

**Joint Stock Bank of  
Reconversion and Development**

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**International Financial Reporting Standards  
Financial Statements and  
Independent Auditors' Report**

For the year ended 31 December 2013

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## **Independent Auditors' Report**

### *To the Shareholders of CJSC "Joint Stock Bank of Reconversion and Development"*

We have audited the accompanying financial statements of CJSC "Joint Stock Bank of Reconversion and Development" ("the Bank"), which comprise the statement of financial position as at 31 December 2013, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the Bank'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.





### *Opinion*

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

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to the facts below:

As described in Note 2, the Bank did not comply with the minimum amount of regulatory capital for bank with the right to attract funds of individuals, who are not individual entrepreneurs, in deposits and (or) open and service bank accounts of such individuals set by the National Bank of the Republic of Belarus. This indicates the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as going concern.

In 2012 and 2013 the economy of the Republic of Belarus was classified as a hyperinflationary economy under International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The functional currency of the Bank is Belarusian Ruble and accordingly the financial statements for the year ended 31 December 2013, including corresponding amounts, have been adjusted in accordance with IAS 29.

### *Other matter*

The financial statements of CJSC "Joint Stock Bank of Reconversion and Development" for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 21 May 2013.

Irina Vereschagina  
Partner  
KPMG LLC  
Minsk, Belarus  
5 May 2014



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PREPARATION  
AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2013

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Management of Joint Stock Bank of Reconversion and Development (the "Bank") is responsible for preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- proper selection and application of accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation and accounting rules of the Republic of Belarus;
- taking steps that are reasonably available to them to safeguard the assets of the Bank;
- detecting and preventing financial and other irregularities.

The financial statements for the year ended 31 December 2013 were authorised for issue on 5 May 2014 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

N. K. Jurkevich  
Acting Chairman of the Management  
Board

Minsk  
5 May 2014



T. I. Karchmit  
Chief Accountant

Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF FINANCIAL POSITION

In millions of Belarusian Roubles

|                                                                     | Notes | 31 December 2013 | 31 December 2012 |
|---------------------------------------------------------------------|-------|------------------|------------------|
| <b>Assets</b>                                                       |       |                  |                  |
| Cash and balances with the National Bank of the Republic of Belarus | 7     | 199,767          | 152,192          |
| Derivative financial assets                                         | 8     | 351,701          | 349,516          |
| Due from other banks                                                | 9     | 11,700           | 91,825           |
| Loans to customers                                                  | 10    | 496,437          | 470,936          |
| Current income tax assets                                           |       | -                | 1,848            |
| Investment property                                                 | 11    | 10,255           | 9,823            |
| Property and equipment, intangible assets                           | 12    | 18,211           | 18,800           |
| Other assets                                                        | 13    | 29,565           | 31,274           |
| <b>Total assets</b>                                                 |       | <b>1,117,636</b> | <b>1,126,214</b> |
| <b>Liabilities</b>                                                  |       |                  |                  |
| Derivative financial liabilities                                    | 8     | 8,247            | 15,421           |
| Due to other banks                                                  | 14    | 28,696           | 5,161            |
| Customer accounts                                                   | 15    | 808,975          | 811,574          |
| Debt securities in issue                                            | 16    | -                | 36,207           |
| Obligation on current income tax                                    |       | 4,330            | -                |
| Deferred tax liability                                              | 29    | 7,088            | 6,322            |
| Other liabilities                                                   | 17    | 3,789            | 4,382            |
| Subordinated debts                                                  | 18    | 54,349           | 54,801           |
| Preference shares                                                   | 19    | 11,449           | 7,254            |
| <b>Total liabilities</b>                                            |       | <b>926,923</b>   | <b>941,122</b>   |
| <b>Equity</b>                                                       |       |                  |                  |
| Share capital                                                       | 20    | 313,196          | 262,578          |
| Treasury shares                                                     |       | (2)              | (2)              |
| Additional capital contribution                                     | 18    | 30,529           | 30,529           |
| Accumulated loss                                                    |       | (153,010)        | (108,013)        |
| <b>Total equity</b>                                                 |       | <b>190,713</b>   | <b>185,092</b>   |
| <b>Total liabilities and equity</b>                                 |       | <b>1,117,636</b> | <b>1,126,214</b> |

On behalf of the management of the Bank:

N.K. Yurkevich  
Acting Chairman of the Management Board

Minsk  
5 May 2014



T. I. Karchmit  
Chief Accountant

The notes set out on pages 7 — 77 form an integral part of these financial statements.



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF PROFIT OR LOSS

In millions of Belarusian Roubles

|                                                                          | Notes | 2013           | 2012           |
|--------------------------------------------------------------------------|-------|----------------|----------------|
| Interest income                                                          | 21    | 197,900        | 184,656        |
| Interest expense                                                         | 21    | (87,688)       | (92,893)       |
| <b>Net interest income</b>                                               |       | <b>110,212</b> | <b>91,763</b>  |
| Fee and commission income                                                | 22    | 18,207         | 16,317         |
| Fee and commission expense                                               | 22    | (3,904)        | (3,394)        |
| <b>Net fee and commission income</b>                                     |       | <b>14,303</b>  | <b>12,923</b>  |
| Net gain on derivative financial instruments                             | 23    | 54,588         | 34,803         |
| Net gain/(loss) on foreign exchange operations                           | 24    | (40,837)       | 2,677          |
| Net loss on financial assets available for sale                          |       | (217)          | (55)           |
| Gain/(loss) on change in fair value of investment property               | 11    | 432            | (2,583)        |
| Other income                                                             | 25    | 9,920          | 5,719          |
| <b>Operating income</b>                                                  |       | <b>148,401</b> | <b>145,247</b> |
| Operating expenses                                                       | 26    | (90,411)       | (82,573)       |
| Write-down of repossessed assets value                                   |       | (5,295)        | (2,390)        |
| Net provision for impairment losses on interest bearing financial assets | 27    | (12,385)       | (10,100)       |
| Net provision for impairment losses on other financial assets            | 13    | (298)          | (1,193)        |
| Net provision for loan commitments                                       | 31    | 180            | 12             |
| <b>Profit before income tax and loss on net monetary position</b>        |       | <b>40,192</b>  | <b>49,003</b>  |
| Loss on net monetary position                                            | 28    | (21,805)       | (22,718)       |
| <b>Profit before income tax</b>                                          |       | <b>18,387</b>  | <b>26,285</b>  |
| Income tax expense                                                       | 29    | (7,333)        | (9,065)        |
| <b>Net profit for the year</b>                                           |       | <b>11,054</b>  | <b>17,220</b>  |

On behalf of the management of the Bank:

N.K. Yurkevich  
Acting Chairman of the Management Board

Minsk  
5 May 2014

The notes set out on pages 7 — 77 form an integral part of these financial statements.



T. I. Karchmit  
Chief Accountant



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF COMPREHENSIVE INCOME

*In millions of Belarusian Roubles*

|                                                                                                 | 2013          | 2012          |
|-------------------------------------------------------------------------------------------------|---------------|---------------|
| <b>Net profit for the year</b>                                                                  | <b>11,054</b> | <b>17,220</b> |
| <b>Other comprehensive income</b>                                                               |               |               |
| <i>Other comprehensive income to be reclassified into profit or loss in subsequent periods:</i> |               |               |
| Net change in fair value of financial instruments available for sale                            | (202)         | -             |
| Net result carried forward into profit or loss on financial instruments available for sale      | 202           | -             |
| <b>Total other comprehensive income</b>                                                         | <b>-</b>      | <b>-</b>      |
| <b>Total comprehensive income for the year</b>                                                  | <b>11,054</b> | <b>17,220</b> |

On behalf of the management of the Bank:

N.K. Yurkevich  
Acting Chairman of the Management  
Board

Minsk  
5 May 2014

The notes set out on pages 7 — 77 form an integral part of these financial statements.



E. I. Karchmit  
Chief Accountant

Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF CASH FLOWS (DIRECT METHOD)

*In millions of Belarusian Roubles*

|                                                                                                | Notes | 2013           | 2012           |
|------------------------------------------------------------------------------------------------|-------|----------------|----------------|
| <b>Cash flows from operating activities</b>                                                    |       |                |                |
| Interest received                                                                              |       | 193,953        | 182,309        |
| Interest paid                                                                                  |       | (87,812)       | (93,540)       |
| Fee and commission received                                                                    |       | 17,657         | 16,283         |
| Fee and commission paid                                                                        |       | (3,778)        | (3,382)        |
| (Expenses paid)/income received from operations with derivative financial instruments          |       | (5,688)        | 6,073          |
| Income received from foreign currencies operations                                             | 24    | 9,138          | 17,615         |
| Expenses for operations with financial assets available for sale                               |       | (217)          | (56)           |
| Other income received                                                                          |       | 7,614          | 5,579          |
| Operating expenses paid                                                                        |       | (85,579)       | (77,638)       |
| Income tax paid                                                                                |       | (649)          | (3,237)        |
| <b>Cash flows from operating activities before changes in operating assets and liabilities</b> |       | <b>44,639</b>  | <b>50,006</b>  |
| <i>Net (increase)/decrease in operating assets:</i>                                            |       |                |                |
| Mandatory reserve deposits with the National Bank of the Republic of Belarus                   |       | (2,265)        | (4,913)        |
| Due from other banks                                                                           |       | 5,322          | (11,179)       |
| Loans to customers                                                                             |       | (97,195)       | (81,266)       |
| Financial assets held to maturity                                                              |       | -              | (3,062)        |
| Other assets                                                                                   |       | (506)          | (645)          |
| <i>Net increase/(decrease) in operating liabilities:</i>                                       |       |                |                |
| Due to other banks                                                                             |       | 20,460         | (147,400)      |
| Customer accounts                                                                              |       | 68,224         | 263,442        |
| Other liabilities                                                                              |       | (565)          | (66)           |
| <b>Net cash inflow from operating activities</b>                                               |       | <b>38,114</b>  | <b>64,917</b>  |
| <b>Cash flows from investing activities</b>                                                    |       |                |                |
| Acquisition of property, equipment and intangible assets                                       |       | (4,260)        | (2,286)        |
| Proceeds from disposal of property and equipment                                               |       | 91             | 204            |
| Acquisition of investment property, modernisation expenses                                     | 11    | -              | (208)          |
| <b>Net cash outflows from investing activities</b>                                             |       | <b>(4,169)</b> | <b>(2,290)</b> |



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF CASH FLOWS (DIRECT METHOD) – CONTINUED

In millions of Belarusian Roubles

|                                                                          | Notes | 2013            | 2012            |
|--------------------------------------------------------------------------|-------|-----------------|-----------------|
| <b>Cash flows from financing activities</b>                              |       |                 |                 |
| Interest on subordinated debt paid                                       |       | (198)           | (231)           |
| Repayment of debt securities in issue                                    |       | (34,544)        | (12,349)        |
| <b>Net cash outflow from financing activities</b>                        |       | <b>(34,742)</b> | <b>(12,580)</b> |
| Effect of changes in foreign exchange rates on cash and cash equivalents |       | 3,984           | 2,687           |
| Effect of inflation on cash and cash equivalents                         |       | (31,462)        | (44,317)        |
| <b>Net (decrease)/increase in cash and cash equivalents</b>              |       | <b>(28,275)</b> | <b>8,417</b>    |
| <b>Cash and cash equivalents at the beginning of the year</b>            | 30    | <b>226,500</b>  | <b>218,083</b>  |
| <b>Cash and cash equivalents at the end of the year</b>                  | 30    | <b>198,225</b>  | <b>226,500</b>  |

On behalf of the management of the Bank:

N.K. Yurkevich  
Acting Chairman of the Management  
Board

Minsk  
5 May 2014



T. I. Karchmit  
Chief Accountant

The notes set out on pages 7 — 77 form an integral part of these financial statements.

Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

STATEMENT OF CHANGES IN EQUITY

In millions of Belarusian Roubles

|                                                                                            | Notes | Share capital | Treasury shares | Additional capital contribution | Reserve for revaluation of fair value | Accumulated loss | Total equity |
|--------------------------------------------------------------------------------------------|-------|---------------|-----------------|---------------------------------|---------------------------------------|------------------|--------------|
| <b>Balance as at 1 January 2012</b>                                                        |       | 262,578       | (2)             | 30,529                          | -                                     | (125,233)        | 167,872      |
| Net profit for the year                                                                    |       | -             | -               | -                               | -                                     | 17,220           | 17,220       |
| <b>Comprehensive income for the year</b>                                                   |       | -             | -               | -                               | -                                     | 17,220           | 17,220       |
| <b>Balance as at 31 December 2012</b>                                                      |       | 262,578       | (2)             | 30,529                          | -                                     | (108,013)        | 185,092      |
| Net profit for the year                                                                    |       | -             | -               | -                               | -                                     | 11,054           | 11,054       |
| <b>Total comprehensive income for the year</b>                                             |       | -             | -               | -                               | -                                     | 11,054           | 11,054       |
| Net change in fair value of financial instruments available for sale                       |       | -             | -               | -                               | (202)                                 | -                | (202)        |
| Net result carried forward into profit or loss on financial instruments available for sale |       | -             | -               | -                               | 202                                   | -                | 202          |
| <b>Total comprehensive income for the year</b>                                             |       | -             | -               | -                               | -                                     | 11,054           | 11,054       |
| <b>Transactions with shareholders recorded directly in equity</b>                          |       |               |                 |                                 |                                       |                  |              |
| Increase in par value of ordinary shares                                                   | 20    | 50,618        | -               | -                               | -                                     | (50,618)         | -            |
| Increase in par value of preference shares                                                 | 19    | -             | -               | -                               | -                                     | (5,433)          | (5,433)      |
| <b>Balance as at 31 December 2013</b>                                                      |       | 313,196       | (2)             | 30,529                          | -                                     | (153,010)        | 190,713      |

On behalf of the management of the Bank:

N.K. Yurkevich  
Acting Chairman of the Management Board

Minsk  
5 May 2013



I. I. Karchmit  
Chief Accountant

The notes set out on pages 7 — 77 form an integral part of these financial statements.



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking licence # 21 issued by the National Bank of the Republic of Belarus on 7 June 2013. The Bank also has a licence for performing professional and stock-exchange activities with securities # 02200/5200-1246-1126 issued by the Ministry of Finance of the Republic of Belarus dated 29 June 2012.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals, small and medium enterprises and other companies; attracting deposits from non-banking and banking customers, legal entities and individuals; maintaining customer accounts; performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has a certificate of acceptance for registration in the State Agency of Guaranteed Compensation of Individual Deposits, which guarantees 100% repayment of deposits of individuals in case of withdrawal of the banking licence.

Bank's branch in Vitebsk was closed in 2013.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, 220034 Minsk, Republic of Belarus.

The average number of employees of the Bank was 369 in 2013 (2012 - 372).

Shareholders structure of the Bank as at 31 December 2013 and 2012 is presented below:

|                                                                         | 31 December 2013<br>% of the total number<br>of shares | 31 December 2012<br>% of the total<br>number of shares |
|-------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| European Bank of reconstruction and development<br>(hereinafter - EBRD) | 27.68                                                  | 27.68                                                  |
| LLC "Dikris"                                                            | 26.54                                                  | 26.54                                                  |
| LLC "German society on investments and<br>development" (DEG)            | 16.60                                                  | 16.60                                                  |
| Tsybulin V.A.                                                           | 14.17                                                  | 14.17                                                  |
| JLLC "Speedster"                                                        | -                                                      | 13.65                                                  |
| LLC "Speedster-M"                                                       | 13.65                                                  | -                                                      |
| Other                                                                   | 1.36                                                   | 1.36                                                   |
| <b>Total</b>                                                            | <b>100.00</b>                                          | <b>100.00</b>                                          |

In 2013 JLLC "Speedster" was reorganised by demerger of LLC "Speedster-M". As a result of the reorganization the ownership of Bank's shares was transferred to LLC "Speedster-M".

The ultimate controlling party of the Bank as at 31 December 2013 and 2012 was Valentin Anatolyevich Tsybulin, the resident of the Republic of Belarus.



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

## NOTES TO THE FINANCIAL STATEMENTS

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### 2. Basis of preparation of the financial statements

#### *Statement of compliance*

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

#### *General basis of presentation criteria*

These financial statements have been prepared on the assumption that the Bank will continue as a going concern.

According to the requirement of the National Bank of Belarus the minimum size of regulatory capital calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks attracting deposits from individuals and maintaining accounts of individuals should not be less than EUR 25 million. As a result of significant national currency devaluation in 2011 the Bank did not comply with the mentioned requirement as at 31 December 2011 and beyond, as well as the date of approval of these financial statements for issue. Non-compliance with the mentioned requirement may cause revocation of the licence to attract deposits from individuals, who are not individual entrepreneurs, and (or) open and maintaining current accounts of such individuals.

In order to replenish the regulatory capital to the required level the Bank's management has taken the following steps. The nominal value of shares was increased from 785 to 1,530 Belarusian roubles per share using retained earnings for 2010-2012. Subscription for an additional Bank's share issue was announced, one of the conditions for issue was achievement of volume at least 74,000 millions of Belarusian roubles. Shares with a total amount of 74,000 millions of Belarusian roubles were acquired by LLC "Dikris" by making a non-monetary contribution to the Bank's share capital. At the end of 2013 all the necessary documents were completed. The National Bank of Belarus has registered a non-monetary increase of the Bank's share capital in January 2014 (Note 38).

On 28 March 2013 the General Meeting of Shareholders approved the financial statements for 2013 prepared in accordance with the legislation of the Republic of Belarus and decided not to pay dividends on preference shares for 2013. Currently, the Bank's shareholders consider the possibility of increasing regulatory capital to the required amount, taking into account the financial results of the Bank for 2013, either by additional share issue or by an attraction of a subordinated loan for a period exceeding 5 years.

The management and shareholders are putting all efforts to remove material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern, have intention to further develop the business of the Bank in the Republic of Belarus. Making this judgment, the Management considered financial position of the Bank, current intentions about increase of the regulatory capital, profitability of operations, availability of financial resources, and analysis of the impact of the macroeconomic situation on the future of the Bank's operations.

The Bank maintains accounting records in accordance with the requirements of the effective legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS.

The functional and presentation currency is the national currency of the Republic of Belarus — Belarusian rouble.

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



Joint Stock Bank of Reconversion and Development  
Financial statements for the year ended 31 December 2013

NOTES TO THE FINANCIAL STATEMENTS

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***Hyperinflation accounting***

In 2012 and 2013 the economy of Belarus was recognised as hyperinflationary since numerous characteristics of the economic environment provided in IAS 29 “Financial Reporting in Hyperinflationary Economies” have been met. This standard requires that financial statements of the entity, whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period.

In accordance with IAS 29, the Bank’s financial statements and the corresponding figures for the previous periods have been restated for the change in the general purchasing power of the Belarusian rouble and, as a result, have been presented in terms of the measuring unit current at the end of the reporting period.

Quantitative changes indicator of general price level is the Consumer Price Index (hereinafter — “CPI”) published by the National Statistical Committee of the Republic of Belarus, which is the basis for calculation of the conversion factors. The changes in the Consumer Price Index rates for the five-year period ended 31 December 2013 were as follows:

| Year | Annual change in Consumer<br>Price Index, % | Conversion factor from<br>the end of the year<br>until 31 December 2013 |
|------|---------------------------------------------|-------------------------------------------------------------------------|
| 2009 | 10.1                                        | 3.254                                                                   |
| 2010 | 9.9                                         | 2.960                                                                   |
| 2011 | 108.7                                       | 1.418                                                                   |
| 2012 | 21.8                                        | 1.165                                                                   |
| 2013 | 16.8                                        | 1.000                                                                   |

Monetary assets and liabilities were not restated because they are already expressed in terms of the monetary unit current at 31 December 2013. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2013) and components of equity were restated by applying the relevant index, calculated from the date of purchase or contribution. The restated amount of non-monetary items is reduced according to the corresponding IFRS if it exceeds the recoverable amount.

The amounts in the statement of profit or loss are translated using the price index for 2013, based on the assumption that the income and expenses have been accrued evenly throughout a quarter.

The monetary assets of the Bank exceed its monetary liabilities, which leads to the loss of purchasing power during inflation. The appropriate amount of loss on the net monetary position is included in the statement of profit or loss as an individual item.

All items of the statement of cash flows were restated for presentation in the current prices at the end of the reporting period. Loss on monetary items in cash and cash equivalents is the total amount of the effect of inflation in the reconciliation of cash and cash equivalents.

The comparative information for prior periods is restated by applying price index so that the financial statements are presented in current prices at the end of the reporting period.



NOTES TO THE FINANCIAL STATEMENTS

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**3. Adoption of new and revised standards and interpretations**

In the reporting year the Bank adopted all new and amended standards and interpretations related to the Bank's operations and effective for the reporting period ended 31 December 2013.

*IFRS 13 "Fair Value Measurement"* is a unified guidance of the fair value measurement and replaces similar guidance contained in other IFRSs. Standard provides a revised definition of fair value, it establishes the base for measurement of fair value and disclosure requirements for fair value measurement. IFRS 13 explains how to determine the fair value, if it is required or permitted by other IFRSs. The standard does not introduce new requirements to measure assets and liabilities at fair value, does not cancel the exceptions of the fair value measurement currently existing in certain standards.

The standard contains an extensive list of disclosures supplementing previously existing fair value disclosure requirements, in order to provide users of financial statements with more qualitative and comprehensive information about the methods and the input data used to measure fair value, and for multiple estimates of fair value, based on significant unobservable market data about the influence of assessments on the profit or loss or other comprehensive income. Standard has no material impact on the fair value measurement procedures of assets and liabilities.

**4. New accounting pronouncements**

The following new Standards and Interpretations are mandatory for annual periods beginning on or after 1 January 2014 and not early adopted by the Bank:

*Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities - (effective for annual periods beginning on or after 1 January 2014).* The amendment introduces guidance on the application of IAS 32 to address inconsistencies identified in applying some offsetting criteria. This includes an explanation of the meaning of "currently has a legally enforceable right to offset", and that some systems with net settlements may be considered equivalent to the gross settlements. The Bank is currently considering the implications of this change.

