**Translation from the original in Russian**

# Closed joint-stock company Minsk Transit Bank

## IFRS Financial Statements

*Year ended 31 December 2013*
*Together with Independent Auditors' Report*

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# Independent auditors' report on the financial statements of closed joint-stock company "Minsk Transit Bank" for the period ended 31 December 2013

To Chairman of the Management Board
of the closed joint-stock company "Minsk Transit Bank"
A. K. Zhyshkevich

To the Shareholders and Supervisory Board of Closed joint-stock company "Minsk Transit Bank"

We have audited the accompanying financial statements of Closed joint-stock company "Minsk Transit Bank" (hereinafter the "Bank"), which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

## *Management's responsibility for the financial statements*

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Law of the Republic of Belarus "On Auditing Activity", 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 financial statements are free from material misstatement.

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

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

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*Opinion*

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

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

25 February 2014

***Details of the audited entity***

Name: closed joint-stock company “Minsk Transit Bank”
Registered by the National Bank of the Republic of Belarus on 14 March 1994, State Registration Number 38.
Address: 220033, Republic of Belarus, Minsk, 6-a Partizansky Avenue.

***Details of the auditor***

Name: FLLC “Ernst & Young”
Registered by Minsk state executive committee on 7 April 2005, State Registration Number 577
Address: 220004, Republic of Belarus, Minsk, Korolya str-t, 51, 2d floor, office 30

## Statement of financial position

## as of 31 December 2013

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013)*

| | *Notes* | *2013* | *2012* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 897,517 | 971,854 |
| Amounts due from credit institutions | 6 | 60,833 | 21,002 |
| Derivative financial assets | 7 | 136 | 30,770 |
| Loans to customers | 8 | 3,099,246 | 2,548,192 |
| Investment securities available-for-sale | 9 | 84,117 | 108,020 |
| Property and equipment | 10 | 98,818 | 74,888 |
| Intangible assets | 11 | 30,737 | 21,985 |
| Deferred income tax assets | 12 | – | 712 |
| Other assets | 14 | 67,595 | 33,051 |
| **Total assets** | | **4,338,999** | **3,810,474** |
| | | | |
| **Liabilities** | | | |
| Amounts due to credit institutions | 15 | 582,898 | 179,564 |
| Derivative financial liabilities | 7 | 379 | 69 |
| Amounts due to customers | 16 | 2,545,175 | 2,777,508 |
| Debt securities issued | 17 | 326,407 | 112,701 |
| Other borrowed funds | 18 | 186,722 | 243,374 |
| Current income tax liabilities | | 13,906 | 269 |
| Deferred income tax liabilities | 12 | 18,796 | – |
| Provisions | 13 | 2,894 | 2,112 |
| Other liabilities | 14 | 37,129 | 22,727 |
| Subordinated debt | 19 | 91,273 | 93,574 |
| **Total liabilities** | | **3,805,579** | **3,431,898** |
| | | | |
| **Equity** | 20 | | |
| Share capital | | 490,567 | 490,567 |
| Retained earnings/ (accumulated deficit) | | 44,742 | (110,783) |
| Reserve for unrealized losses on investment securities available-for-sale | | (1,889) | (1,208) |
| **Total equity** | | **533,420** | **378,576** |
| **Total equity and liabilities** | | **4,338,999** | **3,810,474** |

Signed and authorized for release on behalf of the Management Board of CJSC "MTBank"

A. K. Zhyshkevich — Chairman of the Management Board

D. P. Shidlovich — Finance Director

14 February 2014

## Statement of profit or loss

## For the year ended 31 December 2013

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Interest income** | | | |
| Loans to customers | | 1,112,090 | 516,203 |
| Amounts due from credit institutions | | 41,938 | 40,112 |
| Investment securities available-for-sale | | 33,922 | 36,595 |
| | | **1,187,950** | **592,910** |
| **Interest expense** | | | |
| Amounts due to customers | | (542,598) | (232,094) |
| Amounts due to credit institutions | | (44,285) | (21,073) |
| Debt securities issued | | (37,043) | (15,963) |
| Other borrowed funds | | (12,646) | (17,824) |
| Subordinated debt | | (5,468) | (6,725) |
| | | **(642,040)** | **(293,679)** |
| **Net interest income** | | **545,910** | **299,231** |
| Allowance for loan impairment | 8 | (117,654) | (88,248) |
| **Net interest income after allowance for loan impairment** | | **428,256** | **210,983** |
| Fee and commission income | 23 | 227,837 | 169,427 |
| Fee and commission expense | 23 | (69,194) | (26,416) |
| Net gains/(losses) from investment securities available-for-sale | | 3,917 | (5,446) |
| Net gains from foreign currencies | 22 | 63,636 | 43,838 |
| Other income | 24 | 17,915 | 10,826 |
| **Non-interest income** | | **244,111** | **192,229** |
| Personnel expenses | 25 | (180,490) | (128,956) |
| Depreciation and amortization | 10, 11 | (22,473) | (17,472) |
| Other operating expenses | 25 | (158,066) | (119,824) |
| Other impairment and provisions (reversal) | 13 | (1,237) | 1,508 |
| **Non-interest expense** | | **(362,266)** | **(264,744)** |
| **Profit before loss on net monetary position and income tax expense** | | **310,101** | **138,468** |
| Loss on net monetary position | | (56,264) | (62,996) |
| **Profit before income tax expense** | | **253,837** | **75,472** |
| Income tax expense | 12 | 51,434 | (18,745) |
| **Profit for the year** | | **202,403** | **56,727** |

## Statement of comprehensive income

## For the year ended 31 December 2013

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013)*

| | ***Notes*** | ***2013*** | ***2012*** |
|---|---|---|---|
| **Profit for the year** | | **202,403** | **56,727** |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Realized (gains)/ losses on investment securities available-for-sale reclassified to the income statement | | (3,917) | 334 |
| Unrealized gains on investment securities available-for-sale | | 3,236 | 783 |
| **Other net comprehensive (expense)/ income to be reclassified to profit or loss in subsequent periods** | | **(681)** | **1,117** |
| **Other comprehensive (expense)/ income for the year** | | **(681)** | **1,117** |
| **Total comprehensive income for the year** | | **201,722** | **57,844** |

## Statement of changes in equity

## For the year ended 31 December 2013

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013)*

| | *Share capital* | *Retained earnings /(accumulated deficit)* | *Reserve for unrealized losses on investment securities available-for-sale* | *Total* |
|---|---|---|---|---|
| **31 December 2011** | **490,567** | **(167,510)** | **(2,325)** | **320,732** |
| Profit for the year | – | 56,727 | – | **56,727** |
| Other comprehensive income for the year | – | – | 1,117 | **1,117** |
| **Total comprehensive income for the year** | **–** | **56,727** | **1,117** | **57,844** |
| **31 December 2012** | **490,567** | **(110,783)** | **(1,208)** | **378,576** |
| Profit for the year | – | 202,403 | – | **202,403** |
| Other comprehensive loss for the year | – | – | (681) | **(681)** |
| **Total comprehensive income for the year** | **–** | **202,403** | **(681)** | **201,722** |
| Dividends (Note 20) | – | (46,878) | – | **(46,878)** |
| **31 December 2013** | **490,567** | **44,742** | **(1,889)** | **533,420** |

## Statement of cash flows

## For the year ended 31 December 2013

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013)*

| | *Notes* | *2013* | *2012* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 1,066,387 | 533,787 |
| Interest paid | | (635,454) | (284,836) |
| Fee and commission received | | 227,540 | 169,000 |
| Fees and commissions paid | | (69,225) | (26,357) |
| Realized gains less losses from dealing in foreign currencies | | 63,803 | 107,359 |
| Other income received | | 18,242 | 9,375 |
| Personnel expenses paid | | (175,458) | (125,153) |
| Other operating expenses paid | | (158,479) | (119,736) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **337,356** | **263,439** |
| *Net (increase)/ decrease in operating assets* | | | |
| Derivative financial instruments | | 26,604 | – |
| Amounts due from credit institutions | | (46,589) | 19,741 |
| Loans to customers | | (782,903) | (1,481,998) |
| Other assets | | (23,366) | (12,181) |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to credit institutions | | 394,171 | 154,898 |
| Amounts due to customers | | 60,739 | 1,412,205 |
| Other liabilities | | 9,979 | 6,757 |
| **Net cash flows from operating activities before income tax** | | **(24,009)** | **362,861** |
| Income tax paid | | (18,352) | (17,313) |
| **Net cash flows from operating activities** | | **(42,361)** | **345,548** |
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | | (2,721,823) | (1,844,316) |
| Proceeds from sale and redemption of investment securities | | 2,745,571 | 1,861,020 |
| Purchase of property and equipment and intangible assets | 10,11,14 | (67,401) | (47,105) |
| Proceeds from sale of property and equipment and intangible assets | | 10,931 | 17 |
| **Net cash flows used in investing activities** | | **(32,722)** | **(30,384)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of debt securities | | 988,770 | 286,155 |
| Redemption of debt securities issued | | (756,357) | (214,588) |
| Proceeds from other borrowed funds | | 100,694 | 82,001 |
| Repayment of other borrowed funds | | (145,781) | (163,255) |
| Dividends paid | | (44,477) | – |
| **Net cash used in financing activities** | | **142,849** | **(9,687)** |
| Monetary loss on cash and cash equivalents | | (171,141) | (158,773) |
| Effect of exchange rates changes on cash and cash equivalents | | 29,038 | 9,839 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(74,337)** | **156,543** |
| **Cash and cash equivalents, 1 January** | 5 | **971,854** | **815,311** |
| **Cash and cash equivalents, 31 December** | 5 | **897,517** | **971,854** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 1. Principal activities

Closed joint-stock company "Minsk Transit Bank" (hereinafter - CJSC "MTBank" or the "Bank") was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter - the "National Bank") on 14 March 1994 as a closed joint stock commercial bank with foreign investment. The Bank's activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on 22 December 2012. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until 29 July 2022 based on Decision No. 145 of 16 May 2012).

The Bank accepts deposits from the public and extends credit, transfers payments in the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its head office is in Minsk. The Bank's registered legal address is 6-a Partizansky Avenue, Minsk, Republic of Belarus. The Bank is a member of the national deposit insurance system.

