ranged from 21.5% to 24.5%).

Non-documentary bonds denominated in euros, US dollars and Russian rubles in the amount of BYR 148,483 million (2013: BYR 205,690 million) mature in 2017. EUR-denominated bonds and USD-denominated bonds bear a fixed interest rate of 3.5%, RUB-denominated bonds – 23.77%, 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 2012, 2013 and 2014	**10,000**	**123,058,441**	**33**	**412,246**	**2,556,834**	**2,969,080**

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 2014, the Bank declared dividends in respect of the year ended 31 December 2013 as follows: BYR 2,261 (2013: BYR 1,967) per ordinary share, BYR 1,948 (2013: BYR 2,271) per preferred share.

In total, the amount of dividends amounted to BYR 278,192 million (2013: BYR 241,974 million) on ordinary shares and BYR 20 million (2013: BYR 23 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 BAS. As at 31 December 2014, the Bank's non-distributable reserves totaled BYR 1,660,378 million (2013: BYR 1,316,511 million (not hyperinflated)). As at 31 December 2014, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYR 24,054 million (2013: BYR 29,082 million (not hyperinflated)).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

20. Equity (continued)

Movements in other capital items

Movements in other capital items were as follows:

	Unrealized gains on available-for-sale investment securities	*Actuarial loss on defined pension plans*	*Total*
At 1 January 2013	**12,973**	**(29,174)**	**(16,201)**
Net unrealized losses on available-for-sale investment securities	13,632	–	13,632
Revaluation of defined pension plans	–	(28,689)	(28,689)
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	(2,454)	5,164	2,710
At 31 December 2013	**24,151**	**(52,699)**	**(28,548)**
Realized gains on available-for-sale investment securities	(29,452)	–	(29,452)
Revaluation of defined pension plans	–	17,109	17,109
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	5,301	222	5,523
At 31 December 2014	**–**	**(35,368)**	**(35,368)**

Unrealized gains on available-for-sale investment securities

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

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).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

21. Commitments and contingencies (continued)

Operating environment (continued)

The significant financial support provided by Russia (extension of government and bank loans in 2011-2013 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 2012-2013. At the same time, the refinancing rate was gradually reduced to 23.5% as at 31 December 2013.

In January-November of 2014, the economic situation in the country continued to stabilize. During this period, the National Bank gradually devalued the Belarusian ruble against major foreign currencies and followed a conservative monetary policy, which had a positive impact on the supply of Belarusian rubles and the level of interest rates in the financial market. Russia continued to provide significant financial support in 2014 by extending government and bank loans. On 27 June 2014, the Republic of Belarus received a short-term loan in the amount of USD 2 billion from VTB Bank (Russia). In July and September 2014, the loan was repaid (USD 450 million and USD 1,550 million, respectively.) In July and September 2014, the Republic of Belarus received from the Russian Government two additional loans: one loan in the amount of USD 450 million, maturing in 10 years and carrying a 3-year grace period; and a loan denominated in Russian rubles in the amount equivalent to USD 1,550 million, maturing in 15 years and carrying a 5-year grace period.

In November-December of 2014, devaluation expectations in respect of the Belarusian ruble rose significantly due to sharp movements in the RUB/USD exchange rate, leading to a significant growth in demand for foreign currency. As a result, on 19 December 2014, the Government and the National Bank of the Republic of Belarus made a number of decisions to prevent negative developments in the financial market. In particular, a decision was made to increase the rate for the mandatory sale of foreign currency proceeds from 30% to 50%, as well as to introduce a temporary 30% exchange fee payable to the state budget in the event of the purchase of foreign currency by legal entities and individuals. On 30 December 2014, the exchange fee for the purchase of foreign currency was reduced to 20%. Inflation in 2014 was 16.3%, and GDP in 2014 grew by 1.6%. The base refinancing rate as at 31 December 2014 was 20%.