*Amendments to IAS 36 Impairment of assets (effective for annual periods beginning on or after 1 January 2014).* The amendments require an entity to disclose the discount rates that have been used in the current and previous measurements if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique. These amendments are not expected to have significant impact on the Bank's financial statements.

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2014).* IAS 39 requires hedge accounting to be discontinued when the hedging instrument expires or is sold, terminated or exercised, unless the replacement or rollover of a hedging instrument into another hedging instrument is part of the entity's documented hedging strategy. Amendments to IAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments will have no impact on the Bank's financial statements as the Bank does not designate derivatives as hedging instruments and does not formally define and document the hedging strategy.

*IFRS 9 "Financial Instruments" Part 1: Classification and Measurement*, issued in November 2010, eliminates sections of IAS 39, relating to the classification and measurement of financial assets. Additional changes were made to IFRS 9 in October 2010 concerning the classification and measurement of financial liabilities, and in December 2011 in respect of (i) changes in the effective date, which is set as the annual periods starting from or after 1 January 2015, (ii) adding requirements to disclose information about the transition to this standard. Key features of the standard are the following:



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- Financial assets should be classified into one of two categories on initial recognition: financial assets subsequently measured at fair value and financial assets subsequently measured at amortized cost. The classification depends on the business model for managing financial instruments of the company and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument as well as if (i) the business model of the company is to hold the asset to collect the contractual cash flows, and simultaneously (ii) the contractual cash flows of this asset represent only payments of principal and interest (i.e., the financial instrument has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments should be subsequently measured at fair value. Equity instruments held for sale will be measured at fair value through profit or loss. For all other equity investments at initial recognition there can be made the final decision to recognize unrealized and realized gains and losses from remeasurement at fair value in other comprehensive income rather than in profit or loss. Gains and losses from revaluation should not be transferred to profit or loss. This decision can be made individually for each financial instrument. Dividends should be presented in profit or loss, as long as they represent the investment yield.
- Most of the requirements of IAS 39 regarding the classification and measurement of financial liabilities were transferred unchanged to IFRS 9. The main difference is the requirement to present the effects of changes in own credit risk of financial liabilities classified as at fair value through profit or loss in other comprehensive income.

Adoption of IFRS 9 is mandatory from 1 January 2015, earlier application is permitted. The Bank's management expects that IFRS 9 will be applied in the financial statements of the Bank for the year beginning from 1 January 2015, and its application will have significant impact on the reported indicators of financial assets and financial liabilities. At the same time, a reasonable estimate of this impact requires detailed analysis.

### 5. Summary of significant accounting policies

#### *Cash and cash equivalents*

Cash and cash equivalents represent assets which can be easily converted into known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with original maturity exceeding 90 days cannot be considered as cash equivalents when their residual period to maturity reduces to 90 days. The balances which are restricted for use are excluded from cash and cash equivalents.

#### *Mandatory reserve deposits with the National Bank of the Republic of Belarus*

Mandatory reserve deposits with the National Bank of the Republic of Belarus (the “National Bank”) are funds deposited with the National Bank, which are not intended for the financing of current operations. Mandatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

#### *Financial instruments*

Classification of financial instruments on initial recognition is performed on the basis of intention, for which they were acquired and their characteristics.



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Reclassification of financial instruments after their initial recognition is permitted or required only when certain criteria established by appropriate IFRS are met. During the analysis of the possibility of reclassification of financial instruments the Bank follows the principle that the financial instrument should meet the definition of the category where it is aimed to be reclassified.

Financial instruments are classified into the following categories.

*Financial assets and liabilities carried at fair value through profit or loss* are those that have been classified by the Bank as carried at fair value through profit or loss or as held for trading. Financial instruments held for trading are those that the Bank buys for the purpose of generating profit from short-term fluctuations in their price. Derivatives except for hedging instruments also fall to this category.

*Held-to-maturity investments* are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

*Loans and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the nearest term;
- those that the Bank designates upon initial recognition as carried at fair value through profit or loss or as available for sale;
- those for which the Bank may not recover substantially all of its initial investments, for the reason other than credit deterioration, and which shall be classified as available for sale.

Loans and receivables include amounts due from other banks, loans to customers and other financial assets which comply with these classification criteria.

*Available-for-sale financial assets* are non-derivative financial assets that are not included into any of other categories described above. Available-for-sale instruments may include certain debt and equity investments.

*Financial liabilities carried at amortised cost* include financial liabilities except for:

- liabilities measured at fair value with any gains or losses arising on remeasurement recognised in profit or loss;
- liabilities which arise from a transfer of financial assets not qualifying for derecognition and are accounted using the continuing involvement method (i.e. recognition of the assets to the extent of continuing involvement).

Financial liabilities measured at amortised cost include balances due to other banks, customer accounts, debt securities issued, subordinated debt and other borrowed funds.

### ***Initial recognition of financial instruments***

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation concerning the instrument. Purchase and sale of the financial assets and liabilities on standard terms are recognised at settlement date.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.



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### ***Fair value of financial instruments***

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 in principal (or more advantageous) market at the measurement date under current market terms. Principal (or more advantageous) market price used to measure fair value of assets or liabilities shall not be adjusted for transaction expenses, as they do not characterize asset or liability, but reflect transaction terms for asset or liability.

To measure fair value the Bank uses such methods which are acceptable in particular situation and for which there are sufficient available inputs; when measuring observable inputs shall be applied to the maximum and unobservable inputs shall be applied to the minimum.

The Bank measures fair value of financial instruments using quoted prices in an active market for that instrument, otherwise, using external independent inputs on demand (supply) prices for identical financial instruments. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

To measure fair value of financial instruments for which there is no observable market prices, the Bank uses information (if available) on recent market transactions between knowledgeable, willing parties in an arm's length transaction, references to current value of the most similar financial instruments, discounted cash flows model, analysis of financial information on investees and other methods, provided that such methods can ensure reliable measurement of financial instruments fair value. When using discounted cash flows model the Bank applies discounting rates calculated based on prevailing market interest rates for financial instruments under similar terms, including counterparty solvency, remaining maturity of fixed interest rate, remaining maturities for repayment, currency, collateral etc.

When it is not possible to use one of valuation methods to measure fair value of financial instrument, the Bank uses judgements based on liquidity, concentration, uncertainty of market factors, assumptions on price and other factors affecting that specific instrument.

### **Derecognition of financial assets**

Derecognition of financial assets (or, if applicable, of a part of the financial asset or of a part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank transfers the contractual rights to receive the cash flows from the financial asset, or if the Bank retains the right to obtain cash receipt from such asset with simultaneous obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer.

### ***Derivative financial instruments***

Derivative financial instruments used by the Bank include foreign currency forwards and swaps. The Bank uses derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments used by the Bank do not qualify for hedge accounting as the Bank does not formally determine and document the strategy for hedge accounting and does not evaluate the hedge effectiveness in order to apply special rules for hedge accounting.



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Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from the discounted cash flows model. Derivatives financial instruments are recognised in assets if their fair value is positive or otherwise in liabilities. Respective transaction costs are recognised in profit or loss in the period in which they are incurred. Both positive and negative valuation results on change in fair value of derivative financial instruments are recognised in the statement of profit or loss line "Net gain/(loss) on derivative financial instruments".

### ***Due from other banks***

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortised cost is based on fair value of loans issued (deposits placed) determined considering interest rates of analogous (similar) loans and deposits effective at the date of loan issuing (deposit placement). If loans are issued (deposits placed) at interest rates which are higher (lower) than the market rates the difference between fair value and nominal value of a loan (deposit) is recognised in the statement of profit or loss as effect on initial recognition of financial instruments at fair value. The due from other banks balances with undefined maturity are measured at amortised cost based on the expected maturity. Due from other banks are recorded at amortised cost less any impairment.

### ***Loans to customers***

Loans to customers are recognised at the moment of lending funds to customers in the amount of funds lent less transaction costs (i.e. at fair value). Loans issued at non-market interest rates are evaluated at the date of issue at fair value which is determined as future cash flows from the loan discounted at market rates for analogous loans. The difference between fair value and nominal value of loans is recognised in the statement of profit or loss as effect on initial recognition of financial instruments at fair value. Subsequently, loans to customers are carried at amortised cost using the effective interest rate method. Loans to customers are carried net of any allowance for impairment loss.

Loans renegotiated during the reporting period which otherwise would be overdue are accounted for in accordance with renegotiated terms.

### ***Financial assets impairment***

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognised when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of financial assets and which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively assessed for impairment with other assets.

The following principal criteria are used to determine whether there is objective evidence that an impairment loss has occurred:

- delinquency in any ordinary payment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower's business;



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- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower's financial difficulty that the lender would not otherwise consider.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Impairment losses are always recognised by the allowance charge in the amount of the loss measured as the difference between the asset's carrying amount in the statement of financial position and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance in the statement of profit or loss.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss figures.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined.

### ***Financial assets available for sale***

Financial assets available for sale are represented by debt securities. Such securities are initially recorded at fair value. Subsequently these securities are measured at fair value with re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the statement of profit or loss. Interest income is accrued using the effective interest rate method and is recognised directly in the statement of profit or loss. The Bank uses quoted market prices to determine the fair value of Bank's financial assets available-for-sale. Non-marketable debt securities for which fair value cannot be reliably measured are stated at amortised cost less impairment losses, if any.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognised in other comprehensive income is removed from other comprehensive income and recognised in the statement of profit or loss for the period. The main criteria applied to determine objective indicators of securities impairment are the ability of the issuer to settle obligations as well as the information about the issuer's ability to service securities issued, securities market condition and other information.

Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognised in the statement of profit or loss for the reporting period.



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### ***Financial liabilities***

Financial liabilities, except for those carried at fair value through profit and loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities carried at amortised cost are initially recognised at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the statement of profit or loss.

If financial liabilities are issued at interest rates above (below) the market rates the difference between fair value and nominal value of financial liabilities is recognised in the statement of profit or loss as effect on initial recognition of financial instruments at fair value. Subsequently the carrying value of financial liabilities in the statement of financial position is amortised with respective expenses being recorded as interest expenses in the statement of profit or loss.

For borrowings received from shareholders at other than market rates the difference between the nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period when such instruments were acquired. Subsequently, the carrying amount of such instruments is amortised, and the related expense is recorded in the statement of profit or loss as interest expense using the effective interest rate method.

### ***Preference shares***

Preference shares are classified as a financial liability as they provide mandatory fixed dividends payments. Dividends thereon are recognised as interest expense in the statement of profit or loss as accrued.

### ***Derecognition of financial liabilities***

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability (or its part) is replaced by another liability 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. The difference between the carrying amount of the original and new financial liability is recognized in profit or loss.

### ***Offset of financial assets and liabilities***

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Two financial instruments are accounted for as one combined financial instrument in the following cases:

- agreements are entered into at the same time and interrelated;
- agreements are concluded by the same counterparty;
- instruments are subject to the same risk;
- there is no apparent economic need or substantive business purpose for accounting the transactions separately that could not also have been accomplished in a single transaction.



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### ***Investment property***

The Bank classifies investment property as real estate held by the owner or lessee under a finance lease agreement, including property under construction or reconstruction for future use as investment property, to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. Investment property also includes assets with undefined use at the date of recognition or at the reporting date.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank measures investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs.

Fair value of investment property is the price that would be received to sell an asset in an orderly transaction between market participants in principal (or more advantageous) market at the measurement date under current market terms, the price can be observable or measured using a valuation technique. Current prices for identical real estate properties in an active market are the best evidence of the fair value of investment property. In absence of current prices in active market, the Bank is guided by: current prices in an active market for similar real estate properties, adjusted for differences; recent prices for similar real estate properties in less active markets, adjusted to any changes from the transaction date to the reporting date; expected discounted cash flow.

Income from investment property lease is recognised in the statement of profit or loss as "Other income".

Transfer into investment property category or exclusion from this category may be performed upon actual change in intended use of investment property item.

The investment property is derecognized at its disposal or final withdrawal from operation when after the disposal of the investment property item it is not expected to receive economic benefits.

### ***Property and equipment***

Property and equipment are recorded at historical cost restated in order to be presented in monetary units current as at 31 December 2013 less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. This is the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined by reference to their carrying values and recognised in the statement of profit or loss as other income or expense. Repair and maintenance costs are charged to the statement of profit or loss as incurred.

Depreciation is charged from the month following the month property and equipment has been put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 — 11%;



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- vehicles – 11 — 15%;
- office and computer equipment – 10 — 20%;
- other property and equipment – 5 — 25%;
- safes and other engineering devices (included in other property and equipment) – 2 — 3%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset after deducting the estimated costs of disposal if the asset would be of the age and in the condition expected at the end of its useful life. The residual values, depreciation methods and useful lives are reviewed and, if necessary, adjusted at each reporting date.

### ***Intangible assets***

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably.

Intangible assets include software, licences and other intangible assets.

Intangible assets which are separately acquired are recognised at cost restated in order to be presented in monetary units current as at 31 December 2013 less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised evenly during the useful life of 1 to 10 years using the straight-line basis and are evaluated for impairment when there is an evidence of possible impairment of intangible assets. Useful lives and method of amortisation of intangible assets are reviewed at least annually at the end of the reporting period.

Gains and losses on disposals of intangible assets are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the statement of profit or loss as other income.

### ***Impairment of non-financial assets***

The carrying amounts of the Bank's non-financial assets other than investment property and deferred tax are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value obtained from using and its net realizable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect to non-financial assets impairment losses incurred in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



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After the recognition of an impairment loss the depreciation charge for property and equipment and intangible assets for future periods is adjusted to allocate the assets' revised carrying value presented in the statement of financial position, less its residual value (if any), on a systematic basis over its remaining useful life.

Gain or loss from disposal of property, equipment and intangible assets is determined as the difference between net inflows from disposal and carrying value of assets per the statement of financial position and is included in the statement of profit or loss in "Other income".

### ***Repossessed assets***

In the normal course of business the Bank occasionally takes possession of non-financial assets that originally were pledged as collateral for loans. When the Bank acquires (i.e. gains a full title to) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of net realisable value and cost restated in order to be presented in monetary units current as at 31 December 2013. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

Net realisable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated costs necessary to make the sale.

At each reporting date the Bank revises the net realisable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in estimated costs of completion and costs necessary to make the sale, the Bank writes such assets down to their net realisable value and recognises the write down in operating expenses in the period such write down occurs or losses takes place. Subsequently, if the circumstances which led to write down of assets change or if there is an evidence of net realisable value growth, the amount of write down is reversed so that the revised carrying amount in the statement of financial position would be the lower of net realisable value and cost.

Repossessed assets initially intended for purposes other than sale in the normal course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

### ***Operating lease - Bank as a lessee***

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

### ***Operating lease - Bank as a lessor***

The Bank accounts for and depreciates assets leased into operating lease in the same way as assets analogous in nature and functions. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in the statement of profit or loss in "Other income".



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### ***Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

### ***Repurchase of share capital (treasury shares)***

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Share capital is accounted for at historical cost restated in order to be presented in monetary units current as at 31 December 2013.

### ***Loan commitments***

The Bank assumes loan commitments, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties, guarantees carry the same credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits, therefore carry less risk than a direct borrowing. Loan commitments represent an unused part of loans, guarantees or letters of credit authorised for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments. Though it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value confirmed by the amount of commissions received. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised (commission received) or the amount recognized as a provision.

In case when commissions are accrued periodically in respect of unfulfilled liability they are recognised as revenue during the term of the respective liability.

### ***Provisions, contingent liabilities and assets***

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

Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank.



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The Bank does not recognise contingent assets and liabilities in its financial statements because their existence depends on events not wholly within the control of the Bank.

Information about contingent liabilities is disclosed in the financial statements except for cases when an outflow of resources embodying economic benefits to settle the obligation is remote. Information about contingent assets is disclosed when inflow of resources embodying economic benefits is probable (more likely than not).

### ***Short-term employee benefits***

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided or work performed.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

### ***Taxation***

Income tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. Income tax expenses include current and deferred tax expenses.

The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

As some types of expense are tax exempt and due to tax incentives permanent taxable differences arise. In the years 2013 and 2012 the Bank applied the tax exemption provided by law for operations with state securities, bonds of the National Bank and bonds of other legal entities.

Deferred is recognized on the basis of balance method and represents assets and liabilities on income tax accrued on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the statement of profit or loss, except when it relates to items recognised directly into other comprehensive income, in this case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax, which are stipulated by the legislation of the Republic of Belarus, are accounted for in operating expenses.



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### *Income and expense recognition*

Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability recorded in the statement of financial position. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. The calculated effective interest rate usually includes any fees, points paid or received, transaction costs and other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down (partially or fully) as a result of an impairment loss, interest income is recognised using interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss.

Commission income, which is not a part of the effective interest rate, is recognised on an accrual basis when the services are provided. Commission income on a transaction for a third party is recognized on completion of the transaction. Fees and commissions for managerial or consulting services are recognised in accordance with the terms of service agreements. Commission income for services rendered for a long period of time or on continuing basis is recognised proportionally to the volume of services rendered in the reporting period.

Other income is recognized in the statement of profit or loss when the related transactions are completed.

### *Foreign currency transactions*

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the appropriate exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rate set by the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Roubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Gain and loss arising from these translations is included in the statement of profit or loss in "Net gain/(loss) on foreign exchange operations".

The exchange rates of the Belarusian Ruble to the main Bank's operational foreign currencies are presented below:

| Reporting date   | US Dollar ("USD")/<br>Belarusian Rouble<br>("BYR") | Euro ("EUR")/ Belarusian<br>Rouble ("BYR") | Russian Rouble ("RUB")/<br>Belarusian Rouble<br>("BYR") |
|------------------|----------------------------------------------------|--------------------------------------------|---------------------------------------------------------|
| 31 December 2013 | 9,510                                              | 13,080                                     | 290.50                                                  |
| 31 December 2012 | 8,570                                              | 11,340                                     | 282.00                                                  |



## NOTES TO THE FINANCIAL STATEMENTS

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### ***Determination and presentation of operating segments***

The Bank determines and presents operating segments based on the information that is provided internally to the Management Board, which is the Bank's chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 "Operating Segments".

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category "Other/not distributed" in order to provide reconciliation segments' activities to the financial statements of the Bank.

For the purposes of segment reporting interest income and expenses are determined by a direct method based on the actual performance of the segment. The Bank does not use transfer pricing for allocation of funds among segments.

Income from foreign currency transactions in terms of income from the revaluation of assets and liabilities are not allocated to segments. Accounting for income tax expense and loss on net monetary position due to inflation is not allocated to segments.

### **6. Critical accounting estimates and judgements in applying accounting policies.**

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

#### ***Fair value of derivatives***

Currency swaps and forward contracts included in derivatives do not have active market and are valued using discounted cash flows model. The fair value of the derivatives is determined on the basis of the market interest rates for financial instruments with similar credit risk and maturity applicable to respective currencies and exchange rates effective in the Republic of Belarus. More information about the assumptions used to determine the fair value of derivative financial instruments is set out in Note 34.

#### ***Impairment losses on loans to customers***

The allowance for impairment of loans assessed for impairment individually is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparties' financial position and the net realisable value of any underlying collateral. Calculation of the present value of expected cash flows of a collateralised financial asset reflects the cash flows that may come from lender's entry into possession of debtor's property less costs for obtaining and selling the collateral.

The impairment of loans, which are assessed collectively for impairment, is based on the available information, which provides evidence for the decrease of the expected future cash flows on the loan group.



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## NOTES TO THE FINANCIAL STATEMENTS

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Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with these assets and the experience of management statistics on the volume of past due debt, which occur as a result of past loss events (which is not usually an indication of future losses), and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past events that do not exist in the current period

The Bank's assumptions about estimated losses are based on past performance, past customer behaviour, customer solvency and general economic conditions, which are not necessarily an indication of future losses.

The Bank does not recognize impairment losses on new loans. By new loans are meant loans, since the issuance of which up to the reporting date passed less than 30 days.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual results.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of BYR 45,171 million and BYR 42,432 million as at 31 December 2013 and 2012, respectively.

### ***Fair value of investment property***

Fair value of the property item classified as investment property, was estimated by the professional independent appraisers using a combination of the net assets value method, market and discounted cash flow methods in 2013, and a combination of market and discounted cash flow methods in 2012.

More information about the assumptions used to determine the fair value of investment property is set out in Note 34. Management of the Bank analyzed the appraisers' assumptions used for the valuation of investment property for compliance with market conditions at the end of the reporting period. However, management believes that the actual proceeds from the sale or use of the investment property items may differ from the amounts reported in the statement of financial position.

### ***Repossessed assets***

The assets transferred to the Bank to repay debts are measured at the lower of the two values: cost adjusted to present in the monetary units at the balance sheet date and net realizable value. Estimates of net selling price is based on the most reliable management's judgments on the amounts that can be obtained from the sale of assets (at the time of assessment), taking into account the state of assets, fluctuations in their prices, anticipated timing of sale, as well as discount rates, if necessary

Net selling price of residential real estate under construction was determined based on estimates of future cash flows from the sale of the property upon completion of construction, denominated in U.S. dollars using the discount rate of 14% as at 31 December 2013 and 2012. Decrease (increase) in the discount rate by one percentage point would increase (decrease) the value of these assets in the statement of financial position by BYR 203 million as at 31 December 2013 and by BYR 224 million as at 31 December 2012.

### ***Deferred income tax asset recognition***

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on management's forecasts.



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### *Initial recognition of related party transactions*

In the normal course of business the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 36.

### **7. Cash and balances with the National Bank of the Republic of Belarus**

| <i>In millions of Belarusian Roubles</i>                                         | <b>31 December 2013</b> | <b>31 December 2012</b> |
|----------------------------------------------------------------------------------|-------------------------|-------------------------|
| Cash balances with the National Bank of the Republic of Belarus                  | 150,033                 | 92,276                  |
| Cash in hand                                                                     | 49,734                  | 59,916                  |
| <b>Total cash and balances with the National Bank of the Republic of Belarus</b> | <b>199,767</b>          | <b>152,192</b>          |

The maximum exposure to credit risk of cash balances with the National Bank of the Republic of Belarus is equal to their value presented in the statement of financial position.