As of 31 December 2013, the Bank's structure includes the Head Office, 6 centers for banking services and 49 outlets located in Minsk, Brest, Gomel, Vitebsk, Mogilev, Molodechno, Zhodino, Bobruisk, Baranovichi and Lida.

As of 31 December 2013 and 2012, the Bank had neither subsidiaries nor associates.

As of 31 December 2013 and 2012, the Bank’s outstanding share capital was owned by the following shareholders:

| Shareholder | % |
|---|---|
| MTB Investments Holdings Limited, Cyprus | 98.97 |
| Other | 1.03 |
| **Total** | **100.00** |

As of 31 December 2013, the Bank's largest shareholders were three individuals: Oleg Ilgizovich Husaenov (Russia), Sergey Nikolaevich Savitsky (Russia) and Igor Vyacheslavovich Malgin (Russia). They own, directly or indirectly, in aggregate over 64% of the Bank's share capital (2012: over 64%). None of these individuals ultimately owned more than 50% of the Bank's share capital in 2013 and 2012.

## 2. Basis of preparation

### General

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

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

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities and derivative financial instruments have been measured at fair value.

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

### Inflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*. 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 Belarusian rouble.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 2. Basis of preparation (continued)

### Inflation accounting (continued)

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 applying IAS 29, the Bank has used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the National Statistical Committee of the Republic of Belarus. The CPIs for the eight year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

| *Year* | *Index, %* | *Conversion factors* |
|---|---|---|
| 2006 | 106.6 | 455.2 |
| 2007 | 112.1 | 406.1 |
| 2008 | 113.3 | 358.5 |
| 2009 | 110.1 | 325.5 |
| 2010 | 109.9 | 296.1 |
| 2011 | 208.7 | 141.9 |
| 2012 | 121.8 | 116.5 |
| 2013 | 116.5 | 100.0 |

Monetary assets and liabilities are not restated because they are already expressed in terms of the monetary units current as of 31 December 2013. Non-monetary assets and liabilities (items which are not yet expressed in terms of the monetary unit current as of 31 December 2013) are restated by applying the relevant index. The effect of inflation on the Bank's net monetary position is included in the 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 rouble 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 is the difference resulting from the restatement of non-monetary assets and liabilities, equity and items in the statement of comprehensive income. The corresponding figures for the year ended 31 December 2012 have also been restated so that they are presented in terms of the purchasing power of the Belarusian rouble as of 31 December 2013.

## 3. Summary of accounting policies

### Changes in accounting policies

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

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

## 3. Summary of accounting policies (continued)

### Changes in accounting policies (continued)

*IFRS 13 Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.*

These requirements had no effect on presentation and had no impact on the Bank's financial position or performance.

*Amendments to IAS 19 Employee Benefits*
The amendment to IAS 19 becomes effective for annual periods beginning on or after 1 January 2013. The amendment introduces major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Bank's financial position or performance.

*IFRS 12 Disclosure of Interests in Other Entities*
IFRS 12 sets out the disclosure requirements relating to the entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. A subsidiary controlled with less than a majority of voting rights can serve as an example. The standard had no impact on the financial position and financial results the Bank, as the Bank has no subsidiaries.

*Amendment to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's financial position or performance.

*Amendment to IAS 1 Clarification of Requirements for Comparative Information*
The amendment clarifies the difference between voluntary disclosure of additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position, presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. The amendment has not effect on presentation and has no impact on the Bank's financial position or performance.

*Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Bank's financial position or performance.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

### Fair value measurement

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

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

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

The principal or the most advantageous market must be accessible by the 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 economic best interest .A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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 recognised 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 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

*Date of recognition*

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

*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 repurchase in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the income statement.

## 3. Summary of accounting policies (continued)

### Financial assets (continued)

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the income statement 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 rate method. Gains and losses are recognized in the 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 recognised in other comprehensive income until the investment is derecognised 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 income statement. However, interest calculated using the effective interest method is recognized in the 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 [Group] 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 of the Bank [Group] has the intention and ability to hold it for the foreseeable future or until maturity.

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

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank, 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.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

### Repurchase and reverse repurchase agreements and securities lending

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

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

### Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including foreign currency forwards and swaps. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the income statement as net gains/ (losses) from foreign currencies dealing.

### 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 credit institutions, amounts due to customers, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the income statement when the borrowings are derecognized as well as through the amortization process.

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

### Leases

***i. Finance – Bank as lessor***

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

***ii. Operating – Bank as lessee***

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

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

### Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank [Group] 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 [Group] recognises 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 [Group] recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

### 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 recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the [consolidated] statement of financial position.

### 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. 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 amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans together with the associated allowance are written off according to the decision of the Bank's Management Board when there is no realistic prospect of future recovery. 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 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.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

### Impairment of financial assets (continued)

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 product type, industry, past-due status and other relevant factors.

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

*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 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 income statement – is reclassified from other comprehensive income to the income statement.
Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognized 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. Future interest income is based on the reduced carrying amount 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 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 income statement, the impairment loss is reversed through the 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:

- 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 a similar approach as in respect of the derecognition of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is deemed impaired after this 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 amount before the restructuring as an expense for impairment in the reporting period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

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. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan’s original or current effective interest rate.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount 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 amounts is recognized in the income statement.

### Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements 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 income statement. The premium received is recognized in the income statement on a straight-line basis over the life of the guarantee.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 3. Summary of accounting policies (continued)

### Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus.

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 amounts 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 utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of other operating expenses.

### Property and equipment

Property and equipment are 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, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount 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 | 7-100 |
| Computers and office equipment | 5-10 |
| Vehicles | 6-9 |
| Furniture and fixtures | 5-50 |

The asset's residual values, useful lives and depreciation 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 licenses for software and activities that must be licensed.

Intangible assets acquired separately are measured on initial recognition at cost, as adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets have finite useful lives and are amortised over the periods of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

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## 3. Summary of accounting policies (continued)

### 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 does not have any pension arrangements separate from 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 has no significant post-retirement benefits.

### Share capital

*Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date.

*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 financial statements are authorized for issue.

### Contingencies

Contingent liabilities are not recognized in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

## 3. Summary of accounting policies (continued)

### 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 trading or 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 amount 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 amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

*Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. 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.

### Foreign currency translation

The financial statements are presented in Belarusian roubles, 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 income statement as net gains from foreign currencies. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the National Bank of the Republic of Belarus on the date of the transaction are included in gains less losses from dealing in foreign currencies.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

# 3. Summary of accounting policies (continued)

## Foreign currency translation (continued)

The official exchange rates applied in the preparation of the financial statements as of 31 December 2013 and 2012 are as follows:

| | ***31 December 2013*** | ***31 December 2012*** |
|---|---|---|
| USD/BYR | 9,510.00 | 8,570.00 |
| EUR/BYR | 13,080.00 | 11,340.00 |
| RUR/BYR | 290.50 | 282.00 |

As of the date of authorisation of these financial statements for issue the official exchange rates were as follows: USD/BYR – 9,700.00, EUR/BYR – 13,220.00, RUR/BYR – 278.50.

## Future changes in accounting policies

***Standards and interpretations issued but not yet effective***

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

*Amendments to IFRS 10, IFRS 12 and IAS 27 (Investment entities)*
The amendments become effective for annual periods beginning on or after 1 January 2014 and provide an exception from the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments are not expected to have any impact on the Bank, since the Bank has no interest in entities qualified to be an investment entity under IFRS 10.

*Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The amendments become effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to have any impact on the Bank.

*IFRIC Interpretation 21 Levies*
IFRIC 21 clarifies that an entity should recognize a liability for a levy when the activity that triggers payment, as identified by the relevant 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 Interpretation 21 is effective for annual periods beginning on or after 1 January 2014. The Bank does not expect that IFRIC 21 will have a material impact on its financial statements.

*Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting*
The amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments become effective for annual periods beginning on or after 1 January 2014. The Bank has not novated its derivatives during the current reporting period. However, these amendments would be considered for future novations.

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## 4. Significant accounting judgments and estimates

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 financial statements. The most significant uses of judgments and estimates are as follows:

*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. More details are presented in Note 27.

*Allowance for loan impairment*

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced 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 historical 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 group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | ***2013*** | ***2012*** |
|---|---|---|
| Cash on hand | 280,116 | 252,053 |
| Current accounts with the National Bank of the Republic of Belarus | 450,222 | 436,721 |
| Current accounts with other credit institutions | 121,530 | 127,457 |
| Time deposits with credit institutions up to 90 days | 45,649 | 155,623 |
| **Cash and cash equivalents** | **897,517** | **971,854** |

As of 31 December 2013, current accounts with credit institutions include BYR 25,710 million (2012: BYR 27,195 million) placed with 7 banks (2012: 4 banks) in the member countries of Organization for Economic Co-operation and Development (hereinafter – “OECD”).

As of 31 December 2013, the Bank placed an equivalent of BYR 24,726 million in USD as deposit with the Belarusian bank with original maturity of 3 days and received an equivalent of BYR 24,728 million on a current account in USD in the same bank (Note 15).

## 6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | ***2013*** | ***2012*** |
|---|---|---|
| Time deposits for more than 90 days | 37,576 | 344 |
| Obligatory reserves with the National Bank of the Republic of Belarus | 23,257 | 20,658 |
| **Amounts due from credit institutions** | **60,833** | **21,002** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 6. Amounts due from credit institutions (continued)

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the National Bank of the Republic of Belarus, 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 of 31 December 2013, the amounts due from credit institutions included BYR 7,106 million placed as collateral for obligations under settlements using plastic cards and international payment systems.

As of 31 December 2013, the Bank placed an equivalent of BYR 30,198 million in USD and EUR as deposits with the Belorussian bank and obtained an equivalent of BYR 30,198 million on deposit accounts in USD and EUR in the same bank (Note 15).