In January 2015, the National Bank continued to follow a policy of stabilizing the financial market. On 9 January, it canceled the exchange fee for the purchase of foreign currency by legal entities and individuals and devalued the Belarusian ruble against major foreign currencies by 10.7% on average (by 16.1%, 12.9% and 3% against the US dollar, the euro and the Russian ruble, respectively) as compared with the official exchange rate as at 31 December 2014. The refinancing rate was increased to 25.0%.

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 position 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.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

21. Commitments and contingencies (continued)

Operating environment (continued)

As at 31 December 2014, 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 2014, the Bank's financial commitments and contingencies comprises the following:

	2014	*2013*
Credit-related commitments		
Undrawn loan commitments	860,599	1,076,336
Letters of credit	957,419	329,913
Guarantees	1,257,238	1,170,311
	3,075,256	**2,576,560**
Lease commitments		
Not later than 1 year	16,383	19,651
From 1 year to 5 years	2,988	21,902
Later than 5 years	3	11,760
	19,374	**53,313**
Less - Provisions	(2,886)	(5,341)
Financial commitments and contingencies (before deducting collateral)	**3,091,744**	**2,624,532**
Less: Cash held as security against letters of credit and guarantees	(85,723)	(143,190)
Financial commitments and contingencies	**3,006,021**	**2,481,342**

22. Net fee and commission income

Net fee and commission income comprises:

	2014	*2013*
Settlement transactions	867,473	820,008
Currency conversion operations	178,741	199,618
Guarantees and letters of credit	57,897	57,946
Agency services	17,090	14,450
Other	5,753	4,125
Fee and commission income	**1,126,954**	**1,096,147**
Settlement transactions	(274,107)	(266,939)
Guarantees	(29,954)	(22,982)
Currency conversion operations	(11,133)	(12,066)
Securities operations	(65)	(160)
Other	(4,011)	(190)
Fee and commission expense	**(319,270)**	**(302,337)**
Net fee and commission income	**807,684**	**793,810**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

23. Other income

Other income comprises:

	2014	*2013*
Income from agriculture services	26,850	46,051
Income from operating lease	7,056	6,270
Income on debt previously written off	7,011	8,462
Income from sale of property and equipment	2,602	1,134
Income from rendering of services for office buildings maintenance	1,493	–
Income from additional services for finance lease agreements	30	41
Income from sale of constructed housing	–	1,004
Other	15,069	32,287
Total other income	**60,111**	**95,249**

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2014	*2013*
Salaries and bonuses	413,633	429,906
Social security costs	121,274	118,571
Retirement benefits (Note 25)	25,405	29,049
Other employment taxes	3,623	2,438
Personnel expenses	**563,935**	**579,964**

	2014	*2013*
Occupancy and rent	87,189	76,311
Data processing	76,300	68,795
Deposit insurance fees	72,469	74,360
Plastic cards operations	40,457	35,931
Marketing and advertising	34,698	41,007
Legal and consultancy	27,468	24,386
Office supplies	25,640	24,742
Transportation expenses	18,673	18,095
Loss on disposal of property and equipment and intangible assets	17,870	24,854
Communications	13,694	13,342
Repair and maintenance of equipment	12,283	8,265
Business travel and related expenses	6,569	6,215
Personnel training	5,741	6,231
Representative expenses	5,326	4,329
Security	2,450	2,120
Expenses from additional leasing services	409	522
Other	24,647	35,743
Other operating expenses	**471,883**	**465,248**

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 benefit plan 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.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

25. Post-employment benefits (continued)

Defined benefit plan (continued)

Net benefit expense (recognized under personnel expenses)

	2014	*2013*
Current service cost	7,951	8,786
Interest cost on benefit obligation	17,454	9,455
Past service cost	–	10,808
Net benefit expense (Note 24)	**25,405**	**29,049**