Information on cash and cash equivalents is disclosed in Note 30.

### **8. Derivative financial instruments**

As at 31 December 2013 derivative financial instruments are presented as follows:

| <i>In millions of Belarusian Roubles</i>      | <b>Nominal amount</b>    |                                    | <b>Fair value</b> |                  |
|-----------------------------------------------|--------------------------|------------------------------------|-------------------|------------------|
|                                               | <b>Currency acquired</b> | <b>Amount of currency acquired</b> | <b>Assets</b>     | <b>Liability</b> |
| <b>Foreign currency forward contracts</b>     |                          |                                    |                   |                  |
| USD/BYR                                       | USD                      | 147,405                            | 94,877            | -                |
| EUR/BYR                                       | EUR                      | 58,860                             | 39,639            | -                |
| <b>Total forward contracts</b>                |                          | <b>206,265</b>                     | <b>134,516</b>    | <b>-</b>         |
| <b>Foreign currency swap contracts</b>        |                          |                                    |                   |                  |
| USD/BYR                                       | USD                      | 341,636                            | 217,185           | -                |
| RUB/USD                                       | RUB                      | 59,553                             | -                 | -                |
| USD/EUR                                       | USD                      | 26,160                             | -                 | -                |
| BYR/USD                                       | BYR                      | 23,014                             | -                 | 8,247            |
| <b>Total swap contracts</b>                   |                          | <b>450,363</b>                     | <b>217,185</b>    | <b>8,247</b>     |
| <b>Total derivative financial instruments</b> |                          | <b>656,628</b>                     | <b>351,701</b>    | <b>8,247</b>     |

As at 31 December 2012 derivative financial instruments are presented as follows:

| <i>In millions of Belarusian Roubles</i>  | <b>Nominal amount</b>    |                                    | <b>Fair value</b> |                  |
|-------------------------------------------|--------------------------|------------------------------------|-------------------|------------------|
|                                           | <b>Currency acquired</b> | <b>Amount of currency acquired</b> | <b>Assets</b>     | <b>Liability</b> |
| <b>Foreign currency forward contracts</b> |                          |                                    |                   |                  |
| USD/BYR                                   | USD                      | 154,707                            | 98,230            | -                |
| EUR/BYR                                   | EUR                      | 59,433                             | 39,095            | -                |
| <b>Total forward contracts</b>            |                          | <b>214,140</b>                     | <b>137,325</b>    | <b>-</b>         |

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*In millions of Belarusian Roubles*

|                                               | Nominal amount    |                             | Fair value     |               |
|-----------------------------------------------|-------------------|-----------------------------|----------------|---------------|
|                                               | Currency acquired | Amount of currency acquired | Assets         | Liability     |
| <b>Foreign currency swap contracts</b>        |                   |                             |                |               |
| USD/BYR                                       | USD               | 358,560                     | 212,153        | -             |
| RUB/USD                                       | RUB               | 29,559                      | 38             | -             |
| BYR/USD                                       | BYR               | 8,412                       | -              | 15,421        |
| <b>Total swap contracts</b>                   |                   | <b>396,531</b>              | <b>212,191</b> | <b>15,421</b> |
| <b>Total derivative financial instruments</b> |                   | <b>610,671</b>              | <b>349,516</b> | <b>15,421</b> |

The presence of these derivatives leads to the Bank credit risk. The maximum credit risk of the asset which appeared as a result from the fair value of derivative financial instrument is equal to its carrying amount in the statement of financial position. The analyse of credit quality of the Bank's counterparties of derivative financial assets is presented below. Rating banks other than the National Bank, was determined on the basis of ratings of international rating agency Fitch Ratings.

| <i>In millions of Belarusian Roubles</i>      | <b>31 December 2013</b> | <b>31 December 2012</b> |
|-----------------------------------------------|-------------------------|-------------------------|
| <b>Derivative financial assets</b>            |                         |                         |
| National Bank of Republic of Belarus          | 351,701                 | 349,479                 |
| Banks with the BB rating-                     | -                       | 37                      |
| <b>Total derivative financial instruments</b> | <b>351,701</b>          | <b>349,516</b>          |

### 9. Due from other banks

| <i>In millions of Belarusian Roubles</i>                          | <b>31 December 2013</b> | <b>31 December 2012</b> |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| Nostro accounts                                                   | 7,671                   | 82,641                  |
| Loans granted to other banks                                      | -                       | 6,988                   |
| Deposits placed with other banks as fulfilment of obligations     | 4,039                   | 2,256                   |
| <b>Total due from other banks</b>                                 | <b>11,710</b>           | <b>91,885</b>           |
| Allowance for impairment                                          | (10)                    | (60)                    |
| <b>Total due from other banks net of allowance for impairment</b> | <b>11,700</b>           | <b>91,825</b>           |

As at 31 December 2013 and 2012 deposits placed with other banks as fulfilment of obligations were presented by guarantee deposits placed with other banks for plastic cards transactions and letters of credit.

#### (a) Credit quality of amounts due from other banks

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2013, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:



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| <i>In millions of Belarusian Roubles</i>                              | <b>Nostro<br/>accounts</b> | <b>Deposits<br/>placed with other banks as<br/>fulfilment of obligations</b> | <b>Total</b>  |
|-----------------------------------------------------------------------|----------------------------|------------------------------------------------------------------------------|---------------|
| <b>Neither past due nor impaired</b>                                  |                            |                                                                              |               |
| A+                                                                    | 6                          | 1,415                                                                        | 1,421         |
| A                                                                     | 4,235                      | -                                                                            | 4,235         |
| BBB-                                                                  | 77                         | -                                                                            | 77            |
| BB-                                                                   | 1,185                      | -                                                                            | 1,185         |
| B                                                                     | 25                         | -                                                                            | 25            |
| B-                                                                    | 1,971                      | 2,624                                                                        | 4,595         |
| Not rated                                                             | 121                        | -                                                                            | 121           |
| <b>Total neither past due nor impaired</b>                            | <b>7,620</b>               | <b>4,039</b>                                                                 | <b>11,659</b> |
| <b>Individually assessed for impairment<br/>(current)</b>             | <b>51</b>                  | <b>-</b>                                                                     | <b>51</b>     |
| <b>Total due from other banks</b>                                     | <b>7,671</b>               | <b>4,039</b>                                                                 | <b>11,710</b> |
| Allowance for impairment                                              | (10)                       | -                                                                            | (10)          |
| <b>Total due from other banks net of<br/>allowance for impairment</b> | <b>7,661</b>               | <b>4,039</b>                                                                 | <b>11,700</b> |

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2012:

| <i>In millions of Belarusian Roubles</i>                              | <b>Nostro<br/>accounts</b> | <b>Loans granted<br/>to other banks<br/>under reverse<br/>repo<br/>agreements</b> | <b>Deposits<br/>placed with other<br/>banks as<br/>fulfilment of<br/>obligations</b> | <b>Total</b>  |
|-----------------------------------------------------------------------|----------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|
| <b>Neither past due nor impaired</b>                                  |                            |                                                                                   |                                                                                      |               |
| A+                                                                    | 44,534                     | -                                                                                 | 799                                                                                  | 45,333        |
| BBB-                                                                  | 362                        | -                                                                                 | -                                                                                    | 362           |
| BB-                                                                   | 15,436                     | -                                                                                 | -                                                                                    | 15,436        |
| B                                                                     | 2                          | -                                                                                 | -                                                                                    | 2             |
| B-                                                                    | 3,569                      | -                                                                                 | 1,457                                                                                | 5,026         |
| Not rated                                                             | 18,539                     | 6,988                                                                             | -                                                                                    | 25,527        |
| <b>Total neither past due not impaired</b>                            | <b>82,442</b>              | <b>6,988</b>                                                                      | <b>2,256</b>                                                                         | <b>91,686</b> |
| <b>Individually assessed for impairment<br/>(current)</b>             | <b>199</b>                 | <b>-</b>                                                                          | <b>-</b>                                                                             | <b>199</b>    |
| <b>Total due from other banks</b>                                     | <b>82,641</b>              | <b>6,988</b>                                                                      | <b>2,256</b>                                                                         | <b>91,885</b> |
| Allowance for impairment                                              | (60)                       | -                                                                                 | -                                                                                    | (60)          |
| <b>Total due from other banks net of<br/>allowance for impairment</b> | <b>82,581</b>              | <b>6,988</b>                                                                      | <b>2,256</b>                                                                         | <b>91,825</b> |

As at 31 December 2013 and 2012 amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks with good reputation.

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**(b) Movement in the impairment allowance for amounts due from other banks**

Movement in the impairment allowance for due from other banks in the year 2013 is presented below:

| <i>In millions of Belarusian Roubles</i>               | Nostro accounts | Deposits<br>placed with other<br>banks as fulfilment<br>of obligations | Total     |
|--------------------------------------------------------|-----------------|------------------------------------------------------------------------|-----------|
| <b>Allowance for impairment as at 1 January 2013</b>   | <b>60</b>       | -                                                                      | <b>60</b> |
| Charge for the year                                    | (40)            | -                                                                      | (40)      |
| Effect of inflation                                    | (10)            | -                                                                      | (10)      |
| <b>Allowance for impairment as at 31 December 2013</b> | <b>10</b>       | -                                                                      | <b>10</b> |

Movement in the impairment allowance for due from other banks in the year 2012 is presented below:

| <i>In millions of Belarusian Roubles</i>               | Nostro<br>accounts | Loans granted<br>to other banks<br>under reverse<br>repo<br>agreements | Deposits<br>placed with other<br>banks as<br>fulfilment of<br>obligations | Итого     |
|--------------------------------------------------------|--------------------|------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------|
| <b>Allowance for impairment as at 1 January 2012</b>   | -                  | -                                                                      | -                                                                         | -         |
| Charge for the year                                    | 64                 | -                                                                      | -                                                                         | 64        |
| Effect of inflation                                    | (4)                | -                                                                      | -                                                                         | (4)       |
| <b>Allowance for impairment as at 31 December 2012</b> | <b>60</b>          | -                                                                      | -                                                                         | <b>60</b> |

**(c) Concentration of due from other banks**

As at 31 December 2013 the Bank had no significant concentration of due from other banks. In 2012 the Bank had balances exceeding 10% of the Bank's equity with two banks. The total of those balances as at 31 December 2012 comprised BYR 45,333 million.

**(d) Maximum exposure to credit risk**

The maximum exposure to credit risk of balances due from other banks equals the net carrying amounts as reported in the statement of financial position.

**10. Loans to customers**

| <i>In millions of Belarusian Roubles</i>                        | 31 December<br>2013 | 31 December<br>2012 |
|-----------------------------------------------------------------|---------------------|---------------------|
| Commercial loans                                                | 154,220             | 147,256             |
| Loans to individuals                                            | 355,992             | 337,857             |
| <b>Total loans to customers</b>                                 | <b>510,212</b>      | <b>485,113</b>      |
| Allowance for impairment                                        | (13,775)            | (14,177)            |
| <b>Total loans to customers net of allowance for impairment</b> | <b>496,437</b>      | <b>470,936</b>      |



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**(a) Credit quality of loans to customers**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2013:

| <i>In millions of Belarusian Roubles</i>                            | <b>Commercial<br/>loans</b> | <b>Loans to<br/>individuals</b> | <b>Total</b>   |
|---------------------------------------------------------------------|-----------------------------|---------------------------------|----------------|
| <b>Undue and not individually impaired loans</b>                    |                             |                                 |                |
| New loans granted                                                   | 5,568                       | 11,615                          | 17,183         |
| Standard                                                            | 62,360                      | 325,566                         | 387,926        |
| Watch                                                               | 26,199                      | 3,219                           | 29,418         |
| Substandard                                                         | 661                         | 4,867                           | 5,528          |
| Doubtful                                                            | 4,586                       | 3,210                           | 7,796          |
| Loss                                                                | 17,542                      | 3,496                           | 21,038         |
| <b>Total undue and not individually impaired loans</b>              | <b>116,916</b>              | <b>351,973</b>                  | <b>468,889</b> |
| <b>Overdue but not impaired loans</b>                               |                             |                                 |                |
| Overdue less than 1 month                                           | 549                         | -                               | 549            |
| Overdue from 1 to 3 months                                          | 70                          | -                               | 70             |
| Overdue from 3 to 6 months                                          | 2,695                       | -                               | 2,695          |
| <b>Total overdue but not impaired loans</b>                         | <b>3,314</b>                | <b>-</b>                        | <b>3,314</b>   |
| <b>Individually impaired loans</b>                                  |                             |                                 |                |
| Current                                                             | 33,830                      | -                               | 33,830         |
| Overdue less than 1 month                                           | -                           | 2,767                           | 2,767          |
| Overdue from 1 to 3 months                                          | -                           | 593                             | 593            |
| Overdue from 3 to 6 months                                          | -                           | 236                             | 236            |
| Overdue from 6 months to 1 year                                     | 160                         | 217                             | 377            |
| Overdue more than 1 year                                            | -                           | 206                             | 206            |
| <b>Total loans individually impaired</b>                            | <b>33,990</b>               | <b>4,019</b>                    | <b>38,009</b>  |
| <b>Total loans to customers</b>                                     | <b>154,220</b>              | <b>355,992</b>                  | <b>510,212</b> |
| Allowance for impairment                                            | (4,806)                     | (8,969)                         | (13,775)       |
| <b>Total loans to customers net of allowance for<br/>impairment</b> | <b>149,414</b>              | <b>347,023</b>                  | <b>496,437</b> |

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The following table provides information on the credit quality of the loan portfolio as at 31 December 2012:

| <i>In millions of Belarusian Roubles</i>                            | <b>Commercial<br/>loans</b> | <b>Loans to<br/>individuals</b> | <b>Total</b>   |
|---------------------------------------------------------------------|-----------------------------|---------------------------------|----------------|
| <b>Undue and not individually impaired loans</b>                    |                             |                                 |                |
| New loans granted                                                   | 2,002                       | 12,834                          | 14,836         |
| Standard                                                            | 53,098                      | 307,211                         | 360,309        |
| Watch                                                               | 37,516                      | 1,589                           | 39,105         |
| Substandard                                                         | 8,298                       | 2,538                           | 10,836         |
| Doubtful                                                            | 5,534                       | 5,150                           | 10,684         |
| Loss                                                                | -                           | 3,389                           | 3,389          |
| <b>Total undue and not individually impaired loans</b>              | <b>106,448</b>              | <b>332,711</b>                  | <b>439,159</b> |
| <b>Overdue but not impaired loans</b>                               |                             |                                 |                |
| Overdue less than 1 month                                           | 260                         | -                               | 260            |
| Overdue from 3 to 6 months                                          | 425                         | -                               | 425            |
| <b>Total overdue but not impaired loans</b>                         | <b>685</b>                  | <b>-</b>                        | <b>685</b>     |
| <b>Individually impaired loans</b>                                  |                             |                                 |                |
| Current                                                             | 38,795                      | 4,602                           | 43,397         |
| Overdue from 1 to 3 months                                          | -                           | 179                             | 179            |
| Overdue from 3 to 6 months                                          | -                           | 365                             | 365            |
| Overdue from 6 months to 1 year                                     | 1,180                       | -                               | 1,180          |
| Overdue over 1 year                                                 | 148                         | -                               | 148            |
| <b>Total individually impaired loans</b>                            | <b>40,123</b>               | <b>5,146</b>                    | <b>45,269</b>  |
| <b>Total loans to customers</b>                                     | <b>147,256</b>              | <b>337,857</b>                  | <b>485,113</b> |
| Allowance for impairment                                            | (5,174)                     | (9,003)                         | (14,177)       |
| <b>Total loans to customers net of allowance for<br/>impairment</b> | <b>142,082</b>              | <b>328,854</b>                  | <b>470,936</b> |

For credit quality analysis the Bank uses classification of loans to customers by 5 risk groups. When classifying commercial loans, the following criteria are taken into account: debt service, financial indicators and other analytical information. When classifying loans to individuals the basic factor is payment discipline.

The Standard risk group includes loans to customers with stable financial position which are able to settle their obligations promptly and entirely. The Watch group comprises loans to customers with either insignificant worsening of financial position or appearance of separate short-term cases of loan delay. The Substandard group comprises loans to customers with particular risk degree but able to fulfil independently their obligations. The Doubtful group includes troubled debtors with increased risk of non-repayment of debts. The Loss group comprises borrowers with insufficient financial position and high risk of non-repayment of loans.



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NOTES TO THE FINANCIAL STATEMENTS

**(b) Movements in the impairment allowance for loans to customers**

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2013 are as follows:

| <i>In millions of Belarusian Roubles</i>               | <b>Commercial<br/>loans</b> | <b>Loans to<br/>individuals</b> | <b>Total</b>  |
|--------------------------------------------------------|-----------------------------|---------------------------------|---------------|
| <b>Allowance for impairment as at 1 January 2013</b>   | <b>5,174</b>                | <b>9,003</b>                    | <b>14,177</b> |
| Charge for the year                                    | 3,212                       | 9,213                           | 12,425        |
| Write-off against allowance                            | (2,817)                     | (7,864)                         | (10,681)      |
| Inflation effect                                       | (763)                       | (1,383)                         | (2,146)       |
| <b>Allowance for impairment as at 31 December 2013</b> | <b>4,806</b>                | <b>8,969</b>                    | <b>13,775</b> |

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2012 are as follows:

| <i>In millions of Belarusian Roubles</i>               | <b>Commercial<br/>loans</b> | <b>Loans to<br/>individuals</b> | <b>Total</b>  |
|--------------------------------------------------------|-----------------------------|---------------------------------|---------------|
| <b>Allowance for impairment as at 1 January 2012</b>   | <b>9,655</b>                | <b>8,573</b>                    | <b>18,228</b> |
| Charge/(reversal) for the year                         | (2,100)                     | 9,275                           | 7,175         |
| Write-off                                              | (1,203)                     | (5,927)                         | (7,130)       |
| Inflation effect                                       | (1,178)                     | (2,918)                         | (4,096)       |
| <b>Allowance for impairment as at 31 December 2012</b> | <b>5,174</b>                | <b>9,003</b>                    | <b>14,177</b> |

**(c) Financial effect of collateral for loans to customers**

Securing loans by collateral allows the Bank to minimize Bank's credit risks. The tables below summarize loans to customers by types of collateral. The tables present the amount of loans secured by collateral and indicated in the statement of financial position, rather than the fair value of the collateral itself. Other collaterals generally include equipment, transport vehicles and goods in turnover. Financial effect of collateral is presented by the amount of allowance for loans impairment with collateral taken into account and without collateral.

The loans to customers by types of collateral as at 31 December 2013 are presented below:

| <i>In millions of Belarusian Roubles</i> | <b>Gross loans</b> | <b>Impairment<br/>allowance</b> | <b>Impairment<br/>allowance<br/>without<br/>collateral effect</b> |
|------------------------------------------|--------------------|---------------------------------|-------------------------------------------------------------------|
| <b>Commercial loans</b>                  |                    |                                 |                                                                   |
| Real estate                              | 71,828             | 49                              | 8,177                                                             |
| Other collateral                         | 47,148             | 2,827                           | 14,936                                                            |
| Insuring risk of loan default            | 17,185             | -                               | 17,185                                                            |
| Guarantees                               | 16,796             | 1,819                           | 6,143                                                             |
| Unsecured loans                          | 1,263              | 111                             | 111                                                               |
| <b>Total commercial loans</b>            | <b>154,220</b>     | <b>4,806</b>                    | <b>46,552</b>                                                     |
| <b>Loans to individuals</b>              |                    |                                 |                                                                   |
| Real estate                              | 22                 | -                               | -                                                                 |
| Other collateral                         | 2,405              | 132                             | 223                                                               |
| Guarantees                               | 19,777             | 75                              | 75                                                                |
| Unsecured loans                          | 333,788            | 8,762                           | 8,762                                                             |

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| <i>In millions of Belarusian Roubles</i> | <b>Gross loans</b> | <b>Impairment allowance</b> | <b>Impairment allowance without collateral effect</b> |
|------------------------------------------|--------------------|-----------------------------|-------------------------------------------------------|
| <b>Total loans to individuals</b>        | <b>355,992</b>     | <b>8,969</b>                | <b>9,060</b>                                          |
| <b>Total loans to customers</b>          | <b>510,212</b>     | <b>13,775</b>               | <b>55,612</b>                                         |

The loans to customers by types of collateral as at 31 December 2012 are presented below:

| <i>In millions of Belarusian Roubles</i> | <b>Gross loans</b> | <b>Impairment allowance</b> | <b>Impairment allowance without collateral effect</b> |
|------------------------------------------|--------------------|-----------------------------|-------------------------------------------------------|
| <b>Commercial loans</b>                  |                    |                             |                                                       |
| Real estate                              | 76,561             | 1,219                       | 8,552                                                 |
| Guarantees                               | 31,962             | 1,860                       | 8,677                                                 |
| Other collateral                         | 27,819             | 1,997                       | 8,685                                                 |
| Guarantee deposits                       | 10,346             | -                           | 518                                                   |
| Unsecured loans                          | 568                | 98                          | 111                                                   |
| <b>Total commercial loans</b>            | <b>147,256</b>     | <b>5,174</b>                | <b>26,543</b>                                         |
| <b>Loans to individuals</b>              |                    |                             |                                                       |
| Real estate                              | 194                | 23                          | 23                                                    |
| Guarantees                               | 1,295              | 66                          | 66                                                    |
| Other collateral                         | 3,032              | 89                          | 90                                                    |
| Unsecured loans                          | 333,336            | 8,825                       | 8,825                                                 |
| <b>Total loans to individuals</b>        | <b>337,857</b>     | <b>9,003</b>                | <b>9,004</b>                                          |
| <b>Total loans to customers</b>          | <b>485,113</b>     | <b>14,177</b>               | <b>35,547</b>                                         |

Insignificant financial effect of collateral for loans to individuals is explained by the fact that only collateral for individually impaired loans is taken into account for allowance calculation (Note 5).