## 7. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

| | ***2013*** | | | ***2012*** | | |
|---|---|---|---|---|---|---|
| | ***Notional amount*** | ***Fair value*** | | ***Notional amount*** | ***Fair value*** | |
| | | ***Asset*** | ***Liability*** | | ***Asset*** | ***Liability*** |
| **Foreign exchange contracts** | | | | | | |
| Swaps – domestic with the National Bank of the Republic of Belarus and other Belarusian banks | 78,177 | – | (348) | 122,955 | 30,770 | (69) |
| Forwards - foreign contracts | 71,021 | 93 | (23) | – | – | – |
| Forwards - domestic contracts | 61,858 | 43 | (8) | – | – | – |
| **Total derivative assets/ liabilities** | **211,056** | **136** | **(379)** | **122,955** | **30,770** | **(69)** |

*Swaps*

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

*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 traded in the over-the-counter market.

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 8. Loans to customers

Loans to customers comprise:

| | *2013* | *2012* |
|---|---|---|
| Loans to legal entities | 1,447,024 | 1,560,028 |
| Loans to individuals | 1,808,917 | 1,100,722 |
| Finance leases | 37,251 | 18,535 |
| **Total loans to customers** | **3,293,192** | **2,679,285** |
| Less - Allowance for impairment | (193,946) | (131,093) |
| **Loans to customers** | **3,099,246** | **2,548,192** |

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

| | *Corporate banking 2013* | *Retail banking 2013* | *Total 2013* |
|---|---|---|---|
| At 1 January 2013 | 58,737 | 72,356 | **131,093** |
| Monetary effect | (8,075) | (7,292) | **(15,367)** |
| Amounts written-off | (3,122) | (40,035) | **(43,157)** |
| Translation differences | 3,647 | 76 | **3,723** |
| Charge for the year | (10,356) | 128,010 | **117,654** |
| **At 31 December 2013** | **40,831** | **153,115** | **193,946** |
| Individual impairment | 28,170 | – | **28,170** |
| Collective impairment | 12,661 | 153,115 | **165,776** |
| | **40,831** | **153,115** | **193,946** |
| **Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | **297,857** | **–** | **297,857** |

| | *Corporate banking 2012* | *Retail banking 2012* | *Total 2012* |
|---|---|---|---|
| At 1 January 2012 | 39,349 | 25,260 | **64,609** |
| Monetary effect | (5,608) | (3,374) | **(8,982)** |
| Amounts written-off | (8,017) | (6,414) | **(14,431)** |
| Translation differences | 1,613 | 36 | **1,649** |
| Charge for the year | 31,400 | 56,848 | **88,248** |
| **31 December 2012** | **58,737** | **72,356** | **131,093** |
| Individual impairment | 56,216 | – | **56,216** |
| Collective impairment | 2,521 | 72,356 | **74,877** |
| | **58,737** | **72,356** | **131,093** |
| **Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | **639,193** | **–** | **639,193** |

### Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognised, for the year ended 31 December 2013, comprised BYR 38,123 million (2012: BYR 38,566 million).

### Collateral and other credit enhancements

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

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 8. Loans to customers (continued)

### Collateral and other credit enhancements (continued)

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities,
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For car lending, pledge of financed car.

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.

As of 31 December 2013, loans to customers included BYR 26,041 million issued using borrowings from the other bank. The Bank does not bear risk of default under such loans, however, the transaction does not meet the criteria for offsetting the financial asset against financial liability.

### Concentration of loans to customers

As of 31 December 2013, the Bank had a concentration of loans represented by BYR 341,759 million due from the ten largest third party entities (10% of gross loan portfolio) (2012: BYR 300,005 million, or 11% of gross loan portfolio). An allowance of BYR 9,837 million (2012: BYR 26,874 million).

Loans have been extended to the following types of customers:

| | *2013* | *2012* |
|---|---|---|
| Private companies | 1,435,362 | 1,512,316 |
| State companies | 48,913 | 66,247 |
| Individuals | 1,808,917 | 1,100,722 |
| | **3,293,192** | **2,679,285** |

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

| | *2013* | *2012* |
|---|---|---|
| Individuals | 1,808,917 | 1,100,722 |
| Wholesale and retail trade | 913,343 | 964,418 |
| Manufacturing | 220,944 | 215,886 |
| Transport | 89,421 | 28,497 |
| Real estate | 77,227 | 103,651 |
| Food industry | 49,298 | 66,007 |
| Construction | 29,455 | 89,452 |
| Other | 104,587 | 110,652 |
| | **3,293,192** | **2,679,285** |

### Finance lease receivables

The analysis of finance lease receivables as of 31 December 2013 is as follows:

| | *Not later than 1 year* | *Later than 1 year and not later than 5 years* | *Total 2013* |
|---|---|---|---|
| Gross investment in finance leases | 28,167 | 15,672 | **43,839** |
| Unearned future finance income on finance leases | (4,586) | (2,002) | **(6,588)** |
| **Net investments in finance leases** | **23,581** | **13,670** | **37,251** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 8. Loans to customers (continued)

### Finance lease receivables (continued)

The analysis of finance lease receivables at 31 December 2012 is as follows:

| | *Not later than 1 year* | *Later than 1 year and not later than 5 years* | *Total 2012* |
|---|---|---|---|
| Gross investment in finance leases | 13,210 | 10,485 | **23,695** |
| Unearned future finance income on finance leases | (3,283) | (1,877) | **(5,160)** |
| **Net investments in finance leases** | **9,927** | **8,608** | **18,535** |

## 9. Investment securities available-for-sale

Available-for-sale securities comprise:

| | *2013* | *2012* |
|---|---|---|
| Bonds issued by Belarusian banks | 55,099 | 105,998 |
| Bonds issued by republican governmental bodies | 28,734 | 1,738 |
| Investments in equity instruments | 284 | 284 |
| **Available-for-sale securities** | **84,117** | **108,020** |

The Bank recognized an impairment loss of BYR 6,685 million on available-for-sale securities for the year ended 31 December 2012. In the income statement, the amount of impairment is included in net gains/ (losses) from investment securities available-for-sale.

## 10. Property and equipment

The movements in property and equipment were as follows:

| | *Buildings* | *Computers and office equipment* | *Motor vehicles* | *Furniture and fixtures* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **31 December 2012** | **26,615** | **43,254** | **4,839** | **34,749** | **2,980** | **112,437** |
| Additions | 12,749 | 18,332 | 1,059 | 9,690 | 3,073 | **44,903** |
| Transfers | 891 | – | – | 12 | (903) | **–** |
| Disposals | (8,568) | (9) | – | (1,469) | – | **(10,046)** |
| **31 December 2013** | **31,687** | **61,577** | **5,898** | **42,982** | **5,150** | **147,294** |
| **Accumulated depreciation** | | | | | | |
| **31 December 2012** | **(4,279)** | **(19,608)** | **(2,717)** | **(10,945)** | **–** | **(37,549)** |
| Depreciation charge | (1,340) | (7,668) | (596) | (3,811) | – | **(13,415)** |
| Disposals | 1,220 | 9 | – | 1,259 | – | **2,488** |
| **31 December 2013** | **(4,399)** | **(27,267)** | **(3,313)** | **(13,497)** | **–** | **(48,476)** |
| **Net book value** | | | | | | |
| **31 December 2012** | **22,336** | **23,646** | **2,122** | **23,804** | **2,980** | **74,888** |
| **31 December 2013** | **27,288** | **34,310** | **2,585** | **29,485** | **5,150** | **98,818** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 10. Property and equipment (continued)

| | *Buildings* | *Computers and office equipment* | *Motor vehicles* | *Furniture and fixtures* | *Assets under construction* | *Total* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **31 December 2011** | **24,490** | **32,632** | **4,574** | **25,580** | **898** | **88,174** |
| Additions | 2,153 | 12,072 | 265 | 9,451 | 2,082 | **26,023** |
| Disposals | (28) | (1,450) | – | (282) | – | **(1,760)** |
| **31 December 2012** | **26,615** | **43,254** | **4,839** | **34,749** | **2,980** | **112,437** |
| **Accumulated depreciation** | | | | | | |
| **31 December 2011** | **(3,425)** | **(15,819)** | **(2,259)** | **(8,343)** | **–** | **(29,846)** |
| Depreciation charge | (874) | (5,230) | (458) | (2,842) | – | **(9,404)** |
| Disposals | 20 | 1,441 | – | 240 | – | **1,701** |
| **31 December 2012** | **(4,279)** | **(19,608)** | **(2,717)** | **(10,945)** | **–** | **(37,549)** |
| **Net book value** | | | | | | |
| **31 December 2011** | **21,065** | **16,813** | **2,315** | **17,237** | **898** | **58,328** |
| **31 December 2012** | **22,336** | **23,646** | **2,122** | **23,804** | **2,980** | **74,888** |

## 11. Intangible assets

The movements in intangible assets were as follows:

| | *2013* | *2012* |
|---|---|---|
| **Cost** | | |
| **1 January** | **38,160** | **24,996** |
| Additions | 19,100 | 13,320 |
| Disposals | (7,808) | (156) |
| **31 December** | **49,452** | **38,160** |
| **Accumulated amortization** | | |
| **1 January** | **(16,175)** | **(8,227)** |
| Amortization charge | (9,058) | (8,068) |
| Disposals | 6,518 | 120 |
| **31 December** | **(18,715)** | **(16,175)** |
| **Net book value** | | |
| **1 January** | **21,985** | **16,769** |
| **31 December** | **30,737** | **21,985** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 12. Taxation

The corporate income tax expense comprises:

| | *2013* | *2012* |
|---|---|---|
| Current tax charge | 32,027 | 19,500 |
| Deferred tax charge/(credit) – origination and reversal of temporary differences | 19,407 | (755) |
| **Income tax expense** | **51,434** | **18,745** |

Belarusian legal entities must file individual tax declarations. The tax rate for banks on profits other than on state securities was 18% for 2013. The Bank calculates deferred tax assets and liabilities as of 31 December 2013 and 2012 using an 18% tax rate.