Retirement benefit liability

	2014	*2013*
Retirement benefit liability (Note 15)	**(106,214)**	**(118,000)**

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

	2014	*2013*
Opening defined benefit obligation	118,000	72,932
Current service cost	7,951	8,786
Interest expense	17,454	9,455
Increase of obligations due to changes in pension plan terms	–	10,808
Actuarial gains/losses arising from changes in demographic assumptions	801	14,562
Actuarial losses arising from changes in finance assumptions	(28,525)	10,186
Current regulating amendments	10,615	3,941
Benefits paid	(3,544)	(2,288)
Gain on net monetary position	(16,538)	(10,382)
Closing defined benefit obligation	**106,214**	**118,000**

Changes in plan obligations:

	2014	*2013*
Opening plan obligation	(118,000)	(72,932)
Net benefit expense	(25,405)	(29,049)
Revaluation of defined benefit plans recognized in other comprehensive income	17,109	(28,689)
Benefits paid	3,544	2,288
Gain on net monetary position	16,538	10,382
Closing plan obligation	**(106,214)**	**(118,000)**

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

	2014	*2013*
Discount rate	21.10%	17.51%
Future inflation rate	11.03%	11.71%

The average term of defined benefit plan obligations at the end of the reporting period was 11.0 years (2013: 14.3 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 3,666 million (2013: BYR 2,146 million).

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

25. Post-employment benefits (continued)

Defined benefit plan (continued)

Sensitivity analysis

	Changes in assumptions	***Effect on the benefit obligation***
Discount rate	+ / - 1 pp	9,425
Future inflation rate	+ / - 1 pp	2,377
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / - 0.5 pp	102

26. Risk management

Introduction

Risk is inherent in the Bank's activities but it 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 the 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, Problem Loans Committee and Audit 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.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

26. Risk management (continued)

Introduction (continued)

Audit Committee

Audit Committee is responsible for overall management and effective functioning of internal control system and internal audit function 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.

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 risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify 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 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.

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26. Risk management (continued)

Credit risk

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

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 risks similar to credit risks and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk 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 for 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 2014*	*Standard grade 2014*	*Sub-standard grade 2014*	*Not rated*	*Past due but not individually impaired 2014*	*Individually impaired 2014*	*Total 2014*
Cash and cash equivalents (net of cash on hand)	6	317,268	1,025,428	–	–	–	–	**1,342,696**
Amounts due from credit institutions	7	109,083	68,792	–	–	–	–	**177,875**
Derivative financial assets	8	–	953,897	–	–	–	–	**953,897**
Held-to-maturity investment securities	11	–	1,366,148	–	–	–	–	**1,366,148**
Loans to customers:	9							
Corporate lending		1,087,068	2,124,824	7,060,863	–	216,957	340,228	**10,829,940**
Small business lending		605,771	576,578	677,235	389,741	87,457	47,133	**2,383,915**
Consumer lending		–	–	–	2,013,249	105,098	30,168	**2,148,515**
Residential mortgages		–	–	–	191,782	12,257	15,916	**219,955**
		1,692,839	**2,701,402**	**7,738,098**	**2,594,772**	**421,769**	**433,445**	**15,582,325**
Other financial assets	15	–	215,948	–		–	–	**215,948**
Total		**2,119,190**	**6,331,615**	**7,738,098**	**2,594,772**	**421,769**	**433,445**	**19,638,889**

		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	6	479,643	2,134,753	–	–	–	–	**2,614,396**
Amounts due from credit institutions	7	137,146	44,509	–	–	–	–	**181,655**
Derivative financial assets	8	–	1,815,194	–	–	–	–	**1,815,194**
Available-for-sale investment securities	11	–	47,874	–	–	–	–	**47,874**
Held-to-maturity investment securities	11	–	748,845	–	–	–	–	**748,845**
Loans to customers:	9	–	–	–	–	–	–	**–**
Corporate lending		1,349,372	2,478,891	6,372,808	–	179,573	5,721	**10,386,365**
Small business lending		129,365	665,022	896,313	334,000	28,707	32,559	**2,085,966**
Consumer lending		–	–	–	1,710,797	62,439	20,669	**1,793,905**
Residential mortgages		–	–	–	246,808	11,207	21,054	**279,069**
		1,478,737	**3,143,913**	**7,269,121**	**2,291,605**	**281,926**	**80,003**	**14,545,305**
Other financial assets	15	–	269,153	–		–	–	**269,153**
Total		**2,095,526**	**8,204,241**	**7,269,121**	**2,291,605**	**281,926**	**80,003**	**20,222,422**

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

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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.