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## NOTES TO THE FINANCIAL STATEMENTS

### *(d) Loans to customers by industry sectors*

Analysis of loans to customers by industry sectors for the years ended 31 December 2013 and 2012 is as follows:

| <i>In millions of Belarusian Roubles</i>                      | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|---------------------------------------------------------------|-----------------------------|-----------------------------|
| Individuals                                                   | 355,992                     | 337,857                     |
| Trade                                                         | 46,113                      | 38,099                      |
| Leasing                                                       | 31,752                      | 3,068                       |
| Real estate transactions                                      | 30,586                      | 28,894                      |
| Manufacturing and other material production                   | 22,825                      | 32,971                      |
| Construction                                                  | 14,054                      | 16,436                      |
| Agriculture and food industry                                 | 5,645                       | 12,055                      |
| Vehicles                                                      | 2,152                       | 13,468                      |
| Other                                                         | 1,093                       | 2,265                       |
| <b>Total loans to customers</b>                               | <b>510,212</b>              | <b>485,113</b>              |
| Allowance for impairment                                      | (13,775)                    | (14,177)                    |
| <b>Total loans to customers less allowance for impairment</b> | <b>496,437</b>              | <b>470,936</b>              |

### *(e) Significant credit exposure*

As at 31 December 2013 the Bank had balances with two borrowers exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2013 comprised BYR 43,588 million. As at 31 December 2011 the Bank had no significant credit exposures to one borrower

As at 31 December 2012 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2012 comprised BYR 21,744 million.

### *(f) Maximum exposure to credit risk*

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position.

## **11. Investment property**

| <i>In millions of Belarusian Roubles</i> | <b>2013</b>   | <b>2012</b>   |
|------------------------------------------|---------------|---------------|
| <b>Balance as at 1 January</b>           | <b>9,823</b>  | <b>12,198</b> |
| Subsequent modernisation expenses        | -             | 208           |
| Gain/(Loss) from fair value changes      | 432           | (2,583)       |
| <b>Balance as at 31 December</b>         | <b>10,255</b> | <b>9,823</b>  |

As at 31 December 2013 and 2012 profit / (loss) from changes in fair value of investment property is unrealized.

The table below summarizes the amount of rental income and direct operating expenses arising from the investment property and recognized in profit or loss for the year:

| <i>In millions of Belarusian Roubles</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------------|-------------|-------------|
|------------------------------------------|-------------|-------------|

*Translation from original in Russian language*

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**NOTES TO THE FINANCIAL STATEMENTS**

|                                                                                                                           |            |            |
|---------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Rental income arising from investment property                                                                            | 1,380      | 734        |
| Direct operating expenses (including repair and maintenance)<br>arising from investment property generating rental income | (521)      | (247)      |
| <b>Net income arising from investment property</b>                                                                        | <b>859</b> | <b>487</b> |

The table below summarizes the future minimum lease payments under non-cancellable operating lease of the building classified as investment property where the Bank is a lessor:

| <i>In millions of Belarusian Roubles</i>                | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|---------------------------------------------------------|-----------------------------|-----------------------------|
| Not later than 1 year                                   | 128                         | 225                         |
| <b>Total payments receivable under operating leases</b> | <b>128</b>                  | <b>225</b>                  |

The majority of rent agreements are concluded on standard terms according to which the lessee has a right to terminate an agreement ahead of schedule with notification to the Bank not later than 30 days before termination (in 2012 - 60 days before termination). Payment receipts for non-cancellable operating lease of investment property are calculated in accordance with the terms of rent agreements. The Bank believes that anticipatory termination of the contract is unlikely.

The Bank has no restrictions on the disposal of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.



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**12. Property and equipment and intangible assets**

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2013:

| <i>In millions of Belarusian<br/>Roubles</i>     | <b>Buildings</b> | <b>Vehicles</b> | <b>Office and<br/>computer<br/>equipment,<br/>other<br/>property and<br/>equipment</b> | <b>Intangibl<br/>e assets</b> | <b>Capital<br/>expenditure<br/>s and<br/>investments<br/>in<br/>intangible<br/>assets</b> | <b>Total</b>  |
|--------------------------------------------------|------------------|-----------------|----------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------|---------------|
| <b>Net book value as at<br/>1 January 2013</b>   | <b>4,928</b>     | <b>1,152</b>    | <b>11,174</b>                                                                          | <b>1,501</b>                  | <b>45</b>                                                                                 | <b>18,800</b> |
| <b>Cost</b>                                      |                  |                 |                                                                                        |                               |                                                                                           |               |
| Balance as at 1 January 2013                     | 7,479            | 3,532           | 24,555                                                                                 | 2,612                         | 45                                                                                        | 38,223        |
| Additions                                        | -                | -               | -                                                                                      | 431                           | 3,632                                                                                     | 4,063         |
| Transfers                                        | 191              | -               | 2,725                                                                                  | -                             | (2,916)                                                                                   | -             |
| Disposals                                        | (249)            | (158)           | (1,731)                                                                                | (396)                         | (18)                                                                                      | (2,552)       |
| <b>Balance as at 31 December<br/>2013</b>        | <b>7,421</b>     | <b>3,374</b>    | <b>25,549</b>                                                                          | <b>2,647</b>                  | <b>743</b>                                                                                | <b>39,734</b> |
| <b>Accumulated depreciation</b>                  |                  |                 |                                                                                        |                               |                                                                                           |               |
| Balance as at 1 January 2013                     | 2,551            | 2,380           | 13,381                                                                                 | 1,111                         | -                                                                                         | 19,423        |
| Charge for the year                              | 828              | 258             | 2,773                                                                                  | 474                           | -                                                                                         | 4,333         |
| Accumulated depreciation on<br>disposals         | (115)            | (108)           | (1,614)                                                                                | (396)                         | -                                                                                         | (2,233)       |
| <b>Balance as at 31 December<br/>2013</b>        | <b>3,264</b>     | <b>2,530</b>    | <b>14,540</b>                                                                          | <b>1,189</b>                  | <b>-</b>                                                                                  | <b>21,523</b> |
| <b>Net book value as at 31<br/>December 2013</b> | <b>4,157</b>     | <b>844</b>      | <b>11,009</b>                                                                          | <b>1,458</b>                  | <b>743</b>                                                                                | <b>18,211</b> |

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The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2012:

| <i>In millions of Belarusian<br/>Roubles</i>     | <b>Buildings</b> | <b>Vehicles</b> | <b>Office and<br/>computer<br/>equipment,<br/>other<br/>property and<br/>equipment</b> | <b>Intangibl<br/>e assets</b> | <b>Capital<br/>expenditure<br/>s and<br/>investments<br/>in<br/>intangible<br/>assets</b> | <b>Total</b>  |
|--------------------------------------------------|------------------|-----------------|----------------------------------------------------------------------------------------|-------------------------------|-------------------------------------------------------------------------------------------|---------------|
| <b>Net book value as at<br/>1 January 2012</b>   | <b>5,212</b>     | <b>1,515</b>    | <b>11,464</b>                                                                          | <b>1,599</b>                  | <b>19</b>                                                                                 | <b>19,809</b> |
| <b>Cost</b>                                      |                  |                 |                                                                                        |                               |                                                                                           |               |
| Balance as at 1 January 2012                     | 6,940            | 4,364           | 22,901                                                                                 | 2,412                         | 19                                                                                        | 36,636        |
| Additions                                        | -                | -               | -                                                                                      | 360                           | 2,803                                                                                     | 3,163         |
| Transfers                                        | 587              | -               | 2,176                                                                                  | 14                            | (2,777)                                                                                   | -             |
| Disposals                                        | (48)             | (832)           | (522)                                                                                  | (174)                         | -                                                                                         | (1,576)       |
| <b>Balance as at 31 December<br/>2012</b>        | <b>7,479</b>     | <b>3,532</b>    | <b>24,555</b>                                                                          | <b>2,612</b>                  | <b>45</b>                                                                                 | <b>38,223</b> |
| <b>Accumulated depreciation</b>                  |                  |                 |                                                                                        |                               |                                                                                           |               |
| Balance as at 1 January 2012                     | 1,728            | 2,849           | 11,437                                                                                 | 813                           | -                                                                                         | 16,827        |
| Charge for the year                              | 863              | 346             | 2,425                                                                                  | 473                           | -                                                                                         | 4,107         |
| Accumulated depreciation on<br>disposals         | (40)             | (815)           | (481)                                                                                  | (175)                         | -                                                                                         | (1,511)       |
| <b>Balance as at 31 December<br/>2012</b>        | <b>2,551</b>     | <b>2,380</b>    | <b>13,381</b>                                                                          | <b>1,111</b>                  | <b>-</b>                                                                                  | <b>19,423</b> |
| <b>Net book value as at 31<br/>December 2012</b> | <b>4,928</b>     | <b>1,152</b>    | <b>11,174</b>                                                                          | <b>1,501</b>                  | <b>45</b>                                                                                 | <b>18,800</b> |



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**13. Other assets**

| <i>In millions of Belarusian Roubles</i>                          | <b>31 December 2013</b> | <b>31 December 2012</b> |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| <b>Other non-financial assets</b>                                 |                         |                         |
| Assets transferred to the Bank as repayment of debts              | 25,934                  | 28,275                  |
| Advance payments                                                  | 651                     | 473                     |
| Prepayments for taxes (other than income tax)                     | 429                     | 637                     |
| Prepayments on capital investments                                | 202                     | 5                       |
| Other                                                             | 54                      | 42                      |
| <b>Total non-financial assets</b>                                 | <b>27,270</b>           | <b>29,432</b>           |
| <b>Other financial assets</b>                                     |                         |                         |
| Accrued commission income and penalties                           | 1,935                   | 1,612                   |
| Receivables on reimbursement of state fees                        | 1,096                   | 868                     |
| Other receivables                                                 | 574                     | 581                     |
| <b>Total other financial assets</b>                               | <b>3,605</b>            | <b>3,061</b>            |
| Allowance for impairment                                          | (1,310)                 | (1,219)                 |
| <b>Total other financial assets less allowance for impairment</b> | <b>2,295</b>            | <b>1,842</b>            |
| <b>Total other assets</b>                                         | <b>29,565</b>           | <b>31,274</b>           |

**(a) Assets transferred to the Bank as repayment of debts**

The table below summarizes the information about assets transferred to the Bank as repayment of debts:

| <i>In millions of Belarusian Roubles</i>                          | <b>31 December 2013</b> | <b>31 December 2012</b> |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| Residential real estate under construction                        | 23,317                  | 28,274                  |
| Industrial property                                               | 2,616                   | -                       |
| Other assets                                                      | 1                       | 1                       |
| <b>Total assets transferred to the Bank as repayment of debts</b> | <b>25,934</b>           | <b>28,275</b>           |

As at 31 December 2013 the assets transferred to the Bank to repay debts, were measured at possible net realizable value equal to the present value of estimated future cash flows from the sale of this property in the amount of BYR 23 317 million, and recognized at cost adjusted to present in monetary units prevailing as at 31 December 2013 in the amount of BYR 2 617 million.

As at 31 December 2012 the assets transferred to the Bank to repay debts, were measured at possible net realizable value equal to the present value of estimated future cash flows from the sale of this property in the amount of BYR 25 668 million, and recognized at cost adjusted to present in monetary units prevailing as at 31 December 2013 in the amount of BYR 2 607 million.

Currently the contractor which constructs the residential real estate repossessed by the Bank is in financial difficulties; the construction is stopped. The construction is ceased till the arrest is removed. The Bank believes that the construction will be finalised and the residential real estate will be sold. However, the Bank has given the developer the right to search for a new investor for the part of residential property in the amount of BYR 10 518 million. If there is one, the construction contract will be terminated, and the investment amount will be returned to the Bank by the developer.

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In November 2013 under the court decision the Bank received the industrial property into ownership as repayment of debts on bonds. These discount bonds were issued by the Belarusian company and purchased by the Bank in 2012 in the secondary market. These securities were classified as held-to-maturity. Due to non-payment by the issuer of bonds at maturity, they were recognised by the Bank as impaired, an allowance for impairment of securities was created in the amount of 100% of their value as recorded in the statement of financial position and as at 31 December 2012 amounted to BYR 2,861 million (Note 27). At year-end the value of the stated securities was written-off against the allowance created. As at 31 December 2013 the Bank was in the process of preparing necessary documentation in accordance with the Belarusian legislation confirming ownership of these industrial property. After all necessary procedures are completed the property will be put up for sale.

Information about writedowns of assets transferred to the Bank as repayment of debts, is presented under "Writedowns of assets received as repayment of debts" in the statement of profit or loss.

### (b) Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2013:

| <i>In millions of Belarusian Roubles</i>                              | Accrued<br>commission<br>income and<br>penalties | Receivables on<br>reimbursement<br>of state fees | Other<br>receivables | Total        |
|-----------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------|--------------|
| <b>Undue and not individually impaired<br/>other financial assets</b> | <b>905</b>                                       | <b>425</b>                                       | <b>515</b>           | <b>1,845</b> |
| <b>Overdue but not impaired other<br/>financial assets</b>            |                                                  |                                                  |                      |              |
| Overdue less than 1 month                                             | 75                                               | 45                                               | -                    | 120          |
| Overdue from 1 to 3 months                                            | 165                                              | 92                                               | 5                    | 262          |
| Overdue from 3 to 6 months                                            | 143                                              | 67                                               | 1                    | 211          |
| Overdue from 6 months to 1 year                                       | 379                                              | 132                                              | 1                    | 512          |
| <b>Total overdue but not impaired other<br/>financial assets</b>      | <b>762</b>                                       | <b>336</b>                                       | <b>7</b>             | <b>1,105</b> |
| <b>Individually impaired other financial<br/>assets</b>               |                                                  |                                                  |                      |              |
| Overdue from 1 to 3 months                                            | 16                                               | -                                                | -                    | 16           |
| Overdue from 3 to 6 months                                            | 2                                                | -                                                | -                    | 2            |
| Overdue from 6 months to 1 year                                       | 39                                               | 311                                              | -                    | 350          |
| Overdue more than 1 year                                              | 211                                              | 24                                               | 52                   | 287          |
| <b>Total individually impaired other<br/>financial assets</b>         | <b>268</b>                                       | <b>335</b>                                       | <b>52</b>            | <b>655</b>   |
| <b>Total other financial assets</b>                                   | <b>1,935</b>                                     | <b>1,096</b>                                     | <b>574</b>           | <b>3,605</b> |
| Allowance for impairment                                              | (888)                                            | (370)                                            | (52)                 | (1,310)      |
| <b>Total other financial assets less<br/>allowance for impairment</b> | <b>1,047</b>                                     | <b>726</b>                                       | <b>522</b>           | <b>2,295</b> |



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The following table provides information on the credit quality of other financial assets as at 31 December 2012:

| <i>In millions of Belarusian Roubles</i>                              | Accrued<br>commission<br>income and<br>penalties | Receivables on<br>reimbursement<br>of state fees | Other<br>receivables | Total        |
|-----------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------|--------------|
| <b>Undue and not individually impaired<br/>other financial assets</b> | <b>1,066</b>                                     | <b>-</b>                                         | <b>192</b>           | <b>1,258</b> |
| <b>Overdue but not impaired other<br/>financial assets</b>            |                                                  |                                                  |                      |              |
| Overdue less than 1 month                                             | 26                                               | 102                                              | 1                    | 129          |
| Overdue from 1 to 3 months                                            | 9                                                | 250                                              | 2                    | 261          |
| Overdue from 3 to 6 months                                            | 14                                               | 175                                              | 2                    | 191          |
| Overdue from 6 months to 1 year                                       | 68                                               | 143                                              | -                    | 211          |
| Overdue more than 1 year                                              | 37                                               | 198                                              | 1                    | 236          |
| <b>Total overdue but not impaired other<br/>financial assets</b>      | <b>154</b>                                       | <b>868</b>                                       | <b>6</b>             | <b>1,028</b> |
| <b>Individually impaired other financial<br/>assets</b>               |                                                  |                                                  |                      |              |
| Current                                                               | -                                                | -                                                | 324                  | 324          |
| Overdue more than 1 year                                              | 392                                              | -                                                | 59                   | 451          |
| <b>Total individually impaired other<br/>financial assets</b>         | <b>392</b>                                       | <b>-</b>                                         | <b>383</b>           | <b>775</b>   |
| <b>Total other financial assets</b>                                   | <b>1,612</b>                                     | <b>868</b>                                       | <b>581</b>           | <b>3,061</b> |
| Allowance for impairment                                              | (837)                                            | -                                                | (382)                | (1,219)      |
| <b>Total other financial assets less<br/>allowance for impairment</b> | <b>775</b>                                       | <b>868</b>                                       | <b>199</b>           | <b>1,842</b> |

Key factors which the Bank takes into account while considering impairment of other financial assets are existence and duration of overdue debt and the possibility of collateral sale if any.

The maximum exposure to credit risk of other financial assets equals to net carrying amounts as reported in the statement of financial position.

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**(c) Movements in the allowance for impairment of other financial assets**

The movement in allowance for impairment of other financial assets for the year ended 31 December 2013 is presented below:

| <i>In millions of Belarusian Roubles</i>               | Accrued<br>commission<br>income and<br>penalties | Receivables on<br>reimbursement<br>of state fees | Other<br>receivables | Total        |
|--------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------|--------------|
| <b>Allowance for impairment as at 1 January 2013</b>   | <b>837</b>                                       | <b>-</b>                                         | <b>382</b>           | <b>1,219</b> |
| Charge/(reversal) for the year                         | 192                                              | 420                                              | (314)                | 298          |
| Inflation effect                                       | (141)                                            | (50)                                             | (16)                 | (207)        |
| <b>Allowance for impairment as at 31 December 2013</b> | <b>888</b>                                       | <b>370</b>                                       | <b>52</b>            | <b>1,310</b> |

The movement in allowance for impairment of other financial assets for the year ended 31 December 2012 is presented below:

| <i>In millions of Belarusian Roubles</i>               | Accrued<br>commission<br>income and<br>penalties | Receivables on<br>reimbursement<br>of state fees | Other<br>receivables | Total        |
|--------------------------------------------------------|--------------------------------------------------|--------------------------------------------------|----------------------|--------------|
| <b>Allowance for impairment as at 1 January 2012</b>   | <b>-</b>                                         | <b>-</b>                                         | <b>61</b>            | <b>61</b>    |
| Charge for the year                                    | 847                                              | -                                                | 346                  | 1,193        |
| Write-off                                              | -                                                | -                                                | (7)                  | (7)          |
| Inflation effect                                       | (10)                                             | -                                                | (18)                 | (28)         |
| <b>Allowance for impairment as at 31 December 2012</b> | <b>837</b>                                       | <b>-</b>                                         | <b>382</b>           | <b>1,219</b> |

**14. Due to other banks**

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| Loans and deposits from other banks      | 28,620                      | 4,392                       |
| Correspondent accounts of other banks    | 76                          | 769                         |
| <b>Total due to other banks</b>          | <b>28,696</b>               | <b>5,161</b>                |

As at 31 December 2013 the Bank had balances exceeding 10% of the Bank's equity from one agency bank. The total carrying value of these balances as at 31 December 2013 amounted to BYR 28,621 million. As at 31 December 2012 the Bank didn't have balances from other agency banks which represented significant concentration.



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**15. Customer accounts**

| <i>In millions of Belarusian Roubles</i>   | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|--------------------------------------------|-----------------------------|-----------------------------|
| <b>Corporate customers</b>                 |                             |                             |
| Term deposits                              | 457,056                     | 376,822                     |
| Current accounts                           | 82,318                      | 82,530                      |
| <b>Total corporate customers' accounts</b> | <b>539,374</b>              | <b>459,352</b>              |
| <b>Individuals</b>                         |                             |                             |
| Term deposits                              | 261,468                     | 344,334                     |
| Current accounts /on-demand accounts       | 8,133                       | 7,888                       |
| <b>Total individuals' accounts</b>         | <b>269,601</b>              | <b>352,222</b>              |
| <b>Total customer accounts</b>             | <b>808,975</b>              | <b>811,574</b>              |

The analysis of customer accounts by industry sectors is presented below:

| <i>In millions of Belarusian Roubles</i> | <b>31 December 2013</b> | <b>31 December 2012</b> |
|------------------------------------------|-------------------------|-------------------------|
| Individuals                              | 269,601                 | 352,222                 |
| Industry and other material production   | 229,377                 | 126,046                 |
| Trade                                    | 160,790                 | 145,080                 |
| Real estate                              | 43,720                  | 47,403                  |
| Construction                             | 24,581                  | 9,570                   |
| Communication and telecommunication      | 12,030                  | 160                     |
| Transport                                | 12,030                  | 9,805                   |
| Non-commercial organisations             | 11,049                  | 4,562                   |
| Consultation services                    | 10,026                  | 3,446                   |
| Insurance                                | 7,722                   | 17,646                  |
| Advertising                              | 5,477                   | 426                     |
| Data-processing service                  | 3,665                   | 6,073                   |
| Science and education                    | 3,332                   | 69,103                  |
| Publishing                               | 2,237                   | 2,697                   |
| Lease                                    | 2,008                   | 940                     |
| Agriculture and food industry            | 1,576                   | 199                     |
| Auto service and maintenance             | 1,086                   | 7,477                   |
| Other                                    | 8,668                   | 8,719                   |
| <b>Total customer accounts</b>           | <b>808,975</b>          | <b>811,574</b>          |

As at 31 December 2013 and 2012 the Bank had three and five customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2013 and 2012 amounted to BYR 298,714 million and BYR 208,186 million, respectively.

**16. Debt securities issued**

| <i>In millions of Belarusian Roubles</i>      | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|-----------------------------------------------|-----------------------------|-----------------------------|
| Debt securities issued to corporate customers | -                           | 36,207                      |
| <b>Total debt securities issued</b>           | <b>-</b>                    | <b>36,207</b>               |

In 2013 at maturity the Bank repaid issued debt securities represented by USD bonds of the second issue at a fixed rate of 8.0%.