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

| | *2013* | *2012* |
|---|---|---|
| **Profit before tax** | **253,837** | **75,472** |
| Statutory tax rate | 18% | 18% |
| **Theoretical income tax expense at statutory rate** | **45,691** | **13,585** |
| Securities tax credits | (8,033) | (8,966) |
| Non-deductible expenditures: | | |
| - salaries and bonuses | 2,883 | 1,869 |
| - other | 1,826 | 1,391 |
| Income/expenses recognised for tax purposes only | 259 | (35) |
| Additional deductible expenses in the tax records for tax purposes | 128 | – |
| Reversal of property revaluation for tax purposes | (1,728) | (1,452) |
| Effect of loss on net monetary position | 10,408 | 12,353 |
| **Income tax expense** | **51,434** | **18,745** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 12. Taxation (continued)

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

| | *2011* | *Origination and reversal of temporary differences in the income statement* | *Gain/ (loss) on tax base due to inflation* | *2012* | *Origination and reversal of temporary differences in the income statement* | *Gain/ (loss) on tax base due to inflation* | *2013* |
|---|---|---|---|---|---|---|---|
| **Tax effect of deductible temporary differences:** | | | | | | | |
| Derivative financial liabilities | **–** | – | – | **–** | 38 | – | **38** |
| Loans to customers | **11,324** | (4,756) | (2,027) | **4,541** | (3,899) | (642) | **–** |
| Amounts due to customers | **–** | – | – | **–** | 1,529 | – | **1,529** |
| Other assets | **2,322** | 1,723 | (416) | **3,629** | (2,392) | (513) | **724** |
| Other borrowed funds | **863** | (10) | (155) | **698** | (599) | (99) | **–** |
| Other liabilities | **574** | (470) | (102) | **2** | (2) | – | **–** |
| **Gross deferred tax asset** | **15,083** | **(3,513)** | **(2,700)** | **8,870** | **(5,325)** | **(1,254)** | **2,291** |
| **Tax effect of taxable temporary differences:** | | | | | | | |
| Cash and cash equivalents | **(577)** | 413 | 105 | **(59)** | (118) | 8 | **(169)** |
| Amounts due from credit institutions | **(1,449)** | 867 | 260 | **(322)** | (20) | 45 | **(297)** |
| Derivative financial assets | **(673)** | 518 | 120 | **(35)** | 6 | 5 | **(24)** |
| Loans to customers | **–** | – | – | **–** | (13,663) | – | **(13,663)** |
| Investment securities available-for-sale | **(327)** | 63 | 58 | **(206)** | (24) | 29 | **(201)** |
| Property and equipment | **(76)** | (481) | 14 | **(543)** | (517) | 77 | **(983)** |
| Intangible assets | **(2,966)** | (1,403) | 530 | **(3,839)** | 2,702 | 543 | **(594)** |
| Amounts due to credit institutions | **(1,179)** | 196 | 211 | **(772)** | 481 | 109 | **(182)** |
| Derivative financial liabilities | **(3)** | 2 | 1 | **–** | – | – | **–** |
| Amounts due to customers | **(6,841)** | 5,617 | 1,224 | **–** | – | – | **–** |
| Debt securities issued | **(160)** | (118) | 30 | **(248)** | (561) | 35 | **(774)** |
| Other borrowed funds | **–** | – | – | **–** | (195) | – | **(195)** |
| Provisions | **(885)** | (1,406) | 157 | **(2,134)** | (883) | 302 | **(2,715)** |
| Other liabilities | **–** | – | – | **–** | (1,290) | – | **(1,290)** |
| **Deferred tax liability** | **(15,136)** | **4,268** | **2,710** | **(8,158)** | **(14,082)** | **1,153** | **(21,087)** |
| **Deferred tax asset/(liability, net** | **(53)** | **755** | **10** | **712** | **(19,407)** | **(101)** | **(18,796)** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 13. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

| | *Other assets* | *Guarantees and letters of credit* | *Total* |
|---|---|---|---|
| **31 December 2011** | **1,683** | **3,671** | **5,354** |
| Monetary effect | (301) | (658) | **(959)** |
| Reversal | (277) | (1,231) | **(1,508)** |
| Translation differences | – | 330 | **330** |
| **31 December 2012** | **1,105** | **2,112** | **3,217** |
| Monetary effect | (156) | (299) | **(455)** |
| Charge/(reversal) | 365 | 872 | **1,237** |
| Translation differences | | 209 | **209** |
| **31 December 2013** | **1,314** | **2,894** | **4,208** |

The allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for claims, guarantees and letters of credit are recorded in liabilities.

## 14. Other assets and liabilities

Other assets comprise:

| | *2013* | *2012* |
|---|---|---|
| Amounts receivable on banking operations | 36,752 | 10,252 |
| Prepayments and other debtors | 22,257 | 14,070 |
| Prepaid taxes other than income tax | 4,254 | 4,139 |
| Accrued commission income | 3,271 | 3,288 |
| Prepaid expenses | 1,895 | 1,747 |
| Inventory | 480 | 660 |
| | **68,909** | **34,156** |
| Less – Allowance for impairment of other assets (Note 13) | (1,314) | (1,105) |
| **Other assets** | **67,595** | **33,051** |

As of 31 December 2013, amounts receivable on banking operations include cash for foreign currency sold in cash to other banks in the amount of BYR 24,668 million.

As of 31 December 2013, prepayments and other debtors include the amount of prepayment for equipment of BYR 11,473 million (2012: BYR 8,075 million).

Other liabilities comprise:

| | *2013* | *2012* |
|---|---|---|
| Payables to personnel | 12,874 | 9,076 |
| Amounts payable on banking operations | 8,989 | 2,179 |
| Taxes payable, other than income tax | 3,890 | 1,934 |
| Amounts due to Deposit Insurance Agency | 3,295 | 3,782 |
| Trade payables | 3,247 | 2,531 |
| Deferred income | 2,405 | 346 |
| Accrued commission expense | 487 | 2,049 |
| Other | 1,942 | 830 |
| **Other liabilities** | **37,129** | **22,727** |

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## 15. Amounts due to credit institutions

Amounts due to credit institutions comprise:

| | *2013* | *2012* |
|---|---|---|
| Time deposits and loans of local banks | 260,692 | 119,278 |
| Time deposits and loans of foreign banks | 193,743 | 46,465 |
| Loan of the National Bank of the Republic of Belarus | 13,000 | – |
| Current customer accounts | 115,463 | 13,821 |
| **Amounts due to credit institutions** | **582,898** | **179,564** |

As of 31 December 2013, amounts due to credit institutions of BYR 186,090 million (32%) were due to three banks.

As of 31 December 2012, amounts due to credit institutions of BYR 55,830 million (31%) were due to one bank.

As of 31 December 2013, time deposits and loans of foreign banks include syndicated loan of BYR 105,184 million, received in 2013 in USD from a group of CIS banks with annual interest rate of 7% maturing in April 2014.

As of 31 December 2013, the Bank placed an equivalent of BYR 24,726 million in USD as deposit with the Belarusian bank with original maturity of 3 days and obtained BYR 24,728 million on a current account in USD in the same bank (Note 5).

As of 31 December 2013, the Bank placed an equivalent of BYR 30,198 million in USD and EUR as deposits with the Belorussian bank and obtained BYR 30,198 million on deposit accounts in USD and EUR in the same bank (Note 6).

## 16. Amounts due to customers

Amounts due to customers comprise:

| | *2013* | *2012* |
|---|---|---|
| Time deposits | 1,568,054 | 1,756,476 |
| Current accounts | 977,121 | 1,021,032 |
| **Amounts due to customers** | **2,545,175** | **2,777,508** |
| **Cash held as security against letters of credit** | **11,000** | **21,957** |

Included in time deposits are deposits held by the Bank as security against irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

At 31 December 2013, amounts due to customers of BYR 305,154 million (12%) were due to the ten largest customers (2012: BYR 381,040 million (14%)).

Included in time deposits are deposits of individuals of BYR 823,326 million (2012 – BYR 1,004,519 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within 5 days upon demand of a depositor. In the event that a time deposit is repaid upon demand of the depositor prior to maturity, interest is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

| | *2013* | *2012* |
|---|---|---|
| Private companies | 1,278,809 | 1,305,178 |
| Individuals | 1,235,121 | 1,404,836 |
| State organizations | 31,245 | 67,494 |
| **Amounts due to customers** | **2,545,175** | **2,777,508** |

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## 16. Amounts due to customers (continued)

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

| | *2013* | *2012* |
|---|---|---|
| Individuals | 1,235,121 | 1,404,836 |
| Trade | 663,002 | 529,466 |
| Manufacturing | 164,403 | 241,880 |
| Construction | 90,711 | 172,657 |
| Transport | 56,622 | 90,199 |
| Insurance | 47,859 | 115,415 |
| Real estate | 36,916 | 61,570 |
| Individual entrepreneurs | 26,498 | 22,019 |
| Software development and information technologies | 20,194 | 32,665 |
| Telecommunications | 10,917 | 7,868 |
| Financial services | 9,570 | 3,277 |
| Non-for-profit organizations | 6,337 | 3,552 |
| Government bodies | – | 6,995 |
| Other | 177,025 | 85,109 |
| **Amounts due to customers** | **2,545,175** | **2,777,508** |

## 17. Debt securities issued

Debt securities issued comprised the following:

| | *2013* | *Maturity* | *Effective interest rate* | *2012* | *Maturity* | *Effective interest rate* |
|---|---|---|---|---|---|---|
| Interest-bearing bonds in BYR | 187,813 | 2014 | 21%-34% | 62,680 | 2013 | 27%-35% |
| Interest-bearing bonds in USD | 89,256 | 2014 | 7% | 50,021 | 2013 | 7% |
| Interest-bearing bonds in EUR | 49,338 | 2014 | 6% | – | | – |
| **Debt securities issued** | **326,407** | | | **112,701** | | |

## 18. Other borrowed funds

Other borrowed funds comprised the following:

| | *2013* | *2012* |
|---|---|---|
| International Financial Corporation (note 26) | 63,134 | 99,398 |
| European Bank for Reconstruction and Development | 86,725 | 73,333 |
| FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden (note 26) | 36,863 | 64,635 |
| MTB Investments Holdings Limited | – | 6,008 |
| **Other borrowed funds** | **186,722** | **243,374** |

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## 19. Subordinated debt

As of 31 December 2013 and 31 December 2012, subordinated debt consists of 2 loans attracted from MTB Investments Holdings Limited (the Bank's parent) in the total amount of USD 9,598 and USD 9,375 thousand:

| | *Initial date* | *Maturity* | *2013* | *2012* |
|---|---|---|---|---|
| Subordinated loan 1 | 8 April 2010 | 8 April 2020 | 44,696 | 45,913 |
| Subordinated loan 2 | 29 April 2010 | 29 April 2020 | 46,577 | 47,661 |
| **Subordinated debt** | | | **91,273** | **93,574** |

Subordinated loans bear a 6% annual nominal interest rate.