26. Risk management (continued)

Credit risk (continued)

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 2014	***31 to 90 days 2014***	***More than 90 days 2014***	***Total 2014***
Loans to customers				
Corporate lending	198,015	956	17,986	**216,957**
Small business lending	59,000	20,795	7,662	**87,457**
Consumer lending	65,114	24,025	15,959	**105,098**
Residential mortgages	7,836	2,478	1,943	**12,257**
Total	**329,965**	**48,254**	**43,550**	**421,769**

	Less than 30 days 2013	***31 to 90 days 2013***	***More than 90 days 2013***	***Total 2013***
Loans to customers:				
Corporate lending	71,222	108,351	–	**179,573**
Small business lending	25,848	1,640	1,219	**28,707**
Consumer lending	40,450	14,418	7,571	**62,439**
Residential mortgages	4,576	5,780	851	**11,207**
Total	**142,096**	**130,189**	**9,641**	**281,926**

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

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of 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.

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26. Risk management (continued)

Geographical risk concentration

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

	2014				*2013*			
	Belarus	***OECD***	***CIS and other foreign banks***	***Total***	***Belarus***	***OECD***	***CIS and other foreign banks***	***Total***
Assets								
Cash and cash equivalents	2,542,706	262,036	90,625	**2,895,367**	3,121,580	448,064	278,399	**3,848,043**
Amounts due from credit institutions	177,875	–	–	**177,875**	181,655	–	–	**181,655**
Derivative financial assets	938,311	15,586	–	**953,897**	1,815,194	–	–	**1,815,194**
Loans to customers	15,175,224	–	–	**15,175,224**	14,233,541	–	–	**14,233,541**
Available-for-sale investment securities	–	–	–	**–**	–	47,874	–	**47,874**
Held-to-maturity investment securities	1,366,148	–	–	**1,366,148**	748,845	–	–	**748,845**
Other assets	215,948	–	–	**215,948**	269,153	–	–	**269,153**
	20,416,212	**277,622**	**90,625**	**20,784,459**	**20,369,968**	**495,938**	**278,399**	**21,144,305**
Liabilities								
Amounts due to the National Bank of the Republic of Belarus	–	–	–	**–**	152	–	–	**152**
Amounts due to credit institutions	167,589	4,455,029	98,513	**4,721,131**	64,788	4,818,881	55,054	**4,938,723**
Derivative financial liabilities	12,282	73	3,767	**16,122**	–	1,719	–	**1,719**
Amounts due to customers	11,171,506	437,066	482,563	**12,091,135**	12,246,081	277,548	215,119	**12,738,748**
Amounts due to international credit institutions	–	176,202	–	**176,202**	–	288,896	–	**288,896**
Debt securities issued	177,225	–	–	**177,225**	266,871	–	–	**266,871**
Other liabilities	252,986	–	–	**252,986**	257,473	6,685	276	**264,434**
	11,781,588	**5,068,370**	**584,843**	**17,434,801**	**12,835,365**	**5,393,729**	**270,449**	**18,499,543**
Net assets and liabilities	**8,634,624**	**(4,790,748)**	**(494,218)**	**3,349,658**	**7,534,603**	**(4,897,791)**	**7,950**	**2,644,762**

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.