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**17. Other liabilities**

| <i>In millions of Belarusian Roubles</i>                                      | <b>31<br/>December<br/>2013</b> | <b>31 December<br/>2012</b> |
|-------------------------------------------------------------------------------|---------------------------------|-----------------------------|
| <b>Other non-financial liabilities</b>                                        |                                 |                             |
| Deferred income                                                               | 932                             | 919                         |
| Contributions to the guarantee fund of protection of individual funds         | 809                             | 1,055                       |
| Charges on taxes, other than income tax                                       | 129                             | 303                         |
| <b>Total other non-financial liabilities</b>                                  | <b>1,870</b>                    | <b>2,277</b>                |
| <b>Other financial liabilities</b>                                            |                                 |                             |
| Provision for vacations not paid and other obligations under employee benefit | 1,128                           | 930                         |
| Payables to suppliers                                                         | 444                             | 483                         |
| Provision for credit related commitments                                      | 147                             | 425                         |
| Outstanding transit accounts                                                  | 140                             | 221                         |
| Other                                                                         | 60                              | 46                          |
| <b>Total other financial liabilities</b>                                      | <b>1,919</b>                    | <b>2,105</b>                |
| <b>Total other liabilities</b>                                                | <b>3,789</b>                    | <b>4,382</b>                |

Movements in the allowance for credit related commitments are disclosed in Note 31.

**18. Subordinated debt**

| <i>In millions of Belarusian Roubles</i>                                         | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|----------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Subordinated debt from European Bank for Reconstruction and Development ("EBRD") | 1,877                       | 1,830                       |
| Subordinated debt from Deutsche Investitions- und Entwicklungsgesellschaft (DEG) | 52,472                      | 52,971                      |
| <b>Total subordinated debts</b>                                                  | <b>54,349</b>               | <b>54,801</b>               |

The subordinated debt from EBRD was received in 2008 in the amount of USD 4,009 thousand with a maturity in 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as additional capital contributions in the amount of BYR 30,529 million. In 2010 the Bank received the subordinated debt from DEG of EUR 4,000 thousand which has a maturity in 2016 and a floating interest rate of 12 months EUR LIBOR+6%.

According to subordinated debt agreements, in the case of liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.



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**19. Preference shares**

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| Number of preference shares              | 6,886,084                   | 6,886,084                   |
| Face value of 1 share, BYR               | 1530                        | 785                         |
| Face value of preference shares          | 10,536                      | 5,406                       |
| Accrued dividends on preference shares   | 913                         | 958                         |
| Inflation effect for opening balance     | -                           | 890                         |
| <b>Total preference shares</b>           | <b>11,449</b>               | <b>7,254</b>                |

Preference shares do not have voting rights and give a right to participate in net assets. Annual minimum fixed dividend income on each preference share amounts to USD 0.01394 per share.

In 2013 the face value of preference shares was increased from 785 to 1,530 rubles per share against the accumulated profit of the Bank under the national accounting rules (Note 20).

**20. Share capital**

As at 31 December 2013 and 2012 the issued and paid share capital consisted of 64,157,307 ordinary shares.

As at 31 December 2013 and 2012 the share capital was represented as follows:

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| Number of ordinary shares                | 64,157,307                  | 64,157,307                  |
| Face value of 1 share, BYR               | 1,530                       | 785                         |
| Face value of ordinary shares            | 98,161                      | 50,363                      |
| Effect of inflation                      | 215,035                     | 212,215                     |
| <b>Total share capital</b>               | <b>313,196</b>              | <b>262,578</b>              |

All ordinary shares are fully paid, carry one vote and give the right to receive dividends and participate in net assets. All ordinary shares rank equally with regard to the Bank's net assets.

In 2013 the face value of ordinary shares was increased from 785 to 1,530 rubles per share against retained earnings of the Bank. In accordance with the Belarusian legislation the Bank distributes its profits in the form of dividends or transfers profits to the funds accounts based on the accounting data prepared in accordance with the Belarusian accounting legislation. When preparing financial statements in accordance with IFRS the Bank records the accumulated loss in equity, whereas in the financial statements prepared in accordance with the national accounting rules there is recorded the accumulated profit which as at 31 December 2013 and 2012 amounted to BYR 28,678 million and BYR 54,411 million, respectively. This difference is mainly due to recording the inflation effect through the loss on net monetary position.

As at 31 December 2013 and 2012 the reserve fund of BYR 4,151 million and BYR 3,521 million, respectively, was recorded in equity under the national accounting legislation. The reserve fund represents amounts reserved in accordance with the legislation of the Republic of Belarus to cover losses on the Bank operations and is not subject to distribution to the shareholders.

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**21. Interest income and expense**

| <i>In millions of Belarusian Roubles</i>          | <b>2013</b>     | <b>2012</b>     |
|---------------------------------------------------|-----------------|-----------------|
| <b>Interest income</b>                            |                 |                 |
| Loans to customers                                | 192,458         | 169,080         |
| Due from other banks                              | 2,761           | 9,845           |
| Due from the National Bank of Republic of Belarus | 166             | 1,940           |
| Financial assets available for sale               | 2,515           | 3,705           |
| Financial assets held to maturity                 | -               | 86              |
| <b>Total interest income</b>                      | <b>197,900</b>  | <b>184,656</b>  |
| <b>Interest expense</b>                           |                 |                 |
| Customer accounts                                 | (75,099)        | (78,066)        |
| Due to other banks                                | (6,460)         | (6,131)         |
| Subordinated debt                                 | (3,488)         | (4,378)         |
| Debt securities issued                            | (1,694)         | (3,336)         |
| Preference shares                                 | (913)           | (957)           |
| Other                                             | (34)            | (25)            |
| <b>Total interest expense</b>                     | <b>(87,688)</b> | <b>(92,893)</b> |
| <b>Net interest income</b>                        | <b>110,212</b>  | <b>91,763</b>   |

Interest income includes interest income on impaired loans to customers totalling BYR 142,028 million in 2013 and BYR 128,669 million in 2012, respectively.

**22. Fee and commission income and expense**

| <i>In millions of Belarusian Roubles</i>                                   | <b>2013</b>    | <b>2012</b>    |
|----------------------------------------------------------------------------|----------------|----------------|
| <b>Fee and commission income</b>                                           |                |                |
| Settlement and cash transactions fees                                      | 14,162         | 12,038         |
| Foreign exchange fees                                                      | 2,833          | 2,636          |
| Other                                                                      | 1,212          | 1,643          |
| <b>Total fee and commission income</b>                                     | <b>18,207</b>  | <b>16,317</b>  |
| <b>Fee and commission expense</b>                                          |                |                |
| Plastic cards transactions fees                                            | (2,979)        | (2,542)        |
| Commission on transactions with foreign currency, cash and other valuables | (448)          | (610)          |
| Other                                                                      | (477)          | (242)          |
| <b>Total fee and commission expenses</b>                                   | <b>(3,904)</b> | <b>(3,394)</b> |
| <b>Net fee and commission income</b>                                       | <b>14,303</b>  | <b>12,923</b>  |



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**23. Net gain on transactions with derivative financial instruments**

| <i>In millions of Belarusian Roubles</i>                                     | <b>2013</b>   | <b>2012</b>   |
|------------------------------------------------------------------------------|---------------|---------------|
| Gains on swap transactions with the National Bank of the Republic of Belarus | 37,559        | 24,804        |
| Gains on forward contracts with the National Bank of the Republic of Belarus | 17,807        | 11,691        |
| Expenses on swap transactions with customers                                 | (750)         | (624)         |
| Expenses on swap transactions with other banks                               | (28)          | (1,068)       |
| <b>Total net gain on transactions with derivative financial instruments</b>  | <b>54,588</b> | <b>34,803</b> |

**24. Net (loss)/gain on foreign exchange operations**

| <i>In millions of Belarusian Roubles</i>                | <b>2013</b>     | <b>2012</b>  |
|---------------------------------------------------------|-----------------|--------------|
| Net expenses from revaluation of assets and liabilities | (49,975)        | (14,938)     |
| Net gain on foreign exchange operations                 | 9,138           | 17,615       |
| <b>Net (loss)/gain on foreign exchange operations</b>   | <b>(40,837)</b> | <b>2,677</b> |

In 2013 the devaluation of Belarusian Rouble against US dollar, Euro and Russian Rouble comprised 8.0%, 15.3% and 3.0%, respectively (2012: 2.6%, 5.0% and 8.0%, respectively).

**25. Other income**

| <i>In millions of Belarusian Roubles</i>      | <b>2013</b>  | <b>2012</b>  |
|-----------------------------------------------|--------------|--------------|
| Repayment of loans earlier written off        | 5,036        | 2,271        |
| Penalties and fines received                  | 3,392        | 2,540        |
| Rental income from operating lease            | 1,471        | 807          |
| Gain/(loss) on sale of property and equipment | (216)        | 139          |
| Other income                                  | 237          | (38)         |
| <b>Total other income</b>                     | <b>9,920</b> | <b>5,719</b> |

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**26. Operating expenses**

| <i>In millions of Belarusian Roubles</i>               | <b>2013</b>     | <b>2012</b>     |
|--------------------------------------------------------|-----------------|-----------------|
| Staff costs                                            | (31,354)        | (26,799)        |
| Rental expenses                                        | (17,483)        | (18,390)        |
| Contributions to the Social Security Fund              | (10,351)        | (8,750)         |
| Software expenses                                      | (4,348)         | (3,613)         |
| Depreciation and amortisation                          | (4,333)         | (4,107)         |
| Payments to the Individuals' Deposits Security Fund    | (3,503)         | (3,616)         |
| Communication and information services                 | (3,379)         | (3,190)         |
| Repairs and maintenance                                | (2,422)         | (2,270)         |
| Advertising and marketing                              | (2,210)         | (1,621)         |
| Security expenses                                      | (1,937)         | (1,737)         |
| Office expenses                                        | (1,922)         | (1,623)         |
| Delivery and encashment services                       | (1,489)         | (1,156)         |
| Taxes other than income tax                            | (912)           | (973)           |
| Professional services (consulting, audit, legal, etc.) | (891)           | (894)           |
| Insurance                                              | (769)           | (702)           |
| Transport expenses                                     | (372)           | (566)           |
| Other                                                  | (2,736)         | (2,566)         |
| <b>Total operating expenses</b>                        | <b>(90,411)</b> | <b>(82,573)</b> |

**27. Net allowance for impairment of interest-bearing financial assets**

| <i>In millions of Belarusian Roubles</i>                                       | <b>2013</b>     | <b>2012</b>     |
|--------------------------------------------------------------------------------|-----------------|-----------------|
| Net allowance for impairment of loans to customers                             | (12,425)        | (7,175)         |
| Allowance for securities impairment                                            | -               | (2,861)         |
| Net reversal /(net charge) of allowance for impairment of due from other banks | 40              | (64)            |
| <b>Total net allowance for impairment of interest-bearing financial assets</b> | <b>(12,385)</b> | <b>(10,100)</b> |

Information on movements in allowance for impairment of due from other banks and loans to customers is presented in Notes 9 and 10, respectively.

**28. Loss on net monetary position**

The table below summarizes the impact of restating non-monetary items in the statement of financial position, as well as items in the statement of profit and loss in order to present them in monetary units in effect as at 31 December 2013 for a loss on net monetary position as at 31 December 2013 and 2012.

| <i>In millions of Belarusian Roubles</i>                         | <b>2013</b>     | <b>2012</b>     |
|------------------------------------------------------------------|-----------------|-----------------|
| Effect of restating equity items                                 | (25,865)        | (30,021)        |
| Effect of restating statement of profit or loss items            | (3,723)         | (4,379)         |
| Effect of restating other assets and liabilities                 | 3,501           | 3,112           |
| Effect of restating property and equipment and intangible assets | 2,893           | 6,364           |
| Effect of restating investment property                          | 1,389           | 2,206           |
| <b>Loss on net monetary position</b>                             | <b>(21,805)</b> | <b>(22,718)</b> |



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### 29. Income tax

The Bank provides for tax based on the tax accounting maintained and prepared in accordance with the tax regulations of the Republic of Belarus

During the years 2012 and 2011 the head office and the branch of the Bank calculated and paid income tax and other taxes and duties independently, at the local level.

During 2013 and 2012 the head office and the branch of the Bank (until its closure in 2013) calculated and paid to the budget income tax and other taxes and duties independently, at the local level.

For the years ended 31 December 2013 and 2012 the income tax rate for Belarusian banks was 18%. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 18%.

Income tax expense is presented as follows:

| <i>In millions of Belarusian Roubles</i>                    | <b>2013</b>  | <b>2012</b>  |
|-------------------------------------------------------------|--------------|--------------|
| Current income tax expense                                  | 6,567        | 2,345        |
| Deferred income tax expense                                 | 766          | 6,720        |
| <b>Income tax expense/( Recovery of income tax expense)</b> | <b>7,333</b> | <b>9,065</b> |

Relationships between actual tax expense and the theoretical tax expense for the years ended 31 December 2013 and 2012 are explained as follows:

| <i>In millions of Belarusian Roubles</i>                                                                                                           | <b>2013</b>  | <b>2012</b>  |
|----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Profit before income tax                                                                                                                           | 18,387       | 26,285       |
| <b>Theoretical tax at the statutory tax rate 18%</b>                                                                                               | <b>3,310</b> | <b>4,731</b> |
| Tax effect of permanent differences:                                                                                                               |              |              |
| Tax incentives on operations with securities                                                                                                       | (389)        | (1,207)      |
| Tax effect of non-taxable expenses                                                                                                                 | 314          | 305          |
| Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules | (546)        | (458)        |
| Loss on tax base of assets and liabilities due to inflation                                                                                        | 4,656        | 5,404        |
| Inflation effect on income tax                                                                                                                     | (379)        | 249          |
| Tax effect of other permanent differences                                                                                                          | 367          | 41           |
| <b>Income tax expense</b>                                                                                                                          | <b>7,333</b> | <b>9,065</b> |

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for tax purposes.

Information on each type of temporary differences on deferred tax asset and liability recognized in statement of financial position and on amounts of deferred tax income and expense recognized in profit and loss is presented below:

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| <i>In millions of Belarusian<br/>Roubles</i>        | <b>1 January<br/>2012</b> | <b>Recognised in<br/>profit/ loss<br/>in 2012</b> | <b>31<br/>December<br/>2012</b> | <b>Recognised in<br/>profit/ loss<br/>in 2013</b> | <b>31<br/>December<br/>2013</b> |
|-----------------------------------------------------|---------------------------|---------------------------------------------------|---------------------------------|---------------------------------------------------|---------------------------------|
| <b>Deductible temporary<br/>differences:</b>        |                           |                                                   |                                 |                                                   |                                 |
| Derivative financial<br>instruments                 | 10,175                    | (6,211)                                           | 3,964                           | (378)                                             | 3,586                           |
| Property and equipment and<br>intangible assets     | -                         | 322                                               | 322                             | (322)                                             | -                               |
| <b>Total deferred tax asset</b>                     | <b>10,175</b>             | <b>(5,889)</b>                                    | <b>4,286</b>                    | <b>(700)</b>                                      | <b>3,586</b>                    |
| <b>Taxable temporary<br/>differences:</b>           |                           |                                                   |                                 |                                                   |                                 |
| Loans to banks and customers                        | (402)                     | (1,214)                                           | (1,616)                         | (683)                                             | (2,299)                         |
| Investment property                                 | -                         | (1,179)                                           | (1,179)                         | 202                                               | (977)                           |
| Property, equipment and<br>intangible assets        | (1,650)                   | 1,650                                             | -                               | (822)                                             | (822)                           |
| Accrued income                                      | (265)                     | (78)                                              | (343)                           | (15)                                              | (358)                           |
| Other assets and liabilities                        | (1,321)                   | (915)                                             | (2,236)                         | 1,183                                             | (1,053)                         |
| Subordinated debt                                   | (6,139)                   | 905                                               | (5,234)                         | 69                                                | (5,165)                         |
| <b>Total deferred tax liability</b>                 | <b>(9,777)</b>            | <b>(831)</b>                                      | <b>(10,608)</b>                 | <b>(66)</b>                                       | <b>(10,674)</b>                 |
| <b>Total net deferred tax<br/>asset/(liability)</b> | <b>(12,224)</b>           | <b>(6,720)</b>                                    | <b>(6,322)</b>                  | <b>(766)</b>                                      | <b>(7,088)</b>                  |

**30. Cash and cash equivalents**

For cash flow statement purposes cash and cash equivalents are presented as follows:

| <i>In millions of Belarusian Roubles</i>                                             | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|--------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Cash in hand and balances with the National Bank of the Republic<br>of Belarus       | 199,767                     | 152,192                     |
| Nostro accounts                                                                      | 7,661                       | 82,582                      |
| Less mandatory reserve deposits with the National Bank of the<br>Republic of Belarus | (9,203)                     | (8,274)                     |
| <b>Total cash and cash equivalents</b>                                               | <b>198,225</b>              | <b>226,500</b>              |

**31. Contingencies**

**Legal proceedings.** From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management believes that no material losses will be incurred and accordingly no provision has been made in these financial statements.

**Taxation.** Belarusian tax and other legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period.

The management of the Bank believes that as at 31 December 2013 and 31 December 2012 they have accrued all tax amounts due and that tax positions and interpretations of the Bank may be proved. However, there is a possibility of resources outflow due to payments if the tax positions and interpretations



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will be disputed by the tax authorities. The effect of such disputable situations cannot be measured reliably; however it may be material for the financial position and/or activity of the Bank.

**Operating lease commitments.** The future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented below:

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| Less than 1 year                         | 7,316                       | 15,997                      |
| From 1 to 5 years                        | 8,940                       | 39,582                      |
| More than 5 years                        | 349                         | -                           |
| <b>Total operating lease commitments</b> | <b>16,605</b>               | <b>55,579</b>               |

Significant reduction in future lease payments as at 31 December 2013 is explained by the termination of the lease agreement for the Bank's office building and its transfer as a non-monetary contribution to the authorized capital of the Bank (Note 38).

**Loan commitments.** In the normal course of business, the Bank uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not presented in the statement of financial position. The Bank's maximum exposure to credit risk under contingent liabilities and commitments for credit lines, in the event of non-performance by the other party provided that all counterclaims, collateral or security prove impairment, is represented by the contractual amounts of those instruments.

Loan commitments of the Bank were as follows:

| <i>In millions of Belarusian Roubles</i>     | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|----------------------------------------------|-----------------------------|-----------------------------|
| Unused credit lines                          | 41,099                      | 43,864                      |
| Guarantees issued                            | 6,617                       | 2,784                       |
| Secured letters of credit                    | -                           | 1,724                       |
| <b>Total loan commitments</b>                | <b>47,716</b>               | <b>48,372</b>               |
| Allowance on loan commitments                | (147)                       | (425)                       |
| <b>Total loan commitments less allowance</b> | <b>47,569</b>               | <b>47,947</b>               |

Movement in allowance on loan commitments for the years ended 31 December 2013 and 31 December 2012 was as follows:

| <i>In millions of Belarusian Roubles</i> | <b>2013</b> | <b>2012</b> |
|------------------------------------------|-------------|-------------|
| <b>Loan commitment allowance</b>         |             |             |
| Balance as at 1 January                  | 425         | 403         |
| Recovery for the year                    | (180)       | (12)        |
| Inflation effect                         | (98)        | 34          |
| <b>Balance as at 31 December</b>         | <b>147</b>  | <b>425</b>  |

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**32. Capital management**

The Bank manages its capital to ensure compliance with prudential requirements, the capital maintenance on the level necessary to ensure the compliance of the capital adequacy ratio at 8% with the Basel agreement, and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management assesses the amount of capital required to achieve the strategic aims of the Bank and providing the necessary assets growth for the planned perspective, as well as the optimum relationship between profitability and capital adequacy ratio taking into account requirements of the shareholders, Bank's partners and regulating authorities. The Bank's management considers weighted average cost of capital and risks associated with each class of assets, and balances its overall capital structure through the attraction of additional and redemption of existing debt.

Under the current capital requirements set by the National Bank of Belarus, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level (10%). Regulatory capital is based on the Bank's reports prepared under the Belarusian accounting standards and comprises the following:

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| Basic capital                            | 107,777                     | 98,465                      |
| Additional capital                       | 98,945                      | 77,145                      |
| <b>Total capital</b>                     | <b>206,722</b>              | <b>175,610</b>              |
| Total risk weighted assets               | 831,141                     | 655,487                     |
| <b>Statutory capital ratio (%)</b>       | <b>24.9</b>                 | <b>26.8</b>                 |

The composition of resources of the Bank's regulatory capital calculated in accordance with Basel Accord is as follows:

| <i>In millions of Belarusian Roubles</i> | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|------------------------------------------|-----------------------------|-----------------------------|
| <b>Tier 1 capital</b>                    |                             |                             |
| Share capital                            | 313,196                     | 262,578                     |
| Treasury shares                          | (2)                         | (2)                         |
| Accumulated loss                         | (153,010)                   | (108,013)                   |
| <b>Total tier 1 capital</b>              | <b>160,184</b>              | <b>154,563</b>              |
| <b>Tier 2 capital</b>                    |                             |                             |
| Subordinated debt                        | 22,866                      | 33,613                      |
| Additional capital contribution          | 30,529                      | 30,529                      |
| Preference shares                        | 11,449                      | 7,254                       |
| <b>Total tier 2 capital</b>              | <b>64,844</b>               | <b>71,396</b>               |
| <b>Total capital</b>                     | <b>225,028</b>              | <b>225,959</b>              |
| Total risk weighted assets               | 888,985                     | 907,203                     |
| <b>Capital adequacy ratios (%)</b>       | <b>25.3</b>                 | <b>24.9</b>                 |



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## NOTES TO THE FINANCIAL STATEMENTS

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As at 31 December 2012 and 2011 the Bank included in the calculation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 18). In the last 5 years remaining to maturity the subordinated debt is included into capital calculation with the cost recorded in the statement of financial position less 20% for each full calendar year. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors. As at 31 December 2013 and 2012 the Bank included in the calculation of total capital preference shares (Note 19) with undefined maturity and fixed dividend. Default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation.