## 20. Equity

As of 31 December 2013 and 31 December 2012, the authorized, issued and fully paid share capital of the Bank comprised 141,448 ordinary shares with a nominal value of BYR 861,500 each. All shares have the same nominal value and carry one vote.

There were no movements in shares outstanding, issued and fully paid during 2013 and 2012. The table below shows the equity structure:

| | *Number of ordinary shares* | *Nominal amount of ordinary shares* | *Inflation adjustment* | *Total* |
|---|---|---|---|---|
| 31 December 2012 and 2013 | 141,448 | 121,857 | 368,710 | **490,567** |

At the Shareholders' Meeting in February 2013, the Bank declared dividends in respect of the year ended 31 December 2012, totaling BYR 46,878 million on ordinary shares (BYR 331,415 per share).

In accordance with Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with BAS. The Bank had BYR 127,411 million of undistributed and unreserved earnings as of 31 December 2013 (2012: BYR 81,510 million).

### Nature and purpose of other reserves

*Unrealized losses on investment securities available-for-sale*

This reserve records fair value changes on available-for-sale investments.

## 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.

## 21. Commitments and contingencies (continued)

### Operating environment (continued)

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. These factors resulted in a significant decrease in the gold and foreign currency reserves of the National Bank in the first quarter of 2011, which was followed by foreign currency shortages and a significant decrease in the official exchange rate accompanied by the growth of inflation and an increase in the prime refinancing rate up to 45% as of 31 December 2011. The rate of inflation in 2011 was 108.7% (Note 2).

The significant financial support provided by Russia (extension of loans in 2011 and 2012 and participation in privatization of state assets at the end of 2011) and a positive foreign trade balance contributed to a significant increase in reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. According to the Government and the National Bank, the reserves as of 31 December 2012 are sufficient and stable enough to avoid foreign currency shortages and to satisfy the external financing needs of the country in the short and medium term. The official exchange rate in 2012 remained virtually unchanged. The inflation rate in 2012 was 21.8%, the prime refinancing rate was reduced to 30% as of 31 December 2012.

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

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

### Legal

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

### Taxation

Belarusian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period.

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

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 21. Commitments and contingencies (continued)

### Commitments and contingencies

As of 31 December, the Bank's commitments and contingencies comprised the following:

| | *2013* | *2012* |
|---|---|---|
| **Credit related commitments** | | |
| Undrawn loan commitments | 803,629 | 745,805 |
| Guarantees | 209,351 | 143,012 |
| Letters of credit | 37,915 | 21,957 |
| | **1,050,895** | **910,774** |
| Less – Provisions (Note 13) | (2,894) | (2,112) |
| **Commitments and contingencies (before deducting collateral)** | **1,048,001** | **908,662** |
| Less – Cash held as security against letters of credit (Note 16) | (11,000) | (21,957) |
| **Commitments and contingencies** | **1,037,001** | **886,705** |

The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2013 and 2012.

The Bank had no significant capital expenditure commitments as of 31 December 2013 and 2012.

### Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in the Republic of Belarus at present.

## 22. Net gains/(losses) from foreign currencies

| | *2013* | *2012* |
|---|---|---|
| Dealing | 63,052 | 49,606 |
| Gains/(losses) from derivative financial instruments | 751 | (4,741) |
| Translation differences | (167) | (1,027) |
| **Net gains/(losses) from foreign currencies** | **63,636** | **43,838** |

In 2013, the Bank's realised gains from derivative financial instruments amounted to BYR 30,194 million (2012: BYR 78,055 million); the amount of unrealised losses recognized in the income statement amounted to BYR 29,443 million (2012: BYR 82,796 million).

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 23. Net fee and commission income

| | *2013* | *2012* |
|---|---|---|
| Settlements and cash transactions | 84,192 | 65,269 |
| Commissions on transactions with plastic cards | 89,545 | 49,826 |
| Foreign exchange transactions | 42,819 | 40,464 |
| Documentary operations | 8,756 | 9,068 |
| Securities | 915 | 1,825 |
| Other | 1,610 | 2,975 |
| **Fee and commission income** | **227,837** | **169,427** |
| Commissions on transactions with plastic cards | (40,105) | (13,146) |
| Transactions with banks | (22,104) | (8,306) |
| Documentary operations | (2,735) | (1,976) |
| Foreign exchange transactions | (1,427) | (1,718) |
| Securities | (1,315) | (823) |
| Other | (1,508) | (447) |
| **Fee and commission expense** | **(69,194)** | **(26,416)** |
| **Net fee and commission income** | **158,643** | **143,011** |

## 24. Other income

| | *2013* | *2012* |
|---|---|---|
| Revenue from debts previously written off | 8,791 | 7,725 |
| Fines and penalties received | 4,819 | 2,250 |
| Net revenue from sale of property, equipment and intangible assets | 2,083 | – |
| Other | 2,222 | 851 |
| **Total other income** | **17,915** | **10,826** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

| | *2013* | *2012* |
|---|---|---|
| Salaries and bonuses | (137,132) | (98,133) |
| Social security costs | (39,016) | (26,861) |
| Other personnel expenses | (2,223) | (1,804) |
| Remuneration to a member of the Supervisory Board | (2,119) | (2,158) |
| **Personnel expenses** | **(180,490)** | **(128,956)** |
| Rent payments | (37,777) | (29,883) |
| Marketing and advertising | (25,749) | (19,199) |
| Payments to the Deposit Insurance Fund | (16,682) | (10,209) |
| Expenses on maintenance of banking software | (13,598) | (13,343) |
| Postal and courier services | (7,959) | (3,897) |
| Stationery and other office expenses | (6,996) | (7,294) |
| Taxes, other than on income | (6,324) | (2,948) |
| Utilities | (5,676) | (3,187) |
| Repair and maintenance of property and equipment | (4,771) | (5,898) |
| Communications | (4,063) | (2,332) |
| Entertainment expenses | (3,988) | (1,881) |
| Professional services | (3,967) | (2,306) |
| Security expenses | (3,250) | (2,754) |
| Maintenance of vehicles and fuel expenses | (2,440) | (1,903) |
| Insurance | (1,739) | (1,958) |
| Charity and sponsorship expenses | (43) | (430) |
| Net loss from sale of property, equipment and intangible assets | – | (78) |
| Other expenses | (13,044) | (10,324) |
| **Other operating expenses** | **(158,066)** | **(119,824)** |

## 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 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.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

*Risk management structure*

The risk management system has a three level organisational structure, which includes collegial level, analytical divisions, and business-divisions.

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

*The Supervisory Board*

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

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## 26. Risk management (continued)

### Introduction (continued)

*Management Board*

The Management Board is responsible for annual budget planning, review and revision of the Bank's strategy, and considering main risks. The Management Board has the responsibility to monitor the overall risk process within the Bank, and to develop risk management structure.

*Risk Committee*

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

*Credit Committee*

The Credit Committee is responsible for making decisions relating to those active transactions of the Bank, which are subject to credit risk, except for those under the authority of structural divisions. The Credit Committee decides on the possibility and on the basic terms of the transactions specified above.

*Risk management*

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Risk Management Unit participates in development of the overall risk strategy, carries out risk assessment of major banking transactions, monitors risks, and informs management of changes in major business areas.

*Budgeting, Management Reporting and Control Department ("BCD")*

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

*Internal audit*

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

*Other organizational units*

Organisational units of the Bank should comply with planned indicators and established limits, make operating decisions, and organise internal control and monitoring.

*Risk measurement and reporting systems*

The Bank exercises a systematic approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks based on recommendations of the National Bank of the Republic of Belarus and Basel Committee on Banking Supervision. In accordance with the above mentioned standards, the Bank has developed and duly implemented risk management procedures for the main types of risks inherent in the Bank's operations.

The system of risk identification includes procedures, which allow to:

- Identify risks for new operations;
- Identify risks for typical operations;
- Identify significant changes in the level and character of risks accompanying the Bank's activities.

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## 26. Risk management (continued)

### Introduction (continued)

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 historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on:

- Limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities;
- Reservation – creation of special provisions for expected losses;
- Diversification – dispersion of risk among various industries, risk objects and financial instruments to reduce the overall level of risk;
- Collateralisation – acceptance of average and above risks only if there is a legal right to recover expected losses by realization of respective collateral.

For the Bank's Management Board, 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.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of established limits and 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 credit risks are controlled and managed accordingly.

### Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

In 2013, the Bank continued to follow a prudent and balanced credit policy in line with the following strategic priorities: maintaining a sufficiently high level of liquid assets and focusing on the provision of loans to individuals and small businesses.

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## 26. Risk management (continued)

### Credit risk (continued)

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.

The credit risk management process includes the following: analyzing the borrower's financial soundness based on review of its financial statements, information available in mass media, credit history, quality and value of the loan collateral; monitoring credit risk by borrower, debt service, availability and integrity of the collateral; estimating and making adequate provisions for potential losses.

Results of credit worthiness analysis are regularly reviewed by the Credit Committee in the process of decision taking on the possibility of loan granting.

*Derivative financial instruments*

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

*Credit-related commitments risks*

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee given. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies. The probability of credit losses on credit-related commitments is considered to be lower as compared with that on financial instruments recognized in the statement of financial position, since the Bank may terminate its undrawn loan commitments.

The maximum exposure to credit risk for the components of the 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 amounts.

Where 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.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

*Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Bank according to the classification of financial assets established by instructions of the National Bank. This credit rating system is based on 5 groups of credit risk The criteria for assigning financial assets into particular risk groups include financial performance, debt service and the value and sufficiency of collateral.