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26. Risk management (continued)

Liquidity risk and funding management (continued)

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	*2014*	*2013*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	125.9%	145.9%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity or liabilities repayable within one year)	1.0	1.7	1.8
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	310.3%	325.2%
The Bank's liquidity and total assets ratio	20.0%	31.0%	31.6%

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 2014	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	224,642	364,498	1,502,960	2,858,289	573	**4,950,962**
Derivative financial instruments:						
• Contractual amounts payable	–	2,803,119	420,060	–	–	**3,223,179**
• Contractual amounts receivable	–	(2,803,039)	(1,438,000)	–	–	**(4,241,039)**
Amounts due to customers	5,175,615	3,972,181	1,143,817	2,035,485	–	**12,327,098**
Amounts due to international financial institutions	189	59,868	34,038	83,786	–	**177,881**
Debt securities issued	–	8,019	24,502	226,355	–	**258,876**
Other liabilities	1,306	–	136,795	114,885	–	**252,986**
Total undiscounted financial liabilities	**5,401,752**	**4,404,646**	**1,824,172**	**5,318,800**	**573**	**16,949,943**

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26. Risk management (continued)

Liquidity risk and funding management (continued)

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	152	–	–	–	–	**152**
Amounts due to credit institutions	111,647	364,417	2,423,835	2,266,007	671	**5,166,577**
Derivative financial instruments:						
• Contractual amounts payable	–	120,798	393,068	488,530	–	**1,002,396**
• Contractual amounts receivable	–	(119,076)	(1,140,903)	(1,521,204)	–	**(2,781,183)**
Amounts due to customers	6,039,943	2,894,383	2,264,414	1,741,398	3,548	**12,943,686**
Amounts due to international financial institutions	14	96,017	81,418	115,435	–	**292,884**
Debt securities issued	–	6,797	75,366	243,070	–	**325,233**
Other liabilities	1,064	–	100,039	163,331	–	**264,434**
Total undiscounted financial liabilities	**6,152,820**	**3,363,336**	**4,197,237**	**3,496,567**	**4,219**	**17,214,179**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2014	3,080,196	11,443	2,988	3	**3,094,630**
2013	2,582,030	14,181	21,902	11,760	**2,629,873**

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 the 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.

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26. Risk management (continued)

Market risk (continued)

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 2014 and 2013. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial securities as at 31 December 2013 for the effects of the assumed changes in interest rates.

Currency	*Increase in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of equity less effect on net interest income 2014*
BYR	+50 b.p.	5,222	–
EUR	+50 b.p.	13,583	–
USD	+50 b.p.	11,300	–

Currency	*Decrease in basis points 2014*	*Sensitivity of net interest income 2014*	*Sensitivity of equity less effect on net interest income 2014*
BYR	-50 b.p.	(5,222)	–
EUR	-50 b.p.	(13,583)	–
USD	-50 b.p.	(11,300)	–

Currency	*Increase in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of equity less effect on net interest income 2013*
BYR	+50 b.p.	3,583	–
EUR	+50 b.p.	4,887	–
USD	+50 b.p.	11,305	239

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity less effect on net interest income 2012*
BYR	-50 b.p.	(3,583)	–
EUR	-50 b.p.	(4,887)	–
USD	-50 b.p.	(11,305)	(239)

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.

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26. Risk management (continued)

Market risk (continued)

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 2014 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 %, 2014*	*Effect on profit before tax 2014*	*Change in currency rate in %, 2013*	*Effect on profit before tax 2013*
USD	49.31	527,338	32.48	412,064
USD	-49.31	(527,338)	-32.48	(412,064)
EUR	36.08	349,867	33.90	286,127
EUR	-36.08	(349,867)	-33.90	(286,127)