### **33. Risk management**

Bank manages its financial risks (credit, liquidity, geographical, market including currency and interest rate risk), as well as operational risk.

The Bank has developed and implemented the Risk Management Policy, which provides the following strategic objectives of risk management:

- determination of key risks of the Bank and confirmation that current directions of the banking activities and future plans for the new business development correspond to the readiness of the Bank to meet those risks;
- optimization of risks that directly relate to the Bank's activities, as well as organization of the effective and independent internal control system;
- development of the effective risk management framework for the further successful development of the Bank.

To ensure efficient risk management, the Bank has developed authority systems that allow to allocate responsibility for each major type of risk between governing bodies, departments and employees of the Bank.

Regardless of the type of bank risk the authority system includes the Board of Directors of the Bank, the Management Board of the Bank, the Credit and Financial Committees, the Control and Risk Management Department, including Risk Managers, Internal Audit Department.

The Board of Directors implements and controls the proper functioning of the risk management system. The Management Board maintains the risk management system in order to meet the goals and objectives established by the Board of Directors regarding risk management; evaluates the effectiveness of the risk management system; takes management decisions aimed at limiting the risk appetite of risk generating units, maintaining the risk profile of the bank adequate to the nature and range of ongoing activities. The Finance and Credit Committees monitor and analyse the level of risks.

The Control and Risk Management Department is charged with responsibilities to organise an effective risk management system, control of timely detection, identification, measurement, monitoring and limitation of bank risks level. This department monitors compliance with procedures for managing each type of risk. In order to manage and control critical situations which may have unobjectionable consequences for the Bank, the Risk Manager performs stress-testing, which involves assessing effects of external and internal factors of the related risk on the Bank's activities.

The Internal Audit Department is charged with responsibilities to implement audit functions via organization of the overall system of internal controls in the Bank, as well as control of compliance with procedures for managing each of the major types of risks. Other departments of the Bank carry out the current management of banking risks within their authorities.



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## NOTES TO THE FINANCIAL STATEMENTS

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**Credit risk.** The Bank assumes credit risk, i.e. the risk that one party to a financial instrument will fail to settle an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.

Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank's interests system of crediting legal entities and sole traders, individuals, the system of fixing limits on banks-counterparties;
- organization of a system to ensure fair evaluation of collateral on credit operations;
- organization of independent primary and secondary examinations of lending projects and drafts of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the loan portfolio state and dynamics, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;
- development of the Bank's action plan in case of force majeure related to credit risk.

Detection, identification and assessment of credit risk level is performed via primary and secondary examinations of lending projects (drafts of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis, evaluation) of the bank-counterparty's financial position and development of the limit for conducting active transactions with the bank-counterparty is performed by the economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a draft limit on active operations with the bank-counterparty is developed. When implementing active credit operations with customers the primary examination is performed by the credit officer at the stage of preparing for consideration by the Credit Committee of project to be financed and collateral to be provided by the borrower.

Secondary examination is performed by risk manager when considering and monitoring the limit for bank-counterparty. When implementing active credit operations with customers the secondary examination is performed by the risk manager when considering the project to be financed and in the process of monitoring the borrower, transaction to be financed and collateral to be provided by the borrower.

Defining the acceptable level of credit risk is carried out jointly by the Credit and Financial Committee of the Bank in accordance with their functions.



## NOTES TO THE FINANCIAL STATEMENTS

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For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect of internal and external credit risk factors. The Bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 10 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 9 and Note 10);
- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount presented in the statement of financial position (Note 8);
- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on, and is presented in Note 31;
- issuing an uncancellable loan commitment or loan commitment cancellable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 31.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving loans issuance, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash disbursement, types of transactions, currency and maturity.

**Country risk.** The country risk is a risk that the Bank incurs losses as a result of internal and external factors, which are not dependent on the financial position of the counterparty of the Bank, e.g. non-compliance of agreements with legislation of foreign countries, non-fulfilment of obligations by counterparties due to economic, political, social and other changes influencing their activities.



*Translation from original in Russian language*

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**NOTES TO THE FINANCIAL STATEMENTS**

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2013 is presented as follows:

| <i>In millions of Belarusian Roubles</i>                            | <b>Belarus</b>   | <b>OECD countries</b> | <b>Other countries</b> | <b>Total</b>     |
|---------------------------------------------------------------------|------------------|-----------------------|------------------------|------------------|
| <b>Assets</b>                                                       |                  |                       |                        |                  |
| Cash and balances with the National Bank of the Republic of Belarus | 199,767          | -                     | -                      | 199,767          |
| Derivative financial assets                                         | 351,701          | -                     | -                      | 351,701          |
| Due from other banks                                                | 4,715            | 5,661                 | 1,324                  | 11,700           |
| Loans to customers                                                  | 496,437          | -                     | -                      | 496,437          |
| Other financial assets                                              | 2,295            | -                     | -                      | 2,295            |
| <b>Total financial assets</b>                                       | <b>1,054,915</b> | <b>5,661</b>          | <b>1,324</b>           | <b>1,061,900</b> |
| <b>Liabilities</b>                                                  |                  |                       |                        |                  |
| Derivative financial liabilities                                    | 8,247            | -                     | -                      | 8,247            |
| Due to other banks                                                  | 28,696           | -                     | -                      | 28,696           |
| Customer accounts                                                   | 793,052          | 407                   | 15,516                 | 808,975          |
| Other financial liabilities                                         | 1,919            | -                     | -                      | 1,919            |
| Subordinated debt                                                   | -                | 54,349                | -                      | 54,349           |
| Preference shares                                                   | 11,449           | -                     | -                      | 11,449           |
| <b>Total financial liabilities</b>                                  | <b>843,363</b>   | <b>54,756</b>         | <b>15,516</b>          | <b>913,635</b>   |
| <b>Net position</b>                                                 | <b>211,552</b>   | <b>(49,095)</b>       | <b>(14,192)</b>        |                  |

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2012 is presented as follows:

| <i>In millions of Belarusian Roubles</i>                            | <b>Belarus</b> | <b>OECD countries</b> | <b>Other countries</b> | <b>Total</b>     |
|---------------------------------------------------------------------|----------------|-----------------------|------------------------|------------------|
| <b>Assets</b>                                                       |                |                       |                        |                  |
| Cash and balances with the National Bank of the Republic of Belarus | 152,192        | -                     | -                      | 152,192          |
| Derivative financial assets                                         | 349,479        | -                     | 37                     | 349,516          |
| Due from other banks                                                | 12,110         | 62,765                | 16,950                 | 91,825           |
| Loans to customers                                                  | 470,936        | -                     | -                      | 470,936          |
| Other financial assets                                              | 1,842          | -                     | -                      | 1,842            |
| <b>Total financial assets</b>                                       | <b>986,559</b> | <b>62,765</b>         | <b>16,987</b>          | <b>1,066,311</b> |
| <b>Liabilities</b>                                                  |                |                       |                        |                  |
| Derivative financial liabilities                                    | 15,421         | -                     | -                      | 15,421           |
| Due to other banks                                                  | 769            | 4,392                 | -                      | 5,161            |
| Customer accounts                                                   | 792,733        | 250                   | 18,591                 | 811,574          |
| Debt securities issued                                              | 36,207         | -                     | -                      | 36,207           |
| Other financial liabilities                                         | 2,105          | -                     | -                      | 2,105            |
| Subordinated debt                                                   | -              | 54,801                | -                      | 54,801           |
| Preference shares                                                   | 7,254          | -                     | -                      | 7,254            |
| <b>Total financial liabilities</b>                                  | <b>854,489</b> | <b>59,443</b>         | <b>18,591</b>          | <b>932,523</b>   |
| <b>Net position</b>                                                 | <b>132,070</b> | <b>3,322</b>          | <b>(1,604)</b>         |                  |



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## NOTES TO THE FINANCIAL STATEMENTS

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**Liquidity risk.** Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintenance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of duties and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and forecasting the future liquidity trends;
- organisation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of force majeure associated with increase in liquidity risk.

The Bank aims to maintain the stable financing base comprising mainly due to other banks, including long-term loans from EBRD, current accounts and deposits of corporate customers and individuals, a long-term subordinated debt from EBRD and DEG, and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity ratio* is calculated as the ratio of demand assets to demand liabilities and overdue liabilities (minimum 20%). As at 31 December 2013 the ratio amounted to 1699.9%, as at 31 December 2012 – 1320.5%.
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%). As at 31 December 2013 the ratio amounted to 166.6%, as at 31 December 2012 – 226.4%.
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1 year to liabilities with the maturities of less than 1 year (minimum 1). As at 31 December 2013 the ratio amounted to 1.2, as at 31 December 2012 – 1.8.
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%). As at 31 December 2013 the ratio amounted to 44.8%, as at 31 December 2012 – 47.2%.

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows from financial liabilities (both interest and principal cash flows) and inflows/outflows from derivative financial instruments.

*Translation from original in Russian language*

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The table below represents analysis of financial liabilities by maturities as at 31 December 2013:

| <i>In millions of Belarusian Roubles</i>                                             | <b>On<br/>demand<br/>and up to<br/>1 month</b> | <b>1 to<br/>3 mont<br/>hs</b> | <b>3 to 6 months</b> | <b>6 months<br/>to 1 year</b> | <b>1 to 5 years</b> | <b>Over<br/>5 years</b> | <b>No<br/>maturity</b> | <b>Total</b>     |
|--------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------|----------------------|-------------------------------|---------------------|-------------------------|------------------------|------------------|
| <b>Non-derivative financial liabilities</b>                                          |                                                |                               |                      |                               |                     |                         |                        |                  |
| Due to other banks                                                                   | 28,634                                         | -                             | -                    | -                             | -                   | -                       | -                      | 28,634           |
| Customer accounts                                                                    | 342,621                                        | 61,663                        | 228,777              | 140,847                       | 53,970              | -                       | -                      | 827,878          |
| Other financial liabilities                                                          | 1,918                                          | -                             | -                    | -                             | -                   | 1                       | -                      | 1,919            |
| Subordinated debt                                                                    | -                                              | -                             | 1,713                | 1,742                         | 57,120              | 47,441                  | -                      | 108,016          |
| Preference shares                                                                    | -                                              | 913                           | -                    | -                             | 3,652               | -                       | 10,536                 | 15,101           |
| Loan commitments (less secured letters of credit)                                    | 40,953                                         | 819                           | 654                  | 5,068                         | -                   | 75                      | -                      | 47,569           |
| <b>Total expected future cash outflows from non-derivative financial liabilities</b> | <b>414,126</b>                                 | <b>63,395</b>                 | <b>231,144</b>       | <b>147,657</b>                | <b>114,742</b>      | <b>47,517</b>           | <b>10,536</b>          | <b>1,029,117</b> |
| <b>Derivative financial liabilities gross settled</b>                                |                                                |                               |                      |                               |                     |                         |                        |                  |
| Outflow                                                                              | 19,020                                         | -                             | -                    | 10,716                        | 183,413             | -                       | -                      | 213,149          |
| Inflow                                                                               | (19,074)                                       | -                             | -                    | (32,700)                      | (519,141)           | -                       | -                      | (570,915)        |
| <b>Total expected future cash outflows from financial liabilities</b>                | <b>414,072</b>                                 | <b>63,395</b>                 | <b>231,144</b>       | <b>125,673</b>                | <b>(220,986)</b>    | <b>47,517</b>           | <b>10,536</b>          | <b>671,351</b>   |

The table below represents analysis of financial liabilities by maturities as at 31 December 2012:

| <i>In millions of Belarusian Roubles</i>                                             | <b>On<br/>demand<br/>and up to<br/>1 month</b> | <b>1 to<br/>3 mont<br/>hs</b> | <b>3 to 6 months</b> | <b>6 months<br/>to 1 year</b> | <b>1 to 5 years</b> | <b>Over<br/>5 years</b> | <b>No<br/>maturity</b> | <b>Total</b>     |
|--------------------------------------------------------------------------------------|------------------------------------------------|-------------------------------|----------------------|-------------------------------|---------------------|-------------------------|------------------------|------------------|
| <b>Non-derivative financial liabilities</b>                                          |                                                |                               |                      |                               |                     |                         |                        |                  |
| Due to other banks                                                                   | 5,165                                          | -                             | -                    | -                             | -                   | -                       | -                      | 5,165            |
| Customer accounts                                                                    | 282,919                                        | 50,005                        | 134,963              | 150,071                       | 225,404             | -                       | -                      | 843,362          |
| Debt securities issued                                                               | -                                              | 36,655                        | -                    | -                             | -                   | -                       | -                      | 36,655           |
| Other financial liabilities                                                          | 1,832                                          | 16                            | 253                  | -                             | 2                   | 1                       | -                      | 2,104            |
| Subordinated debt                                                                    | -                                              | -                             | 1,710                | 1,739                         | 61,068              | 49,791                  | -                      | 114,308          |
| Preference shares                                                                    | -                                              | 957                           | -                    | -                             | 3,833               | -                       | 6,296                  | 11,086           |
| Loan commitments (less secured letters of credit)                                    | 43,756                                         | 783                           | 1,353                | 35                            | 218                 | 78                      | -                      | 46,223           |
| <b>Total expected future cash outflows from non-derivative financial liabilities</b> | <b>333,672</b>                                 | <b>88,416</b>                 | <b>138,279</b>       | <b>151,845</b>                | <b>290,525</b>      | <b>49,870</b>           | <b>6,296</b>           | <b>1,058,903</b> |
| <b>Derivative financial liabilities gross settled</b>                                |                                                |                               |                      |                               |                     |                         |                        |                  |
| Outflow                                                                              | -                                              | -                             | 2,145                | -                             | 232,716             | -                       | -                      | 234,861          |
| Inflow                                                                               | -                                              | -                             | (843)                | -                             | (580,269)           | -                       | -                      | (581,112)        |
| <b>Total expected future cash outflows from financial liabilities</b>                | <b>333,672</b>                                 | <b>88,416</b>                 | <b>139,581</b>       | <b>151,845</b>                | <b>(57,028)</b>     | <b>49,870</b>           | <b>6,296</b>           | <b>712,652</b>   |



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The preference shares are financial liabilities without defined term of maturity. The maximum period the Bank considers for undiscounted cash flows calculation on preference shares obligatory dividend payment is 5 years.

The tables presented above include payments on derivative financial instruments gross settled as these settlements will be followed by corresponding cash outflows and inflows.

Customer accounts are stated by maturities in the table above. However, in accordance with the Bank Code of the Republic of Belarus, individuals have the right to withdraw their cash ahead of time.

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms and expected liquidity gaps based on the analysis of financial assets and liabilities as described in the tables below:

| <i>In millions of Belarusian Roubles</i>                            | On demand and up to 1 month | 1 to 3 months    | 3 to 6 months    | 6 months to 1 year | 1 to 5 years   | Over 5 years   | Overdue      | No maturity   | Total as at 31 December 2013 |
|---------------------------------------------------------------------|-----------------------------|------------------|------------------|--------------------|----------------|----------------|--------------|---------------|------------------------------|
| <b>Assets</b>                                                       |                             |                  |                  |                    |                |                |              |               |                              |
| Cash and balances with the National Bank of the Republic of Belarus | 190,564                     | -                | -                | -                  | -              | -              | -            | 9,203         | 199,767                      |
| Derivative financial assets                                         | -                           | -                | -                | 22,042             | 329,659        | -              | -            | -             | 351,701                      |
| Due from other banks                                                | 7,660                       | 761              | 654              | -                  | -              | -              | -            | 2,625         | 11,700                       |
| Loans to customers                                                  | 18,142                      | 46,967           | 35,401           | 71,778             | 317,721        | -              | 6,428        | -             | 496,437                      |
| Other financial assets                                              | 553                         | -                | -                | 18                 | -              | -              | 1,724        | -             | 2,295                        |
| <b>Total financial assets</b>                                       | <b>216,919</b>              | <b>47,728</b>    | <b>36,055</b>    | <b>93,838</b>      | <b>647,380</b> | <b>-</b>       | <b>8,152</b> | <b>11,828</b> | <b>1,061,900</b>             |
| <b>Liabilities</b>                                                  |                             |                  |                  |                    |                |                |              |               |                              |
| Derivative financial liabilities                                    | -                           | -                | -                | -                  | 8,247          | -              | -            | -             | 8,247                        |
| Due to other banks                                                  | 28,696                      | -                | -                | -                  | -              | -              | -            | -             | 28,696                       |
| Customer accounts                                                   | 336,453                     | 57,425           | 224,251          | 137,199            | 53,647         | -              | -            | -             | 808,975                      |
| Other financial liabilities                                         | 1,918                       | -                | -                | -                  | -              | 1              | -            | -             | 1,919                        |
| Subordinated debt                                                   | -                           | -                | 152              | -                  | 52,320         | 1,877          | -            | -             | 54,349                       |
| Preference shares                                                   | -                           | 913              | -                | -                  | -              | -              | -            | 10,536        | 11,449                       |
| <b>Total financial liabilities</b>                                  | <b>367,067</b>              | <b>58,338</b>    | <b>224,403</b>   | <b>137,199</b>     | <b>114,214</b> | <b>1,878</b>   | <b>-</b>     | <b>10,536</b> | <b>913,635</b>               |
| Liquidity gap                                                       | (150,148)                   | (10,610)         | (188,348)        | (43,361)           | 533,166        | (1,878)        |              |               |                              |
| <b>Cumulative expected liquidity gap</b>                            | <b>(150,148)</b>            | <b>(160,758)</b> | <b>(349,106)</b> | <b>(392,467)</b>   | <b>140,699</b> | <b>138,821</b> |              |               |                              |

*Translation from original in Russian language*

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**NOTES TO THE FINANCIAL STATEMENTS**

| <i>In millions of Belarusian Roubles</i>                                  | <b>On<br/>demand<br/>and up to<br/>1 month</b> | <b>1 to<br/>3 mon<br/>ths</b> | <b>3 to<br/>6 months</b> | <b>6 months<br/>to 1 year</b> | <b>1 to<br/>5 years</b> | <b>Over<br/>5 year<br/>s</b> | <b>Overdu<br/>e</b> | <b>No<br/>maturity</b> | <b>Total as<br/>at 31<br/>Decemb<br/>er 2012</b> |
|---------------------------------------------------------------------------|------------------------------------------------|-------------------------------|--------------------------|-------------------------------|-------------------------|------------------------------|---------------------|------------------------|--------------------------------------------------|
| <b>Assets</b>                                                             |                                                |                               |                          |                               |                         |                              |                     |                        |                                                  |
| Cash and balances with the<br>National Bank of the Republic<br>of Belarus | 143,918                                        | -                             | -                        | -                             | -                       | -                            | -                   | 8,274                  | 152,192                                          |
| Derivative financial assets                                               | 37                                             | -                             | -                        | -                             | 349,479                 | -                            | -                   | -                      | 349,516                                          |
| Due from other banks                                                      | 82,581                                         | 7,787                         | -                        | -                             | -                       | -                            | -                   | 1,457                  | 91,825                                           |
| Loans to customers                                                        | 16,638                                         | 49,618                        | 37,962                   | 64,563                        | 298,091                 | 186                          | 3,878               | -                      | 470,936                                          |
| Other financial assets                                                    | 263                                            | 6                             | -                        | 17                            | -                       | -                            | 1,556               | -                      | 1,842                                            |
| <b>Total financial assets</b>                                             | <b>243,437</b>                                 | <b>57,411</b>                 | <b>37,962</b>            | <b>64,580</b>                 | <b>647,570</b>          | <b>186</b>                   | <b>5,434</b>        | <b>9,731</b>           | <b>1,066,311</b>                                 |
| <b>Liabilities</b>                                                        |                                                |                               |                          |                               |                         |                              |                     |                        |                                                  |
| Derivative financial liabilities                                          | -                                              | -                             | 1,381                    | -                             | 14,040                  | -                            | -                   | -                      | 15,421                                           |
| Due to other banks                                                        | 5,161                                          | -                             | -                        | -                             | -                       | -                            | -                   | -                      | 5,161                                            |
| Customer accounts                                                         | 278,491                                        | 43,548                        | 127,860                  | 141,457                       | 220,218                 | -                            | -                   | -                      | 811,574                                          |
| Debt securities issued                                                    | -                                              | 36,207                        | -                        | -                             | -                       | -                            | -                   | -                      | 36,207                                           |
| Other financial liabilities                                               | 1,833                                          | 16                            | 253                      | -                             | 2                       | 1                            | -                   | -                      | 2,105                                            |
| Subordinated debt                                                         | -                                              | -                             | 142                      | -                             | 52,829                  | 1,830                        | -                   | -                      | 54,801                                           |
| Preference shares                                                         | -                                              | 957                           | -                        | -                             | -                       | -                            | -                   | 6,297                  | 7,254                                            |
| <b>Total financial liabilities</b>                                        | <b>285,485</b>                                 | <b>80,728</b>                 | <b>129,636</b>           | <b>141,457</b>                | <b>287,089</b>          | <b>1,831</b>                 | <b>-</b>            | <b>6,297</b>           | <b>932,523</b>                                   |
| <b>Liquidity gap</b>                                                      | <b>(42,048)</b>                                | <b>(23,317)</b>               | <b>(91,674)</b>          | <b>(76,877)</b>               | <b>360,481</b>          | <b>(1,645)</b>               |                     |                        |                                                  |
| <b>Cumulative expected liquidity gap</b>                                  | <b>(42,048)</b>                                | <b>(65,365)</b>               | <b>(157,039)</b>         | <b>(233,916)</b>              | <b>126,565</b>          | <b>124,920</b>               |                     |                        |                                                  |

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have undefined maturity and different nature. Non-coincidence of these positions potentially raises profitability and at the same time the risk of losses.