The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

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## 26. Risk management (continued)

### Credit risk (continued)

In the table below loans to banks and customers of standard grade (the first risk group according to regulations of the National Bank) are those having a minimal level of credit risk and are well collateralised. Other borrowers with less good financial position and less good debt service, but not individually impaired, are included in the sub-standard grade.

| | | *Neither past due nor individually impaired* | | | | |
|---|---|---|---|---|---|---|
| | ***Notes*** | ***Standard grade 2013*** | ***Sub-standard grade 2013*** | ***Past due but not individually impaired 2013*** | ***Individually impaired 2013*** | ***Total 2013*** |
| Amounts due from credit institutions (excluding obligatory reserves) | 6 | 37,576 | – | – | – | **37,576** |
| **Loans to customers** | 8 | | | | | |
| Loans to legal entities | | 992,647 | 164,610 | 29,161 | 297,857 | **1,484,275** |
| Loans to individuals | | 1,434,825 | 24,031 | 350,061 | – | **1,808,917** |
| | | **2,427,472** | **188,641** | **379,222** | **297,857** | **3,293,192** |
| Investment securities available-for-sale | 9 | 83,833 | – | – | – | **83,833** |
| **Total** | | **2,548,881** | **188,641** | **379,222** | **297,857** | **3,414,601** |

| | | *Neither past due nor individually impaired* | | | | |
|---|---|---|---|---|---|---|
| | ***Notes*** | ***Standard grade 2012*** | ***Sub-standard grade 2012*** | ***Past due but not individually impaired 2012*** | ***Individually impaired 2012*** | ***Total 2012*** |
| Amounts due from credit institutions (excluding obligatory reserves) | 6 | 344 | – | – | – | **344** |
| **Loans to customers** | 8 | | | | | |
| Loans to legal entities | | 785,915 | 145,988 | 7,467 | 639,193 | **1,578,563** |
| Loans to individuals | | 1,013,772 | 6,283 | 80,667 | – | **1,100,722** |
| | | **1,799,687** | **152,271** | **88,134** | **639,193** | **2,679,285** |
| Investment securities available-for-sale | 9 | 107,736 | – | – | 6,685 | **114,421** |
| **Total** | | **1,907,767** | **152,271** | **88,134** | **645,878** | **2,794,050** |

An analysis of past due but not individually impaired loans by age is provided below.

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

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## 26. Risk management (continued)

### Credit risk (continued)

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

| | *Less than 30 days 2013* | *31 60 days 2013* | *61 90 days 2013* | *More than 90 days 2013* | *Total 2013* |
|---|---|---|---|---|---|
| Loans to customers | | | | | |
| Loans to legal entities | 7,569 | 1,643 | 2,717 | 17,232 | **29,161** |
| Loans to individuals | 87,865 | 44,138 | 34,554 | 183,504 | **350,061** |
| **Total** | **95,434** | **45,781** | **37,271** | **200,736** | **379,222** |

| | *Less than 30 days 2012* | *31 60 days 2012* | *61 90 days 2012* | *More than 90 days 2012* | *Total 2012* |
|---|---|---|---|---|---|
| Loans to customers | | | | | |
| Loans to legal entities | 5,576 | 55 | 282 | 1,554 | **7,467** |
| Loans to individuals | 22,967 | 11,251 | 8,892 | 37,557 | **80,667** |
| **Total** | **28,543** | **11,306** | **9,174** | **39,111** | **88,134** |

See Note 8 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 counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses 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 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 realisable 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 to customers that are not individually significant (including loans to individuals) 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.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

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## 26. Risk management (continued)

### Credit risk (continued)

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

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

| | *2013* | | | | *2012* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Belarus* | *OECD* | *CIS and other countries* | *Total* | *Belarus* | *OECD* | *CIS and other countries* | *Total* |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 848,682 | 28,071 | 20,764 | **897,517** | 911,182 | 27,195 | 33,477 | **971,854** |
| Amounts due from credit institutions | 53,727 | 7,106 | – | **60,833** | 20,659 | 343 | – | **21,002** |
| Derivative financial assets | 44 | 16 | 76 | **136** | 30,770 | – | – | **30,770** |
| Loans to customers | 3,099,216 | – | 30 | **3,099,246** | 2,547,780 | – | 412 | **2,548,192** |
| Investment securities available-for-sale | 83,833 | 284 | – | **84,117** | 107,736 | 284 | – | **108,020** |
| Other financial assets | 44,348 | – | – | **44,348** | 15,408 | – | – | **15,408** |
| | **4,129,850** | **35,477** | **20,870** | **4,186,197** | **3,633,535** | **27,822** | **33,889** | **3,695,246** |
| **Liabilities** | | | | | | | | |
| Amounts due to credit institutions | 389,560 | 56,781 | 136,557 | **582,898** | 126,093 | 14,636 | 38,835 | **179,564** |
| Derivative financial liabilities | 356 | 6 | 17 | **379** | – | – | 69 | **69** |
| Amounts due to customers | 2,471,711 | 19,845 | 53,619 | **2,545,175** | 2,732,034 | 28,567 | 16,907 | **2,777,508** |
| Debt securities issued | 326,407 | – | – | **326,407** | 112,701 | – | – | **112,701** |
| Other borrowed funds | – | 186,722 | – | **186,722** | – | 237,365 | 6,009 | **243,374** |
| Provisions | 2,894 | – | – | **2,894** | 2,112 | – | – | **2,112** |
| Other financial liabilities | 14,665 | – | – | **14,665** | 7,589 | – | – | **7,589** |
| Subordinated debt | – | – | 91,273 | **91,273** | – | – | 93,574 | **93,574** |
| | **3,205,593** | **263,354** | **281,466** | **3,750,413** | **2,980,529** | **280,568** | **155,394** | **3,416,491** |
| **Net assets/ (liabilities)** | **924,257** | **(227,877)** | **(260,596)** | **435,784** | **653,004** | **(252,746)** | **(121,505)** | **278,755** |

### 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. It also manages assets, taking into account the maturities and amounts of assets and liabilities, by monitoring the future repayments associated with the Bank's assets and liabilities on a daily basis.

The Bank's liquidity management strategy provides for classifying liquid assets into those of first or second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, can be quickly transformed into cash to provide additional liquidity. Effectively, they represent a liquidity cushion.

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 National Bank, 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 Bank's liquidity position is also assessed in terms of the liquidity ratios established by the National Bank of the Republic of Belarus. As of 31 December, these ratios were as follows:

| | *Ratio* | *2013* | *2012* |
|---|---|---|---|
| "Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand and overdue | Min 20% | 177% | 182% |
| "Current Liquidity Ratio" (assets receivable or realisable within 30 days /liabilities repayable within 30 days) | Min 70% | 105% | 120% |
| "Short-Term Liquidity Ratio" (assets receivable or realisable within one year/liabilities repayable within one year) | Min 1 | 1.3 | 1.5 |

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December based on contractual undiscounted repayment obligations, except for gross settled derivatives which are shown by contractual maturity. 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* | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| **As of 31 December 2013** | | | | | |
| Amounts due to credit institutions | 424,239 | 196,378 | 2,621 | – | **623,238** |
| **Gross settled derivative financial instruments** | | | | | |
| - Contractual amounts payable | 212,233 | – | – | – | **212,233** |
| - Contractual amounts receivable | (211,725) | – | – | – | **(211,725)** |
| Amounts due to customers | 1,661,684 | 605,111 | 749,630 | 488 | **3,016,913** |
| Debt securities issued | 338,648 | – | – | – | **338,648** |
| Other borrowed funds | 29,461 | 63,972 | 113,620 | – | **207,053** |
| Other liabilities | 14,665 | – | – | – | **14,665** |
| Subordinated debt | 1,337 | 4,012 | 21,398 | 96,121 | **122,868** |
| **Total undiscounted financial liabilities** | **2,470,542** | **869,473** | **887,269** | **96,609** | **4,323,893** |

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## 26. Risk management (continued)

### Liquidity risk and funding management (continued)

| *Financial liabilities* | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| **As of 31 December 2012** | | | | | |
| Amounts due to credit institutions | 159,429 | 20,475 | – | – | **179,904** |
| **Gross settled derivative financial instruments** | | | | | |
| - Contractual amounts payable | 72,717 | 20,079 | – | – | **92,796** |
| - Contractual amounts receivable | (72,805) | (50,150) | – | – | **(122,955)** |
| Amounts due to customers | 1,873,476 | 794,124 | 512,772 | 2,658 | **3,183,030** |
| Debt securities issued | 119,296 | – | – | – | **119,296** |
| Other borrowed funds | 195,707 | 21,854 | 30,087 | – | **247,648** |
| Other liabilities | 7,589 | – | – | – | **7,589** |
| Subordinated debt | 1,403 | 4,210 | 22,458 | 107,074 | **135,145** |
| **Total undiscounted financial liabilities** | **2,356,812** | **810,592** | **565,317** | **109,732** | **3,842,453** |

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

| | *Less than 3 months* | *3 to 12 months* | *1 to 5 years* | *Over 5 years* | *Total* |
|---|---|---|---|---|---|
| 2013 | 1,048,001 | – | – | – | **1,048,001** |
| 2012 | 908,662 | – | – | – | **908,662** |

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time.

The Bank has received significant funds from FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden and International Finance Corporation (refer to Note 18). As of 31 December 2012, the Bank was not in compliance with its financial covenant setting the maximum exposure to credit risk for one group of related borrowers (the actual value was 22%, with the prescribed value being 20% for FMO and 15% for IFC) under the agreements with FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden and International Finance Corporation. The failure to meet this covenant is an event of default and may result, upon notice by the lenders, in a demand for the immediate repayment of these amounts. Thus, the amount of BYR 164,614 million was included in other borrowed funds as an amount payable on demand (in "less than 3 months" in the table above and in "within one year" in Note 28). As of the 15 March 2013 the Bank received the respective waivers according to which it may not meet the financial covenants and this will not entail the early withdrawal of funds by International Finance Corporation and FMO Nederlandse Financiering Maatschappij Voor Ontwikkelingslanden.

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

Included in amounts due to customers are time deposits of individuals. In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits within five days upon demand of a depositor (refer to Note 16).

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## 26. Risk management (continued)

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Bank's positions are managed and monitored using sensitivity analysis. 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 reasonably possible change in interest rates, with all other variables held constant, of the Bank's income statement.