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

Operational risk

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

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27. Fair 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 2014	*Fair value 2014*	*Unrecognized gain/ (loss) 2014*	*Carrying value 2013*	*Fair value 2013*	*Unrecognized gain/ (loss) 2013*
Financial assets						
Cash and cash equivalents	2,895,367	2,895,367	–	3,848,043	3,848,043	–
Amounts due from credit institutions	177,875	177,875	–	181,655	181,655	–
Loans to customers	15,175,224	15,175,224	–	14,233,541	14,314,566	81,025
Held-to-maturity investment securities	1,366,148	1,366,148	–	748,845	748,845	–
Other financial assets	215,948	215,948	–	269,153	269,153	–
Financial liabilities						
Amounts due to the National Bank of the Republic of Belarus	–	–	–	152	152	–
Amounts due to credit institutions	4,721,131	4,721,131	–	4,938,723	4,938,723	–
Amounts due to customers	12,091,135	12,091,135	–	12,738,748	12,738,748	–
Amounts due to international financial institutions	176,202	176,202	–	288,896	288,896	–
Debt securities issued	177,225	175,245	1,980	266,871	266,871	–
Other financial liabilities	252,986	252,986	–	264,434	264,434	–
Total unrecognized change in unrealized fair value			**1,980**			**81,025**

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that their 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. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate and variable rate financial instruments

For quoted debt instruments 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 at recognition with current market rates offered for similar financial instruments.

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27. Fair value of financial instruments (continued)

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:

At 31 December 2014	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	17,278	936,619	**953,897**
	–	**17,278**	**936,619**	**953,897**
Financial liabilities				
Derivative financial liabilities	–	16,122	–	**16,122**
	–	**16,122**	**–**	**16,122**

At 31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	–	1,815,194	**1,815,194**
Available-for-sale investment securities	47,874	–	–	**47,874**
	47,874	**–**	**1,815,194**	**1,863,068**
Financial liabilities				
Derivative financial liabilities	–	1,719	–	**1,719**
	–	**1,719**	**–**	**1,719**

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 2014	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets for which fair values are disclosed				
Cash and cash equivalents	1,552,671	1,342,696	–	**2,895,367**
Amounts due from credit institutions	–	177,875	–	**177,875**
Loans to customers	–	–	15,175,224	**15,175,224**
Held-to-maturity investment securities	–	1,366,148	–	**1,366,148**
Other financial assets	–	–	215,948	**215,948**
	1,552,671	**2,886,719**	**15,391,172**	**19,830,562**
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	4,721,131	**4,721,131**
Amounts due to customers	–	–	12,091,135	**12,091,135**
Amounts due to international financial institutions	–	–	176,202	**176,202**
Debt securities issued	–	175,245	–	**175,245**
Other financial liabilities	–	–	252,986	**252,986**
	–	**175,245**	**17,241,454**	**17,416,699**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

27. Fair value of financial instruments (continued)

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets for which fair values are disclosed				
Cash and cash equivalents	1,233,647	2,614,396	–	**3,848,043**
Amounts due from credit institutions	–	181,655	–	**181,655**
Loans to customers	–	–	14,314,566	**14,314,566**
Held-to-maturity investment securities	–	748,845	–	**748,845**
Other financial assets	–	–	269,153	**269,153**
	1,233,647	**3,544,896**	**14,583,719**	**19,362,262**
Financial liabilities for which fair values are disclosed				
Amounts due to the National Bank of the Republic of Belarus	–	–	152	**152**
Amounts due to credit institutions	–	–	4,938,723	**4,938,723**
Amounts due to customers	–	–	12,738,748	**12,738,748**
Amounts due to international financial institutions	–	–	288,896	**288,896**
Debt securities issued	–	266,871	–	**266,871**
Other financial liabilities	–	–	264,434	**264,434**
	–	**266,871**	**18,230,953**	**18,497,824**

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 pricing 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.