In the economic conditions prevailing in recent years in the Republic of Belarus (high devaluation expectations) long-term funds in Belarusian rubles are displaced by the short-term funds. Having significant liquidity gaps in the short term period the Bank manages liquidity by attracting available and most profitable resources in Belarusian rubles to maintain liquidity. The key sources of the resource base of the Bank are funds raised from legal entities. Additional current sources to cover liquidity gaps for short periods are also borrowings in the interbank market, swap transactions and foreign exchange transactions with the banks, as well as the issue of own debt securities.

In order to prevent outflow of customers funds as well as to extend the period of using them, the Bank promptly revises conditions for current products and develops the new ones, performs work to attract new customers. In addition, the terms of loan products are revised in order to diversify the loan portfolio regarding the mechanism of principal repayment.

To cover liquidity gap in case of emergency situations the Bank considers the possibility of cancelling contracts on derivative financial instruments with the National Bank and attracting shareholders' funds that will meet the demands of its creditors and depositors.

**Market risk.** Market risk is related to open interest rate, currency positions, positions on debt and equity instruments, which are subject to general and specific market changes.



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The identification and assessment of market risk is performed regularly and is based on the information received from respective departments for the preparation of reports to the National Bank.

**Currency risk.** Currency risk is risk of changes in value of financial instrument due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

Currency risk management is carried out using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of currency risk;
- implementation of limit policy;
- implementation of system for tracking the status and dynamics of open foreign currency position, total and by types of currencies, as well as of quick reaction system aimed at minimizing foreign currency risk;
- implementation of stress-testing system;
- creation of a system aimed to regular and timely informing of management bodies and committees of the Bank on efficiency of currency risk management system;
- creation of quick and adequate reaction system designed to minimize currency risk, development of Bank's action plan for unexpected changes related to currency risk.

The Bank determines risk limits by currencies and the aggregated currency position limits. Limits are set and monitored for compliance at the end of each day as well as during the day. The Treasury Department controls the state of open currency position and its actual size based on the accounting data for balance and off-balance assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

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The analysis of Bank's exposure to currency risk as at 31 December 2013 is presented in the table below:

| <i>In millions of Belarusian Roubles</i>                                  | BYR              | USD              | EUR             | RUB             | Other<br>curren<br>cies | Итого            |
|---------------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|-------------------------|------------------|
| <b>Assets</b>                                                             |                  |                  |                 |                 |                         |                  |
| Cash and balances with the<br>National Bank of the Republic of<br>Belarus | 165,630          | 13,460           | 9,779           | 10,857          | 41                      | 199,767          |
| Derivative financial assets                                               | 351,701          | -                | -               | -               | -                       | 351,701          |
| Due from banks                                                            | -                | 8,727            | 1,503           | 1,460           | 10                      | 11,700           |
| Loans to customers                                                        | 382,276          | 68,079           | 35,284          | 10,798          | -                       | 496,437          |
| Other financial assets                                                    | 2,197            | 59               | 39              | -               | -                       | 2,295            |
| <b>Total financial assets</b>                                             | <b>901,804</b>   | <b>90,325</b>    | <b>46,605</b>   | <b>23,115</b>   | <b>51</b>               | <b>1,061,900</b> |
| <b>Liabilities</b>                                                        |                  |                  |                 |                 |                         |                  |
| Derivative financial liabilities                                          | 8,247            | -                | -               | -               | -                       | 8,247            |
| Due to banks                                                              | -                | 28,685           | 4               | 7               | -                       | 28,696           |
| Customer accounts                                                         | 275,556          | 380,106          | 74,705          | 78,608          | -                       | 808,975          |
| Other financial liabilities                                               | 1,888            | 20               | 11              | -               | -                       | 1,919            |
| Subordinated debt                                                         | -                | 1,877            | 52,472          | -               | -                       | 54,349           |
| Preference shares                                                         | 11,449           | -                | -               | -               | -                       | 11,449           |
| <b>Total financial liabilities</b>                                        | <b>297,140</b>   | <b>410,688</b>   | <b>127,192</b>  | <b>78,615</b>   | <b>-</b>                | <b>913,635</b>   |
| <b>Net open currency position</b>                                         | <b>604,664</b>   | <b>(320,363)</b> | <b>(80,587)</b> | <b>(55,500)</b> | <b>51</b>               | <b>148,265</b>   |
| Claims on derivative contracts                                            | 23,014           | 489,041          | 85,020          | 59,553          | -                       | 656,628          |
| Obligations on derivative contracts                                       | (182,717)        | (116,099)        | -               | -               | -                       | (298,816)        |
| <b>Net position on derivatives<br/>financial instruments</b>              | <b>(159,703)</b> | <b>372,942</b>   | <b>85,020</b>   | <b>59,553</b>   | <b>-</b>                | <b>357,812</b>   |
| Claims on foreign currency<br>contracts                                   | -                | 9                | 9               | -               | -                       | 18               |
| Obligations on foreign currency<br>contracts                              | -                | (1)              | (6)             | -               | -                       | (7)              |
| <b>Net position on foreign currency<br/>contracts</b>                     | <b>-</b>         | <b>8</b>         | <b>3</b>        | <b>-</b>        | <b>-</b>                | <b>11</b>        |
| <b>Total net open currency position</b>                                   | <b>444,961</b>   | <b>52,587</b>    | <b>4,436</b>    | <b>4,053</b>    | <b>51</b>               | <b>506,088</b>   |



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The Bank's exposure to foreign currency exchange rate risk as at 31 December 2012 is presented in the table below:

| <i>In millions of Belarusian Roubles</i>                                  | BYR              | USD              | EUR             | RUB             | Other<br>currencies | Итого            |
|---------------------------------------------------------------------------|------------------|------------------|-----------------|-----------------|---------------------|------------------|
| <b>Assets</b>                                                             |                  |                  |                 |                 |                     |                  |
| Cash and balances with the<br>National Bank of the Republic of<br>Belarus | 114,385          | 15,541           | 15,024          | 7,159           | 83                  | 152,192          |
| Derivative financial assets                                               | 349,516          | -                | -               | -               | -                   | 349,516          |
| Due from banks                                                            | 6,988            | 54,032           | 21,737          | 9,053           | 15                  | 91,825           |
| Loans to customers                                                        | 391,245          | 15,774           | 57,177          | 6,740           | -                   | 470,936          |
| Other financial assets                                                    | 1,525            | 199              | 118             | -               | -                   | 1,842            |
| <b>Total financial assets</b>                                             | <b>863,659</b>   | <b>85,546</b>    | <b>94,056</b>   | <b>22,952</b>   | <b>98</b>           | <b>1,066,311</b> |
| <b>Liabilities</b>                                                        |                  |                  |                 |                 |                     |                  |
| Derivative financial liabilities                                          | 15,421           | -                | -               | -               | -                   | 15,421           |
| Due to banks                                                              | -                | 4,603            | 551             | 7               | -                   | 5,161            |
| Customer accounts                                                         | 198,955          | 457,480          | 102,032         | 53,107          | -                   | 811,574          |
| Debt securities issued                                                    | -                | 36,207           | -               | -               | -                   | 36,207           |
| Other financial liabilities                                               | 1,814            | 20               | 268             | 3               | -                   | 2,105            |
| Subordinated debt                                                         | -                | 1,830            | 52,971          | -               | -                   | 54,801           |
| Preference shares                                                         | 7,254            | -                | -               | -               | -                   | 7,254            |
| <b>Total financial liabilities</b>                                        | <b>223,444</b>   | <b>500,140</b>   | <b>155,822</b>  | <b>53,117</b>   | <b>-</b>            | <b>932,523</b>   |
| <b>Net open currency position</b>                                         | <b>640,215</b>   | <b>(414,594)</b> | <b>(61,766)</b> | <b>(30,165)</b> | <b>98</b>           | <b>133,788</b>   |
| Claims on derivative contracts                                            | 8,412            | 513,267          | 59,433          | 29,559          | -                   | 610,671          |
| Obligations on derivative contracts                                       | (212,803)        | (51,534)         | -               | -               | -                   | (264,337)        |
| <b>Net position on derivatives<br/>financial instruments</b>              | <b>(204,391)</b> | <b>461,733</b>   | <b>59,433</b>   | <b>29,559</b>   | <b>-</b>            | <b>346,334</b>   |
| Claims on foreign currency<br>contracts                                   | -                | 7,341            | -               | -               | -                   | 7,341            |
| Obligations on foreign currency<br>contracts                              | -                | (8)              | -               | -               | -                   | (8)              |
| <b>Net position on foreign currency<br/>contracts</b>                     | <b>-</b>         | <b>7,333</b>     | <b>-</b>        | <b>-</b>        | <b>-</b>            | <b>7,333</b>     |
| <b>Total net open currency position</b>                                   | <b>435,824</b>   | <b>54,472</b>    | <b>(2,333)</b>  | <b>(606)</b>    | <b>98</b>           | <b>487,455</b>   |

As at 31 December 2013 and 2012 the Bank had net long currency position in US dollars, the significant influence on which was made by initial recognition of subordinated debt from EBRD at fair value (Note 18). The Bank calculates the ratio of open currency position and regulates it based on the nominal value of financial instruments according to the requirements of the National Bank.

The Bank granted 23.0 % (16.9% in 2012) of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

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The following table details the sensitivity of the Bank's profit before tax and equity to possible fluctuations of foreign exchange rates used as at the end of reporting period against the Bank's functional currency with all other variables held constant:

| <i>In millions of Belarusian Roubles</i>                     | 31 December 2013                 |                                                 | 31 December 2012                 |                                                 |
|--------------------------------------------------------------|----------------------------------|-------------------------------------------------|----------------------------------|-------------------------------------------------|
|                                                              | Effect on profit before taxation | Effect on equity (included 18% income tax rate) | Effect on profit before taxation | Effect on equity (included 18% income tax rate) |
| Strengthening of US Dollar by 10%<br>(in 2012 by 10%)        | 5,259                            | 4,312                                           | 5,447                            | 4,467                                           |
| Weakening of US Dollar by 5%<br>(in 2012 by 10%)             | (2,629)                          | (2,156)                                         | (5,447)                          | (4,467)                                         |
| Strengthening of Euro by 15%<br>(in 2012 by 15%)             | 665                              | 545                                             | (350)                            | (287)                                           |
| Weakening of Euro by 5%<br>(in 2012 by 15%)                  | (222)                            | (182)                                           | 350                              | 287                                             |
| Strengthening of RUB by 5%<br>(in 2012 by 15%)               | 203                              | 166                                             | (91)                             | (75)                                            |
| Weakening of RUB by 5%<br>(in 2012 by 15%)                   | (203)                            | (166)                                           | 91                               | 75                                              |
| Strengthening of other currencies by 10%<br>(in 2012 by 15%) | 5                                | 4                                               | 15                               | 12                                              |
| Weakening of other currencies by 5%<br>(in 2012 by 15%)      | (3)                              | (2)                                             | (15)                             | (12)                                            |

The sensitivity analysis to variation of foreign exchange rates was calculated for all the items nominated in currencies other than the Bank's functional currency. Actually a correlation between suggestions and other factors exists. It should also be noted that these sensitivities are non-linear, and any impacts should not be interpolated or extrapolated from these results.

**Interest rate risk.** The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes in interest rates the interest margin can be also decreased or generate losses.

Interest rate risk management is performed using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of interest rate risk;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate;
- implementation of adequate interest policy relevant for the Bank;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate, analysis of structure and dynamics of resources base and active deposits;
- implementation of stress-testing system;



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- creation of quick and adequate reaction system designed to minimize interest rate risk, development of Bank's action plan for unexpected changes in interest rate.

The Bank is exposed to interest rate risk mainly due to loan granting at fixed interest rates in amounts and for periods which differ from the amounts and periods of funds raising at floating interest rates. In practice fixed interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities, are often reviewed on the basis of mutual agreement in accordance with a current market situation.

Detection, identification and assessment of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (budgeted balance sheet and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return on financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

The table below represents general analysis of the Bank's interest rate risk. It includes total amounts of financial assets and financial liabilities sensitive to interest rate fluctuations, as reflected in the statement of financial position by their maturities:

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| <i>In millions of Belarusian Roubles</i>            | On<br>demand<br>and up to<br>1 month. | 1 to 3<br>months | 3 to 6<br>months | 6 months<br>to 1 year | 1 to<br>5 years | More<br>than 5<br>years | Total            |
|-----------------------------------------------------|---------------------------------------|------------------|------------------|-----------------------|-----------------|-------------------------|------------------|
| <b>31 December 2013</b>                             |                                       |                  |                  |                       |                 |                         |                  |
| Total financial interest-bearing assets             | 19,849                                | 46,967           | 35,401           | 71,778                | 317,721         | -                       | 491,716          |
| Total financial interest-bearing liabilities        | 335,771                               | 57,425           | 224,403          | 137,199               | 105,967         | 1,877                   | 862,642          |
| <b>Interest rate gap as at<br/>31 December 2013</b> | <b>(315,922)</b>                      | <b>(10,458)</b>  | <b>(189,002)</b> | <b>(65,421)</b>       | <b>211,754</b>  | <b>(1,877)</b>          | <b>(370,926)</b> |
| <b>31 December 2012</b>                             |                                       |                  |                  |                       |                 |                         |                  |
| Total financial interest-bearing assets             | 52,426                                | 56,606           | 37,962           | 64,563                | 298,091         | 186                     | 509,834          |
| Total financial interest-bearing liabilities        | 262,222                               | 78,080           | 128,002          | 141,214               | 273,048         | 1,830                   | 884,396          |
| <b>Interest rate gap as at<br/>31 December 2012</b> | <b>(209,796)</b>                      | <b>(21,474)</b>  | <b>(90,040)</b>  | <b>(76,651)</b>       | <b>25,043</b>   | <b>(1,644)</b>          | <b>(374,562)</b> |

During monitoring the Bank analyses the structure and dynamics of financial assets and financial liabilities, previous and effective interest rates in the money market in the Republic of Belarus and countries of the Bank's main counterparties and their influence on interest rate risk.

As at 31 December 2013 and 2012 the balances of financial instruments with floating rates were as follows:

| <i>In millions of Belarusian Roubles</i>     | 31 December 2013 |                 | 31 December 2012 |                 |
|----------------------------------------------|------------------|-----------------|------------------|-----------------|
|                                              | BYR              | USD/EUR/<br>RUB | BYR              | USD/EUR/<br>RUB |
| <b>Assets</b>                                |                  |                 |                  |                 |
| Due from banks                               | -                | 1,327           | 6,988            | 25,562          |
| Loans to customers                           | 35,513           | -               | 53,139           | -               |
| <b>Total assets with floating rates</b>      | <b>35,513</b>    | <b>1,327</b>    | <b>60,127</b>    | <b>25,562</b>   |
| <b>Liabilities</b>                           |                  |                 |                  |                 |
| Due to banks                                 | -                | -               | -                | 4,392           |
| Customer accounts                            | 510              | -               | 7,743            | -               |
| Subordinated debt                            | -                | 52,472          | -                | 52,971          |
| <b>Total liabilities with floating rates</b> | <b>510</b>       | <b>52,472</b>   | <b>7,743</b>     | <b>57,363</b>   |



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The table below shows sensitivity analysis of profit before taxation and equity to the possible significant changes in floating interest rates used at the end of reporting period, assuming that all other estimates remain unchanged:

|                                                                                                             | 31 December 2013                          |                                                                | 31 December 2012                          |                                                                |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------|
|                                                                                                             | Effect on<br>profit<br>before<br>taxation | Effect on<br>equity<br>(included<br>18%<br>income tax<br>rate) | Effect on<br>profit<br>before<br>taxation | Effect on<br>equity<br>(included<br>18%<br>income tax<br>rate) |
| <i>In millions of Belarusian Roubles</i>                                                                    |                                           |                                                                |                                           |                                                                |
| Increase of interest rates on financial instruments<br>nominated in BYR by 1000 basis points                | 3,500                                     | 2,870                                                          | 5,238                                     | 4,295                                                          |
| Decrease of interest rates on financial instruments<br>nominated in BYR by 1000 basis points                | (3,500)                                   | (2,870)                                                        | (5,238)                                   | (4,295)                                                        |
| Increase of interest rates on financial instruments<br>nominated in other currencies by 100 basis<br>points | (511)                                     | (419)                                                          | (318)                                     | (261)                                                          |
| Decrease of interest rates on financial instruments<br>nominated in other currencies by 100 basis<br>points | 511                                       | 419                                                            | 318                                       | 261                                                            |

**Operational risk.** Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with the Belarusian legislation or violation of these procedures by personnel, incompetence and errors of the personnel, inadequacy or failures of bank systems (including informational), as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Bank's Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank's departments.

#### 34. Fair value measurement

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 in principal (or more advantageous) market at the measurement date under current market terms (exit price), the price can be observable or measured using a valuation technique.

The Bank applies the following hierarchy of inputs used in measurement of fair value:

- Level 1: inputs used to measure fair value are quoted prices in active markets for identical assets and liabilities that the Bank can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Any adjustment of Level 1 inputs results in fair value of lower level.
- Level 2 – inputs used to measure fair value are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives), include instruments measured using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques using inputs that are directly or indirectly observable in markets. If Level 2 significant inputs are adjusted using significant unobservable inputs, fair value measured will relate to Level 3.

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## NOTES TO THE FINANCIAL STATEMENTS

- Level 3 – inputs used to measure fair value are unobservable inputs that reflect all assumptions used by market participants when fixing instrument price, including risk assumption. Fair value measured using a combination of different valuation techniques relates to Level 3.

When using inputs of different levels, the Bank categorizes fair value measurement in general within the level of inputs. The Bank records transfers between fair value levels as at the end of the reporting period.

Hierarchy of the Bank's assets and liabilities fair value inputs is presented in the table below:

*In millions of Belorussian Roubles*

| <b>31 December 2013</b>          | <b>Notes</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
|----------------------------------|--------------|----------------|----------------|----------------|----------------|
| Derivative financial assets      | 8            | -              | -              | 351,701        | <b>351,701</b> |
| Investment property              | 11           | -              | -              | 10,255         | <b>10,255</b>  |
| Derivative financial liabilities | 8            | -              | 8,247          | -              | <b>8,247</b>   |
| <b>31 December 2012</b>          | <b>Notes</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>   |
| Derivative financial assets      | 8            | -              | 38             | 349,478        | <b>349,516</b> |
| Derivative financial liabilities | 8            | -              | 15,421         | -              | <b>15,421</b>  |

The Bank used exception provided in IFRS 13 "Fair Value Measurement" for fair value disclosure in part of presentation of corresponding information for period before initial application of IFRS 13.

For the years ended 31 December 2013 and 2012 the Bank did not transfer between fair value hierarchy levels.



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NOTES TO THE FINANCIAL STATEMENTS

**(a) Fair value of financial instruments**

The comparison of the values stated in the statement of financial position and fair value of financial instruments of the Bank as at 31 December 2013 and 2012 is presented in the table below:

| <i>In millions of Belorussian Roubles</i>                           | 31 December 2013                                  |                  | 31 December 2012                                  |                  |
|---------------------------------------------------------------------|---------------------------------------------------|------------------|---------------------------------------------------|------------------|
|                                                                     | Value recorded in statement of financial position | Fair value       | Value recorded in statement of financial position | Fair value       |
| <b>Assets</b>                                                       |                                                   |                  |                                                   |                  |
| Cash and balances with the National Bank of the Republic of Belarus | 199,767                                           | 199,767          | 152,192                                           | 152,192          |
| Derivative financial assets                                         | 351,701                                           | 351,701          | 349,516                                           | 349,516          |
| Due from banks                                                      | 11,700                                            | 11,700           | 91,825                                            | 91,825           |
| Loans to customers                                                  |                                                   |                  |                                                   |                  |
| Loans to corporate clients                                          | 149,415                                           | 149,387          | 142,081                                           | 142,081          |
| Loans to individuals                                                | 347,022                                           | 339,499          | 328,855                                           | 328,855          |
| Other financial assets                                              | 2,295                                             | 2,295            | 1,842                                             | 1,842            |
| <b>Total financial assets</b>                                       | <b>1,061,900</b>                                  | <b>1,054,349</b> | <b>1,066,311</b>                                  | <b>1,066,311</b> |
| <b>Liabilities</b>                                                  |                                                   |                  |                                                   |                  |
| Derivative financial liabilities                                    | 8,247                                             | 8,247            | 15,421                                            | 15,421           |
| Due to banks                                                        | 28,696                                            | 28,696           | 5,161                                             | 5,161            |
| Customer accounts                                                   | 808,975                                           | 808,975          | 811,574                                           | 811,574          |
| Debt securities issued                                              | -                                                 | -                | 36,207                                            | 36,207           |
| Other financial liabilities                                         | 1,919                                             | 1,919            | 2,105                                             | 2,105            |
| Subordinated debt                                                   | 54,349                                            | 54,840           | 54,801                                            | 54,801           |
| Preference shares                                                   | 11,449                                            | 11,449           | 7,254                                             | 7,254            |
| <b>Total financial liabilities</b>                                  | <b>913,635</b>                                    | <b>914,126</b>   | <b>932,523</b>                                    | <b>932,523</b>   |

The methods and assumptions used by the Bank for measurement of fair value of the financial instruments are presented below.

**(a) (i) Financial instruments recognized at fair value in the statement of financial position**

The fair value of foreign currency swaps and forwards contracts with the national Bank, included within derivative financial instruments, is measured using discounted cash flows model, in which the most significant inputs are not observable in market or require significant adjustments of observable inputs due to absence of active market of similar non-current financial instruments (level 3). The foreign currency rates used for calculations were defined based on rates of long-term bonds of the Ministry of Finance of the Republic of Belarus in foreign currency (rates 6.40-8.1%). Rates for Belarussian Rouble used for calculations were based on refinancing rate of the National Bank (23.5%).