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 floating rate financial assets and financial liabilities held as of 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

| *Currency* | *Increase in basis points 2013* | *Sensitivity of net interest income 2013* | *Sensitivity of equity 2013* |
|---|---|---|---|
| BYR | 500 | 31,121 | 25,519 |
| EUR | 100 | (107) | (88) |
| USD | 100 | (1,854) | (2,619) |

| *Currency* | *Decrease in basis points 2013* | *Sensitivity of net interest income 2013* | *Sensitivity of equity 2013* |
|---|---|---|---|
| BYR | (1000) | (62,242) | (51,038) |
| EUR | (100) | 107 | 88 |
| USD | (100) | 1,854 | 2,658 |

| *Currency* | *Increase in basis points 2012* | *Sensitivity of net interest income 2012* | *Sensitivity of equity 2012* |
|---|---|---|---|
| BYR | 500 | 53,575 | 43,931 |
| EUR | 100 | 12 | 10 |
| USD | 100 | (2,378) | (3,335) |

| *Currency* | *Decrease in basis points 2012* | *Sensitivity of net interest income 2012* | *Sensitivity of equity 2012* |
|---|---|---|---|
| BYR | (1000) | (107,150) | 87,862 |
| EUR | (100) | (12) | 10 |
| USD | (100) | 2,378 | 3,384 |

### 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 regulations of the National Bank of the Republic of Belarus. Positions are monitored on a daily basis.

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## 26. Risk management (continued)

### Currency risk (continued)

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

| | *BYR* | *USD* | *EUR* | *RUR* | *Other currencies* | *Total* |
|---|---|---|---|---|---|---|
| **Financial assets as of 31 December 2013** | | | | | | |
| Cash and cash equivalents | 556,029 | 177,444 | 98,759 | 60,359 | 4,926 | **897,517** |
| Amounts due from credit institutions | 23,258 | 24,322 | 13,253 | – | – | **60,833** |
| Derivative financial assets | 136 | – | – | – | – | **136** |
| Loans to customers | 1,866,285 | 853,241 | 307,045 | 72,675 | – | **3,099,246** |
| Investment securities available-for-sale | 35,648 | 48,469 | – | – | – | **84,117** |
| Other financial assets | 18,496 | 731 | 252 | 24,858 | 11 | **44,348** |
| **Total financial assets** | **2,499,852** | **1,104,207** | **419,309** | **157,892** | **4,937** | **4,186,197** |
| **Financial liabilities as of 31 December 2013** | | | | | | |
| Amounts due to credit institutions | (83,009) | (364,713) | (120,651) | (14,525) | – | **(582,898)** |
| Derivative financial liabilities | (379) | – | – | – | – | **(379)** |
| Amounts due to customers | (1,851,461) | (403,552) | (242,894) | (46,462) | (806) | **(2,545,175)** |
| Debt securities issued | (187,813) | (89,256) | (49,338) | – | – | **(326,407)** |
| Other borrowed funds | – | (186,722) | – | – | – | **(186,722)** |
| Provision | (712) | (291) | (330) | (1,561) | – | **(2,894)** |
| Other financial liabilities | (6,236) | (1,215) | (1,095) | (5,904) | (215) | **(14,665)** |
| Subordinated debt | – | (91,273) | – | – | – | **(91,273)** |
| **Total financial liabilities** | **(2,129,610)** | **(1,137,022)** | **(414,308)** | **(68,452)** | **(1,021)** | **(3,750,413)** |
| Claims on derivative financial instruments | 669 | 163,320 | 45,812 | 1,907 | 17 | **211,725** |
| Obligations on derivative financial instruments | (61,966) | (35,117) | (53,715) | (52,785) | (8,650) | **(212,233)** |
| **Total currency position as of 31 December 2013** | **308,945** | **95,388** | **(2,902)** | **38,562** | **(4,717)** | **435,276** |

*(in millions of Belarusian roubles in terms of the purchasing power of the Belarusian rouble as of 31 December 2013 unless otherwise stated)*

## 26. Risk management (continued)

### Currency risk (continued)

| | *BYR* | *USD* | *EUR* | *RUR* | *Other currencies* | *Total* |
|---|---|---|---|---|---|---|
| **Financial assets as of 31 December 2012** | | | | | | |
| Cash and cash equivalents | 613,584 | 176,414 | 113,162 | 63,175 | 5,519 | **971,854** |
| Amounts due from credit institutions | 20,658 | – | 344 | – | – | **21,002** |
| Loans to customers | 1,263,393 | 880,886 | 307,421 | 96,492 | – | **2,548,192** |
| Investment securities available-for-sale | 34,866 | 73,154 | – | – | – | **108,020** |
| Other financial assets | 11,029 | 2,282 | 867 | 1,230 | – | **15,408** |
| **Total financial assets** | **1,943,530** | **1,132,736** | **421,794** | **160,897** | **5,519** | **3,664,476** |
| **Financial liabilities as of 31 December 2012** | | | | | | |
| Amounts due to credit institutions | (30,519) | (72,356) | (54,671) | (22,018) | – | **(179,564)** |
| Amounts due to customers | (1,627,519) | (718,148) | (346,041) | (81,165) | (4,635) | **(2,777,508)** |
| Debt securities issued | (62,680) | (50,021) | – | – | – | **(112,701)** |
| Other borrowed funds | – | (243,374) | – | – | – | **(243,374)** |
| Other financial liabilities | (6,153) | (1,320) | (107) | (9) | – | **(7,589)** |
| Subordinated debt | – | (93,574) | – | – | – | **(93,574)** |
| **Total financial liabilities** | **(1,726,871)** | **(1,178,793)** | **(400,819)** | **(103,192)** | **(4,635)** | **(3,414,310)** |
| Claims on derivative financial instruments | – | 113,420 | 7,264 | – | 2,271 | **122,955** |
| Obligations on derivative financial instruments | (22,657) | (4,904) | (26,430) | (38,805) | – | **(92,796)** |
| **Total currency position as of 31 December 2012** | **194,002** | **62,459** | **1,809** | **18,900** | **3,155** | **280,325** |

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## 26. Risk management (continued)

### Currency risk (continued)

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its financial assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian rouble, with all other variables held constant, on the income statement (due to the fair value of currency sensitive financial monetary assets and liabilities). The effect on equity does not differ from the effect on the income statement. A negative amount in the table reflects a potential net reduction in the income statement or equity, while a positive amount reflects a net potential increase.

| ***Currency*** | ***Reasonable high possible change in currency rate 2013*** | ***Effect on profit before tax 2013*** | ***Reasonable high possible change in currency rate 2012*** | ***Effect on profit before tax 2012*** |
|---|---|---|---|---|
| USD | +10% | 9,539 | +15% | 9,370 |
| EUR | +10% | (290) | +15% | 271 |
| RUR | +10% | 3,856 | +15% | 2,325 |

| ***Currency*** | ***Reasonable low possible change in currency rate 2013*** | ***Effect on profit before tax 2013*** | ***Reasonable low possible change in currency rate 2012*** | ***Effect on profit before tax 2012*** |
|---|---|---|---|---|
| USD | -1% | (954) | -2% | (1,250) |
| EUR | -1% | 29 | -2% | (36) |
| RUR | -1% | (386) | -2% | (379) |

*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 loans when interest rates fall.

The Bank assesses prepayment risk to be insignificant as of 31 December 2013 and 2012 and does not project significant fall in interest rates in the following 12 months.

### Operational risk

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

## 27. Fair value of financial instruments

The Bank's Management determines the policies and procedures for recurring fair value measurement of unquoted derivatives and available-for-sale securities.

At each reporting date the Management analyzes the changes in the value of the assets and liabilities for which according to the Bank's accounting policy reassessment or re-analysis is required. For the purposes of the analysis the Management checks basic data used in the previous assessment and compares the information in estimations with contracts and other relevant documents.

For the purpose of fair value disclosures, the Bank's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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## 27. Fair value of financial instruments (continued)

| | *Fair value measurement using* | | | |
|---|---|---|---|---|
| ***31 December 2013*** | ***Quoted prices in active markets (Level 1)*** | ***Significant observable inputs (Level 2)*** | ***Significant unobservable inputs (Level 3)*** | ***Total*** |
| ***Financial assets*** | | | | |
| Derivative financial instruments | – | 136 | – | **136** |
| Investment securities available-for-sale | – | 84,117 | – | **84,117** |
| | **–** | **84,253** | **–** | **84,253** |
| ***Assets for which fair values are disclosed*** | | | | |
| Cash and cash equivalents | – | – | 897,517 | **897,517** |
| Amounts due from credit institutions | – | – | 60,833 | **60,833** |
| Loans to customers | – | – | 3,018,201 | **3,018,201** |
| Other financial assets | – | – | 44,348 | **44,348** |
| | – | – | **4,020,899** | **4,020,899** |
| ***Financial liabilities*** | | | | |
| Derivative financial instruments | **–** | 379 | – | **379** |
| | **–** | **379** | – | **379** |
| **Liabilities for which fair values are disclosed** | | | | |
| Amounts due to credit institutions | – | – | 582,898 | **582,898** |
| Amounts due to customers | – | – | 2,779,982 | **2,779,982** |
| Debt securities issued | – | – | 329,183 | **329,183** |
| Other borrowed funds | – | – | 186,722 | **186,722** |
| Other financial liabilities | – | – | 14,665 | **14,665** |
| Subordinated debt | – | – | 79,087 | **79,087** |
| | **–** | **–** | **3,972,537** | **3,972,537** |

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy as at 31 December 2012

| ***31 December 2012*** | ***Level 1*** | ***Level 2*** | ***Level 3*** | ***Total*** |
|---|---|---|---|---|
| ***Financial assets*** | | | | |
| Derivative financial instruments | – | 30,770 | – | **30,770** |
| Investment securities available-for-sale | – | 108,020 | – | **108,020** |
| | **–** | **138,790** | **–** | **138,790** |
| ***Financial liabilities*** | | | | |
| Derivative financial instruments | **–** | 69 | – | **69** |
| | **–** | **69** | – | **69** |

*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. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange forward and spot rates, as well as interest rate curves.