Available-for-sale securities

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 table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

27. Fair value of financial instruments (continued)

	At 1 January 2014	*Gain/ (loss) recorded in profit or loss on 'Translation differences' position*	*Settlements*	*Gain on net monetary position*	*At 31 December 2014*
Financial assets					
Derivative financial instruments	1,815,194	79,105	(703,272)	(254,408)	936,619
Total Level 3 financial assets	**1,815,194**	**79,105**	**(703,272)**	**(254,408)**	**936,619**

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

	2014			*2013*		
	Realized gains	*Unrealized gains*	*Total*	*Realized gains*	*Unrealized gains*	*Total*
Gains recorded in the income statement	31,020	48,085	**79,105**	–	66,261	**66,261**

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

The following table shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	31 December 2014		*31 December 2013*	
	Carrying value	*Effect of reasonably possible alternative assumptions*	*Carrying value*	*Effect of reasonably possible alternative assumptions*
Financial assets				
Derivative financial instruments	936,619	(1,949)	1,815,194	(2,827)

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 100 b.p. (2013: 50 b.p.)

When calculating the fair values of derivative financial instruments as at 31 December 2014 the Bank used the following rates:

- for foreign currency component – the yield on Eurobonds of the Ministry of Finance of the Republic of Belarus maturing in August 2015 which is adjusted for time factor and equal to 17.7%;
- for ruble component – the average interest rate of 47.7% applicable at the interbank lending market in December 2014.

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 yield of 7.47% on Eurobonds of the Ministry of Finance of the Republic of Belarus 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.

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

28. Maturity analysis of assets and financial 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.

	2014			*2013*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	2,895,367	–	**2,895,367**	3,848,043	–	**3,848,043**
Amounts due from credit institutions	177,875	–	**177,875**	31,946	149,709	**181,655**
Derivative financial assets	953,897	–	**953,897**	747,038	1,068,156	**1,815,194**
Loans to customers	9,518,698	5,656,526	**15,175,224**	9,834,515	4,399,026	**14,233,541**
Investment securities:						
- available-for-sale	–	–	**–**	–	47,874	**47,874**
- held-to-maturity	15,248	1,350,900	**1,366,148**	–	748,845	**748,845**
Property and equipment	104,979	1,113,588	**1,218,567**	118,018	1,101,986	**1,220,004**
Intangible assets	62,636	166,729	**229,365**	59,364	152,167	**211,531**
Deferred tax assets	–	41	**41**	–	91	**91**
Current income tax assets	3,160	–	**3,160**	12	–	**12**
Other assets	744,694	22	**744,716**	653,564	127,131	**780,695**
Total assets	**14,476,554**	**8,287,806**	**22,764,360**	**15,292,500**	**7,794,985**	**23,087,485**
Amounts due to NBRB	–	–	**–**	152	–	**152**
Amounts due to credit institutions	1,864,479	2,856,652	**4,721,131**	1,943,875	2,994,848	**4,938,723**
Derivative financial liabilities	16,122	–	**16,122**	1,719	–	**1,719**
Amounts due to customers	8,251,203	3,839,932	**12,091,135**	10,136,252	2,602,496	**12,738,748**
Amounts due to international financial institutions	93,911	82,291	**176,202**	174,409	114,487	**288,896**
Debt securities issued	1,561	175,664	**177,225**	60,169	206,702	**266,871**
Current income tax liabilities	41,423	–	**41,423**	19,733	–	**19,733**
Deferred tax liabilities	–	329,247	**329,247**	–	226,442	**226,442**
Provisions	3,699	–	**3,699**	8,099	–	**8,099**
Other liabilities	342,812	114,885	**457,697**	168,106	163,331	**331,437**
Total liabilities	**10,615,210**	**7,398,671**	**18,013,881**	**12,512,514**	**6,308,306**	**18,820,820**
Net	**3,861,344**	**889,135**	**4,750,479**	**2,779,986**	**1,486,679**	**4,266,665**

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

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 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 (RBI), banks under common control), 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:

	2014			*2013*		
	RBI	***Banks under common control***	***Key management personnel***	***RBI***	***Banks under common control***	***Key management personnel***
Loans outstanding at 1 January, gross	85,556	29,867	4,517	98,514	48,453	6,051
Loss on monetary position	(12,585)	(32,595)	(633)	(14,882)	(7,065)	(862)
Foreign exchange differences	8,228	(5,429)	–	11,560	1,767	–
Loans issued during the year	20,388	65,335	57	45,690	2,278	478
Loan repayments during the year	(35,504)	–	(950)	(55,326)	(15,566)	(1,150)
Loans outstanding at 31 December, gross	**66,083**	**57,178**	**2,991**	**85,556**	**29,867**	**4,517**
Less: allowance for impairment at 31 December	–	–	–	–		–
Loans outstanding at 31 December, net	**66,083**	**57,178**	**2,991**	**85,556**	**29,867**	**4,517**
Deposits at 1 January	4,787,909	18,503	11,761	2,991,943	20,051	23,495
Loss on monetary position	(713,340)	(2,593)	(1,649)	(453,657)	(2,854)	(3,345)
Foreign exchange differences	592,386	–	1,493	374,555	–	2,307
Deposits received during the year	417,088	6,081	67,367	2,353,155	1,306	60,716
Deposits repaid during the year	(707,498)	–	(61,503)	(478,087)	–	(71,412)
Deposits at 31 December	**4,376,545**	**21,991**	**17,469**	**4,787,909**	**18,503**	**11,761**
Settlement and current accounts at 31 December	–	–	748	–	–	1,465
Commitments and guarantees issued	57,594	–	–	46,077	18,710	–
Commitments and guarantees received	40,846	–	–	43,202	–	–

(in millions of Belarusian rubles in terms of purchasing power of the Belarusian ruble as at 31 December 2014)

29. Related party transactions (continued)

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

	For the year ended 31 December					
	2014			*2013*		
	RBI	***Banks under common control***	***Key management personnel***	***RBI***	***Banks under common control***	***Key management personnel***
Interest income on loans	–	3	622	–	16	871
Interest expense on deposits	(226,128)	–	(2,385)	(203,042)	–	(1,779)
Net income from foreign exchange operations	937	(35,190)	–	4,710	(23,674)	–
Fee and commission income	188	11	102	440	6	123
Fee and commission expense	(5,122)	(2,217)	–	(4,701)	(1,353)	–
Personnel expenses	–	–	(12,126)	–	–	(15,645)
Other operating expenses	(24,117)	–	–	(22,716)	–	–

Compensation to key management personnel comprises the following:

	2014	*2013*
Salaries and other short-term benefits	10,208	13,511
Defined benefit plan	1,525	1,751
Social security costs	393	383
Total key management compensation	**12,126**	**15,645**

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 2014, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2014 and 2013, the Bank managed to comply with NBRB capital adequacy ratio.

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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 2014 and 2013, comprised:

	2014	***2013***
Tier 1 capital	4,681,656	4,223,852
Tier 2 capital	-	24,151
Total equity	**4,681,656**	**4,248,003**
Risk-weighted assets	**21,080,662**	**20,118,446**
Tier 1 capital ratio	22.21 %	20.99%
Total capital ratio	22.21 %	21.11%

31. Events after the reporting period

In January 2015, the National Bank continued to follow a policy of stabilizing the financial market. On 9 January, it canceled the exchange fee for the purchase of foreign currency by legal entities and individuals and devalued the Belarusian ruble against major foreign currencies by 10.7% on average (by 16.1%, 12.9% and 3% against the US dollar, the euro and the Russian ruble, respectively) as compared with the official exchange rate as at 31 December 2014. The official exchange rate of US dollar at 15 April 2015 was BYR 14,420, euro – BYR 15,220, RUB – BYR 278. The refinancing rate has been increased to 25.0% since 9 January 2015.

At the shareholders' meeting in March 2015, dividends were declared in respect for the year ended 31 December 2014, totaling BYR 3,080 per ordinary share and BYR 1,675 –per preferred share. In total, the amount of dividends amounted to BYR 379,020 million on ordinary shares and BYR 17 million on preferred shares.