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## 27. Fair value of financial instruments (continued)

*Investment securities available-for-sale*

Investment securities available-for-sale valued using a valuation technique or model primarily consist of debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

*Fair value of financial assets and liabilities not carried at fair value*

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

| | *Carrying value 2013* | *Fair value 2013* | *Unrecog-nized gain/ (loss) 2013* | *Carrying value 2012* | *Fair value 2012* | *Unrecog-nized gain/ (loss) 2012* |
|---|---|---|---|---|---|---|
| ***Financial assets*** | | | | | | |
| Cash and cash equivalents | 897,517 | 897,517 | – | 971,854 | 971,854 | – |
| Amounts due from credit institutions | 60,833 | 60,833 | – | 21,002 | 21,002 | – |
| Loans to customers | 3,099,246 | 3,018,201 | (81,045) | 2,548,192 | 2,346,896 | (201,296) |
| Other financial assets | 44,348 | 44,348 | – | 15,408 | 15,408 | – |
| ***Financial liabilities*** | | | | | | |
| Amounts due to credit institutions | 582,898 | 582,898 | – | 179,564 | 179,564 | – |
| Amounts due to customers | 2,545,175 | 2,779,982 | (234,807) | 2,777,508 | 2,780,903 | (3,395) |
| Debt securities issued | 326,407 | 329,183 | (2,776) | 112,701 | 113,286 | (585) |
| Other borrowed funds | 186,722 | 186,722 | – | 243,374 | 243,374 | – |
| Other financial liabilities | 14,665 | 14,665 | – | 7,589 | 7,589 | – |
| Subordinated debt | 91,273 | 79,087 | 12,186 | 93,574 | 84,064 | 9,510 |
| **Total unrecognized change in unrealized fair value** | | | **(306,442)** | | | **(195,766)** |

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

*Assets for which fair value approximates carrying value*

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

*Fixed and variable rate financial instruments*

For quoted debt instruments the fair values are determined 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.

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## 28. Maturity analysis of assets and liabilities

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

| | *2013* | | | *2012* | | |
|---|---|---|---|---|---|---|
| | *Within one year* | *More than one year* | *Total* | *Within one year* | *More than one year* | *Total* |
| Cash and cash equivalents | 897,517 | – | **897,517** | 971,854 | – | **971,854** |
| Amounts due from credit institutions | 30,470 | 30,363 | **60,833** | 344 | 20,658 | **21,002** |
| Derivative financial assets | 136 | – | **136** | 30,770 | – | **30,770** |
| Loans to customers | 1,512,972 | 1,586,274 | **3,099,246** | 1,454,316 | 1,093,876 | **2,548,192** |
| Investment securities available-for-sale | 84,117 | – | **84,117** | 108,020 | – | **108,020** |
| Property and equipment | – | 98,818 | **98,818** | – | 74,888 | **74,888** |
| Intangible assets | – | 30,737 | **30,737** | – | 21,985 | **21,985** |
| Deferred income tax assets | – | – | **–** | – | 712 | **712** |
| Other assets | 43,017 | 24,578 | **67,595** | 33,051 | – | **33,051** |
| **Total** | **2,568,229** | **1,770,770** | **4,338,999** | **2,598,355** | **1,212,119** | **3,810,474** |
| Amounts due to credit institutions | (580,286) | (2,612) | (582,898) | (179,564) | – | **(179,564)** |
| Derivative financial liabilities | (379) | – | (379) | (69) | – | **(69)** |
| Amounts due to customers | (1,225,645) | (1,319,530) | (2,545,175) | (1,750,709) | (1,026,799) | **(2,777,508)** |
| Debt securities issued | (326,407) | – | (326,407) | (112,701) | – | **(112,701)** |
| Other borrowed funds | (85,550) | (101,172) | (186,722) | (215,214) | (28,160) | **(243,374)** |
| Current income tax liabilities | (13,906) | – | (13,906) | (269) | – | **(269)** |
| Deferred income tax liabilities | – | (18,796) | (18,796) | – | – | **–** |
| Provisions | – | (2,894) | (2,894) | – | (2,112) | **(2,112)** |
| Other liabilities | (34,724) | (2,405) | (37,129) | (22,727) | – | **(22,727)** |
| Subordinated debt | (2,117) | (89,156) | (91,273) | – | (93,574) | **(93,574)** |
| **Total** | **(2,269,014)** | **(1,536,565)** | **(3,805,579)** | **(2,281,253)** | **(1,150,645)** | **(3,431,898)** |
| **Net position** | **299,215** | **234,205** | **533,420** | **317,102** | **61,474** | **378,576** |

## 29. Related party disclosures

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

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

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## 29. Related party disclosures (continued)

The Bank enters into banking transactions with related entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

The outstanding balances of related party transactions are as follows:

| | *2013* | | | | *2012* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Parent* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* | *Parent* | *Entities under common control* | *Key manage-ment personnel* | *Other related parties* |
| **Loans to customers at 1 January** | **3** | **38,868** | **1,290** | **144** | **154** | **27,778** | **1,563** | **161** |
| Issued during the year | 362 | 326,954 | 3,151 | 569 | 212 | 470,941 | 2,058 | 331 |
| Repaid during the year | (365) | (347,454) | (3,338) | (550) | (313) | (455,903) | (2,127) | (347) |
| Translation differences and other movements | – | (117) | (64) | 2 | – | 63 | 2,616 | 289 |
| Monetary effect | – | (3,991) | (168) | (21) | (50) | (4,011) | (2,820) | (290) |
| **Loans to customers at 31 December** | **–** | **14,260** | **871** | **144** | **3** | **38,868** | **1,290** | **144** |
| Allowance for impairment | – | **–** | (3) | (1) | – | (945) | (335) | (12) |
| **Loans to customers net of impairment allowance** | **–** | **14,260** | **868** | **143** | **3** | **37,923** | **955** | **132** |
| **Time deposits at January 1** | **–** | **19,132** | **2,216** | **153** | **–** | **10,497** | **1,353** | **664** |
| Attracted during the year | 11 | 1,996,496 | 29,293 | 136 | – | 376,817 | 3,444 | 269 |
| Repaid during the year | (14) | (2,002,517) | (27,136) | (8) | – | (366,344) | (2,103) | (191) |
| Translation differences and other movements | 4 | 6,674 | 6,817 | 28 | – | 41 | (236) | (469) |
| Monetary effect | – | (2,263) | (471) | (31) | – | (1,879) | (242) | (120) |
| **Term deposits as of 31 December** | **1** | **17,522** | **10,719** | **278** | **–** | **19,132** | **2,216** | **153** |
| **Current accounts at 31 December** | **5** | **10,080** | **5,607** | **722** | **59** | **19,914** | **1,738** | **12** |
| **Other borrowed funds at 1 January** | **6,008** | **–** | **–** | **–** | **80,372** | **–** | **–** | **–** |
| Attracted during the year | – | – | – | – | 6,008 | – | – | – |
| Repaid during the year | (5,556) | – | – | – | (64,413) | – | – | – |
| Translation differences and other movements | (11) | – | – | – | – | – | – | – |
| Monetary effect | (441) | – | – | – | (15,959) | – | – | – |
| **Other borrowed funds at 31 December** | **–** | **–** | **–** | **–** | **6,008** | **–** | **–** | **–** |
| **Subordinated debt at 1 January** | **93,574** | **–** | **–** | **–** | **111,046** | **–** | **–** | **–** |
| Attracted during the year | – | – | – | – | – | – | – | – |
| Repaid during the year | – | – | – | – | – | – | – | – |
| Translation differences and other movements | 10,930 | – | – | – | 8,298 | – | – | – |
| Monetary effect | (13,231) | – | – | – | (25,770) | – | – | – |
| **Subordinated debt at December 31** | **91,273** | **–** | **–** | **–** | **93,574** | **–** | **–** | **–** |
| Undrawn loan commitments | 130 | 15,387 | 1,313 | 53 | 167 | 10,539 | 1,068 | 97 |
| Guarantees | – | 4,117 | – | – | – | 5,221 | – | – |
| Other liabilities (unused vacation accruals) | – | – | 1,326 | – | – | – | 870 | 5 |

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## 29. Related party disclosures (continued)

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

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Parent* | *Entities under common control* | *Key management personnel* | *Other related parties* | *Parent* | *Entities under common control* | *Key management personnel* | *Other related parties* |
| Interest income on loans to customers | 5 | 3,182 | 323 | 33 | 3 | 3,347 | 368 | 45 |
| Interest expense on subordinated debt | (5,468) | – | – | – | (6,725) | – | – | – |
| Interest expense on amounts due to customers | (4) | (6,568) | (2,993) | (69) | – | (1,274) | (1,183) | (16) |
| Interest expense on other borrowed funds | (39) | – | – | – | (543) | – | – | – |
| Allowance for loan impairment | – | 945 | 332 | 11 | – | 226 | (304) | (7) |
| Fee and commission income | 2 | 2,168 | 41 | 16 | 3 | 3,309 | 31 | 8 |
| Personnel expenses | – | – | (22,333) | (340) | – | – | (15,223) | (1,304) |

Compensation of key management personnel was comprised of the following:

| | *2013* | *2012* |
|---|---|---|
| Salaries and other short-term benefits | 19,976 | 13,498 |
| Social security costs | 2,357 | 1,725 |
| **Total key management compensation** | **22,333** | **15,223** |

## 30. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the National Bank 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 maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. 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.

*National Bank capital adequacy ratio*

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio of 10 % of risk-weighted assets, computed based on BAS. As of 31 December 2013 and 2012, the Bank's capital adequacy ratio on this basis was as follows:

| | *2013* | *2012* |
|---|---|---|
| Main capital | 274,530 | 238,719 |
| Additional capital | 216,185 | 229,112 |
| **Total capital** | **490,715** | **467,831** |
| **Risk-weighted assets** | **4,342,609** | **3,503,736** |
| Capital adequacy ratio | 11.3% | 13.4% |

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## 30. Capital adequacy (continued)

*Capital adequacy ratio under Basel Capital Accord 1988*

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on BAS. As of 31 December 2013 and 2012, the Bank's capital adequacy ratio on this basis was as follows:

| | ***2013*** | ***2012*** |
|---|---|---|
| Tier 1 capital | 504,572 | 357,799 |
| Tier 2 capital | 89,384 | 92,366 |
| **Total equity** | **593,956** | **450,165** |
| **Risk-weighted assets** | **4,039,708** | **3,072,034** |
| Tier 1 capital ratio | 12,49% | 11.65% |
| Total capital ratio | 14,70% | 14.65% |