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## NOTES TO THE FINANCIAL STATEMENTS

The reconciliation of balances recorded in the statement of financial position as at 31 December 2013 for derivative financial instruments of level 3 of the hierarchy of fair value is presented below:

| <i>In millions of Belorussian Roubles</i>                       | <b>2013</b>    | <b>2012</b>    |
|-----------------------------------------------------------------|----------------|----------------|
| <b>Fair value as at 1 January</b>                               | <b>349,478</b> | <b>389,833</b> |
| Settlement at the end of transaction                            | -              | (9,877)        |
| Profits from transactions with derivative financial instruments | 55,366         | 36,495         |
| Inflation effect                                                | (53,143)       | (66,973)       |
| <b>Fair value as at 31 December</b>                             | <b>351,701</b> | <b>349,478</b> |

As at 31 December 2013 the profits from transactions with derivative financial instruments of level 3 in the amount of BYR 55 366 million were carried to change in unrealized gain on derivative financial statements held as at the end of the reporting period.

In case of change of significant inputs used to measure fair value of financial instruments of level 3 in reasonably probable alternative assumptions, the fair value of these instruments may change significantly. To control the sensitivity of fair value measurements to changes in the key inputs and define the impact of probable alternative assumptions, the Bank considered many options of analysis providing that interest rates change, but the other factors are unchanged. Impact of each option on profit and loss before taxation and fair value of financial documents of level 3 is presented in the table below:

| <i>In millions of Belorussian Roubles</i>                                                          | <b>31 December<br/>2013</b> | <b>31 December<br/>2012</b> |
|----------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| Increase by 500 basis points of interest rate for Belarusian Rouble (in 2012 by 1000 basis points) | 9,210                       | 18,750                      |
| Decrease by 500 basis points of interest rate for Belarusian Rouble (in 2012 by 1000 basis points) | (10,592)                    | (26,147)                    |
| Increase by 100 basis points of interest rate for foreign currency (in 2012 by 100 basis points)   | (9,608)                     | (12,975)                    |
| Decrease by 100 basis points of interest rate for foreign currency (in 2012 by 100 basis points)   | 9,933                       | 13,522                      |

The fair value of foreign currency swaps with other banks and customers is measured using discounted cash flows model, in which the most significant inputs are observable in markets for identical or similar financial instruments (level 2). Fair value of short-term foreign currency swaps with other banks for the period up to 10 days equals to zero.

### **a) (ii) Financial instruments not measured at fair value in the statement of financial position**

**Financial instruments fair value of which approximately equals to the value recorded in the statement of financial position.** It is assumed that the fair value of financial assets and liabilities which are highly liquid or have a short maturity (less than 3 months) approximately equals to their carrying value. This assumption is also applied to interbank loans, demand deposits and current accounts with undefined maturity, as well as to other short-term account receivable and payable.

**Financial instruments with floating and fixed interest rates.** The fair value of financial instruments with floating interest rates approximates their value in the statement of financial position. Estimated fair value of financial instruments with floating interest rates is based on calculation of discounted cash flows using interest rates for instruments with similar terms, credit risk level and residual maturity.



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## NOTES TO THE FINANCIAL STATEMENTS

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The measurement of fair value of financial instrument not recognized at fair value on the statement of financial position related to level 2 of the inputs hierarchy.

### **(b) Fair value of investment property**

The fair value of investment property was measured using combination of different valuation techniques (level 3).

Cost method is based on calculation of market value of land plot and its real estate improvements and cost to replace real estate items. The measurement is based on the price that would be paid by market participants to purchase or build a replacement asset with similar degree of depreciation and comparable usefulness.

Market method is based on information on market prices of identical items (except for property sales for debts repayment) adjusted for differences.

Income method is based on future discounted cash flows from use of investment property during 5 years and sale of property item at the end of expected useful life, assessed taking into account effective lease contracts, expected operating expenses related to investment property, and external information, including current market lease fees for identical items, as well as based on discounting rates which reflect current evaluation of uncertainty with regards to the amount and periods of cash flows.

Fair value measurement is based on the following main assumptions related to receipt of contractual lease fees:

- Expected average weighted market lease fee – 16 ebpo;
- Losses of lease payments when there is no lessees – 5%;
- Annual changes in net operating income - 3-5%;
- Changes in real estate value at the end of expected useful life– 5-20%;
- Discounting rate - 14.4%.

Increase (decrease) in expected market lease fees and growth rate of net operating income (interaction with other factors is not taken into account) will result in increase (decrease) of investment property fair value. Increase (decrease) in losses of lease payments, when there is no lessees in the long-term, and discounting rate (interaction with other factors is not taken into account) will result in decrease (increase) of investment property fair value. This way, one percentage point decrease (increase) in discounting rate used in income method to measure fair value will result in increase of investment property fair value in the statement of financial position as at 31 December 2013 by BYR 192 million (decrease by BYR 184 million).

Reconciliation of balances of investment property fair value recorded in the statement of financial position as at 31 December 2013 and 2012 is presented in Note 11.

### **35. Operating segments**

The segment reporting of the Bank is based on the following operating segments: services to individuals, services to legal entities, treasury transactions.

- services to individuals - maintenance of current accounts, receipt of deposits, granting loans, performance of settlements on behalf of individuals, servicing bank cards, custody services;
- services to legal entities - cash management services to enterprises and organizations (both residents and non residents of the Republic of Belarus), attraction of deposits, placing own debt securities issued, granting loans and other types of financing, implementation of documentary transactions and transactions with securities on behalf of clients;

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NOTES TO THE FINANCIAL STATEMENTS

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- treasury transactions – transactions with the National Bank, maintenance of correspondent accounts of banks, attraction and placement of funds on interbank market, transactions with securities on behalf of the Bank (including REPO), transactions with derivative financial instruments, transactions of purchase, sale, conversion of foreign currency.

The Bank also performs foreign exchange operations both with individuals and legal entities but financial result from these operations is not analysed by segments.



Translation from original in Russian language

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The information on operating segments for 2013 is presented below:

| <i>In millions of Belarusian Roubles</i>                                                       | Services<br>to<br>individua<br>ls | Services<br>to legal<br>entities | Treasury<br>transactio<br>ns | Other/Not<br>distributed | Inflation<br>effect | Total          |
|------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|------------------------------|--------------------------|---------------------|----------------|
| Interest income                                                                                | 150,383                           | 27,984                           | 5,000                        | -                        | 14,533              | 197,900        |
| Interest expense                                                                               | (21,111)                          | (53,325)                         | (6,053)                      | (913)                    | (6,286)             | (87,688)       |
| <b>Net interest income</b>                                                                     | <b>129,272</b>                    | <b>(25,341)</b>                  | <b>(1,053)</b>               | <b>(913)</b>             | <b>8,247</b>        | <b>110,212</b> |
| Fee and commission income                                                                      | 6,575                             | 7,149                            | 2,642                        | 514                      | 1,327               | 18,207         |
| Fee and commission expense                                                                     | (293)                             | (217)                            | (646)                        | (2,469)                  | (279)               | (3,904)        |
| <b>Net fee and commission income</b>                                                           | <b>6,282</b>                      | <b>6,932</b>                     | <b>1,996</b>                 | <b>(1,955)</b>           | <b>1,048</b>        | <b>14,303</b>  |
| Net gain on derivative financial instruments                                                   | -                                 | -                                | 50,906                       | -                        | 3,682               | 54,588         |
| Net (loss)/gain on foreign exchange operations                                                 | -                                 | -                                | 7,941                        | (46,547)                 | (2,231)             | (40,837)       |
| Net loss on financial assets available for sale                                                | -                                 | -                                | (203)                        | -                        | (14)                | (217)          |
| Gain on change in fair value of investment property                                            | -                                 | -                                | -                            | 432                      | -                   | 432            |
| Other income                                                                                   | 5,494                             | 128                              | 2,215                        | 1,430                    | 653                 | 9,920          |
| <b>Operating expenses</b>                                                                      | <b>141,048</b>                    | <b>(18,281)</b>                  | <b>61,802</b>                | <b>(47,553)</b>          | <b>11,385</b>       | <b>148,401</b> |
| Operating expenses                                                                             | (3,242)                           | -                                | -                            | (80,877)                 | (6,292)             | (90,411)       |
| Write-down of value of repossessed assets                                                      | -                                 | -                                | -                            | (5,295)                  | -                   | (5,295)        |
| Allowance for impairment losses on interest bearing financial assets, net                      | (8,526)                           | (2,973)                          | 35                           | -                        | (921)               | (12,385)       |
| Allowance for impairment losses on other financial assets, net                                 | (411)                             | (120)                            | -                            | 268                      | (35)                | (298)          |
| Recovery of provision for loan commitments, net                                                | (23)                              | 185                              | -                            | -                        | 18                  | 180            |
| <b>Financial result of segment before loss on net monetary position and income tax expense</b> | <b>128,846</b>                    | <b>(21,189)</b>                  | <b>61,837</b>                | <b>(133,457)</b>         | <b>4,155</b>        | <b>40,192</b>  |
| Loss on net monetary position                                                                  | -                                 | -                                | -                            | -                        | -                   | (21,805)       |
| <b>Profit before income tax</b>                                                                |                                   |                                  |                              |                          |                     | <b>18,387</b>  |
| Income tax expense                                                                             | -                                 | -                                | -                            | -                        | -                   | (7,333)        |
| <b>Net profit for the year</b>                                                                 |                                   |                                  |                              |                          |                     | <b>11,054</b>  |
| <i>In millions of Belarusian Roubles</i>                                                       | Services<br>to<br>individua<br>ls | Services<br>to legal<br>entities | Treasury<br>transactio<br>ns | Other/Not<br>distributed | Inflation<br>effect | Total          |
| Segment assets                                                                                 | 348,652                           | 149,608                          | 553,965                      | 65,411                   | -                   | 1,117,636      |
| Segment liabilities                                                                            | 271,338                           | 539,740                          | 36,943                       | 78,902                   | -                   | 926,923        |
| <b>Other segment information</b>                                                               |                                   |                                  |                              |                          |                     |                |
| Cash and balances with the National Bank of the Republic of                                    | -                                 | -                                | 190,564                      | -                        | -                   | 190,564        |

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|                                  |         |         |         |   |   |         |
|----------------------------------|---------|---------|---------|---|---|---------|
| Belarus                          |         |         |         |   |   |         |
| Derivative financial assets      | -       | -       | 351,701 | - | - | 351,701 |
| Due from banks                   | -       | -       | 11,700  | - | - | 11,700  |
| Loans to customers               | 347,023 | 149,414 | -       | - | - | 496,437 |
| Other assets                     | 1,629   | 194     | -       | - | - | 1,823   |
| Derivative financial liabilities | -       | -       | 8,247   | - | - | 8,247   |
| Due to banks                     | -       | -       | 28,696  | - | - | 28,696  |
| Customer accounts                | 269,601 | 539,374 | -       | - | - | 808,975 |
| Other liabilities                | 1,737   | 366     | -       | - | - | 2,103   |

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Comparative information on operating segments for 2012 is presented below:

| <i>In millions of Belarusian Roubles</i>                                                       | Services<br>to<br>individua<br>ls | Services<br>to legal<br>entities | Treasury<br>transactio<br>ns | Other/Not<br>distributed | Inflation<br>effect | Total          |
|------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|------------------------------|--------------------------|---------------------|----------------|
| Interest income                                                                                | 122,728                           | 31,688                           | 13,614                       | -                        | 16,626              | 184,656        |
| Interest expense                                                                               | (34,425)                          | (42,897)                         | (5,753)                      | (957)                    | (8,861)             | (92,893)       |
| <b>Net interest income</b>                                                                     | <b>88,303</b>                     | <b>(11,209)</b>                  | <b>7,861</b>                 | <b>(957)</b>             | <b>7,765</b>        | <b>91,763</b>  |
| Fee and commission income                                                                      | 3,396                             | 7,400                            | 2,305                        | 455                      | 2,761               | 16,317         |
| Fee and commission expense                                                                     | (168)                             | (142)                            | (597)                        | (2,192)                  | (295)               | (3,394)        |
| <b>Net fee and commission income</b>                                                           | <b>3,228</b>                      | <b>7,258</b>                     | <b>1,708</b>                 | <b>(1,737)</b>           | <b>2,466</b>        | <b>12,923</b>  |
| Net gain on derivative financial instruments                                                   | -                                 | -                                | 34,845                       | -                        | (42)                | 34,803         |
| Net (loss)/gain on foreign exchange operations                                                 | -                                 | -                                | 15,165                       | (14,804)                 | 2,316               | 2,677          |
| Net loss on financial assets available for sale                                                | -                                 | -                                | (51)                         | -                        | (4)                 | (55)           |
| Gain on change in fair value of investment property                                            | -                                 | -                                | -                            | (2,583)                  | -                   | (2,583)        |
| Other income                                                                                   | 3,982                             | 127                              | -                            | 828                      | 782                 | 5,719          |
| <b>Operating expenses</b>                                                                      | <b>95,513</b>                     | <b>(3,824)</b>                   | <b>59,528</b>                | <b>(19,253)</b>          | <b>13,283</b>       | <b>145,247</b> |
| Operating expenses                                                                             | (3,296)                           | -                                | -                            | (72,289)                 | (6,988)             | (82,573)       |
| Write-down of value of repossessed assets                                                      | -                                 | -                                | -                            | (2,390)                  | -                   | (2,390)        |
| Allowance for impairment losses on interest bearing financial assets, net                      | (4,647)                           | (1,103)                          | (2,639)                      | -                        | (1,711)             | (10,100)       |
| Allowance for impairment losses on other financial assets, net                                 | (445)                             | (392)                            | -                            | (339)                    | (17)                | (1,193)        |
| Recovery of provision for loan commitments, net                                                | (47)                              | 17                               | -                            | -                        | 42                  | 12             |
| <b>Financial result of segment before loss on net monetary position and income tax expense</b> | <b>87,078</b>                     | <b>(5,302)</b>                   | <b>56,889</b>                | <b>(94,271)</b>          | <b>4,609</b>        | <b>49,003</b>  |
| Loss on net monetary position                                                                  | -                                 | -                                | -                            | -                        | -                   | (22,718)       |
| <b>Profit before income tax</b>                                                                |                                   |                                  |                              |                          |                     | <b>26,285</b>  |
| Income tax expense                                                                             | -                                 | -                                | -                            | -                        | -                   | (9,065)        |
| <b>Net profit for the year</b>                                                                 |                                   |                                  |                              |                          |                     | <b>17,220</b>  |

| <i>In millions of Belarusian Roubles</i>                    | Services<br>to<br>individua<br>ls | Services<br>to legal<br>entities | Treasury<br>transactio<br>ns | Other/Not<br>distributed | Inflation<br>effect | Total     |
|-------------------------------------------------------------|-----------------------------------|----------------------------------|------------------------------|--------------------------|---------------------|-----------|
| Segment assets                                              | 330,436                           | 142,217                          | 585,258                      | 68,303                   | -                   | 1,126,214 |
| Segment liabilities                                         | 354,195                           | 495,986                          | 20,582                       | 70,359                   | -                   | 941,122   |
| <b>Other segment information</b>                            |                                   |                                  |                              |                          |                     |           |
| Cash and balances with the National Bank of the Republic of | -                                 | -                                | 143,918                      | -                        | -                   | 143,918   |

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|                                  |         |         |         |   |   |         |
|----------------------------------|---------|---------|---------|---|---|---------|
| Belarus                          |         |         |         |   |   |         |
| Derivative financial assets      | -       | -       | 349,516 | - | - | 349,516 |
| Due from banks                   | -       | -       | 91,825  | - | - | 91,825  |
| Loans to customers               | 328,855 | 142,081 | -       | - | - | 470,936 |
| Other assets                     | 1,581   | 135     | -       | - | - | 1,716   |
| Derivative financial liabilities | -       | -       | 15,421  | - | - | 15,421  |
| Due to banks                     | -       | -       | 5,161   | - | - | 5,161   |
| Customer accounts                | 352,222 | 459,352 | -       | - | - | 811,574 |
| Debt securities issued           | -       | 36,207  | -       | - | - | 36,207  |
| Other liabilities                | 1,973   | 427     | -       | - | - | 2,400   |

Information on structure of interest and fee and commission income and expenses of the Bank by types of activities is presented in Notes 21, 22.

### 36. Related parties transactions

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting, attraction of resources and other transactions. Based on the Bank's policy all transactions with related parties shall be performed on the same terms as transactions with independent parties, except for subordinated loan received under favourable terms from EBRD (Note 18). As of 31 December 2013 interest rates on foreign currency loans to related parties were 13-14% per annum, average rates on borrowings in Belarusian roubles were 35-40%.

Balances of transactions with related parties as at 31 December 2013 are presented below:

| <i>In millions of Belarusian Roubles</i>                                        | <b>Shareholders</b> | <b>Entities under common control</b> | <b>Key management personnel</b> |
|---------------------------------------------------------------------------------|---------------------|--------------------------------------|---------------------------------|
| Loans to customers                                                              | 6,952               | 22,040                               | 118                             |
| Allowance for impairment                                                        | -                   | -                                    | (1)                             |
| Loans to customers (less allowance for impairment)                              | 6,952               | 22,040                               | 117                             |
| Derivative financial liabilities (Swap contracts with foreign currency BYR/USD) | 8,247               | -                                    | -                               |
| Nominal amount of purchased currency (BYR)                                      | 3,940               | -                                    | -                               |
| Nominal amount of currency to be sold (USD)                                     | 11,412              | -                                    | -                               |
| Subordinated loans                                                              | 54,349              | -                                    | -                               |
| Customer accounts                                                               | 84                  | 1,184                                | 1,011                           |



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Balances of transactions with related parties as at 31 December 2012 are presented below:

| <i>In millions of Belarusian Roubles</i>                                        | <b>Shareholders</b> | <b>Entities under common control</b> | <b>Key management personnel</b> |
|---------------------------------------------------------------------------------|---------------------|--------------------------------------|---------------------------------|
| Loans to customers                                                              | 21,744              | 6,011                                | 71                              |
| Allowance for impairment                                                        | -                   | -                                    | -                               |
| Loans to customers (less allowance for impairment)                              | 21,744              | 6,011                                | 71                              |
| Derivative financial liabilities (Swap contracts with foreign currency BYR/USD) | 15,421              | -                                    | -                               |
| <i>Nominal amount of purchased currency (BYR)</i>                               | 8,412               | -                                    | -                               |
| <i>Nominal amount of currency to be sold (USD)</i>                              | 22,059              | -                                    | -                               |
| Due to banks                                                                    | 4,391               | -                                    | -                               |
| Subordinated loans                                                              | 54,801              | -                                    | -                               |
| Customer accounts                                                               | 3,643               | 3,232                                | 1,294                           |

Loan commitments with related parties as at 31 December 2013 and 2012 are presented below:

| <i>In millions of Belarusian Roubles</i>   | <b>Shareholders</b> | <b>Entities under common control</b> | <b>Key management personnel</b> |
|--------------------------------------------|---------------------|--------------------------------------|---------------------------------|
| Unused credit lines as at 31 December 2013 | -                   | -                                    | 86                              |
| Unused credit lines as at 31 December 2012 | -                   | -                                    | 124                             |

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The income and expenses on transactions with related parties for 2013 are presented below:

| <i>In millions of Belarusian Roubles</i>     | <b>Shareholders</b> | <b>Entities under common control</b> | <b>Key management personnel</b> |
|----------------------------------------------|---------------------|--------------------------------------|---------------------------------|
| Interest income                              | 912                 | 286                                  | 3                               |
| Interest expenses                            | (3,952)             | (216)                                | (124)                           |
| Fee and commission income                    | 433                 | 45                                   | -                               |
| Expenses on derivative financial instruments | (750)               | -                                    | -                               |
| Expenses on operating lease                  | (9,954)             | (3,330)                              | -                               |

The income and expenses on transactions with related parties for 2012 are presented below:

| <i>In millions of Belarusian Roubles</i>     | <b>Shareholders</b> | <b>Entities under common control</b> | <b>Key management personnel</b> |
|----------------------------------------------|---------------------|--------------------------------------|---------------------------------|
| Interest income                              | 447                 | 48                                   | 17                              |
| Interest expenses                            | (5,743)             | (285)                                | (198)                           |
| Fee and commission income                    | 9                   | 28                                   | -                               |
| Expenses on derivative financial instruments | (624)               | -                                    | -                               |
| Expenses on operating lease                  | (546)               | (14,145)                             | -                               |

The information on payments to key management personnel and members of the Board of Directors for 2013 and 2012 is presented below:

| <i>In millions of Belarusian Roubles</i>          | <b>2013</b> | <b>2012</b> |
|---------------------------------------------------|-------------|-------------|
| Salary and other short-term personnel expenses    | 2,802       | 3,318       |
| Remuneration to the members of Board of Directors | 842         | 1,081       |

### 37. Uncertainties

#### *Operating environment*

Emerging markets including the Republic of Belarus are subject to economic, political, social, legal and legislative risks, which are different from the risks of more developed markets. As previously, estimated or actual financial difficulties in countries with developing economies or increase of investment risks levels in these countries could adversely affect the economy and investment climate in the Republic of Belarus.

The global financial system continues to face serious problems. In many countries the rates of economic growth have decreased. Moreover, the uncertainty increased regarding the creditworthiness of several Euro zone countries and financial institutions which carry significant risks on the sovereign debt of these countries. These problems can result in slower global growth rate and the growth rate of the Belarusian economy, adversely affect the availability and cost of capital for the Bank, as well as the business of the Bank in general, results of its operations, financial position and prospects of development.



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## NOTES TO THE FINANCIAL STATEMENTS

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### ***Economy of the Republic of Belarus***

At present the economy of the Republic of Belarus is characterized by relatively high rates of taxation and extensive statutory regulation. Laws and regulations defining the business environment in the Republic of Belarus and still being developed are subject to frequent changes and varying interpretations, which causes difficulties for banks operating in the Republic of Belarus. The future economic development depends to a large extent on the efficiency of the measures taken by the Government of the Republic of Belarus and other actions beyond the Bank's control. The future direction of the economic policy of the Government of the Republic of Belarus can have an effect on the recoverability of the Bank's assets and the ability of the Bank to maintain or pay its debts as they mature as well as future activity of the Bank.

The management of the Bank has made its best estimate on the recoverability and classification of assets and completeness of liabilities. However, the uncertainty described above still exists and the Bank may continue to be affected by it.

### ***Refinancing rate of the National Bank of the Republic of Belarus***

During the year 2013 the National Bank of the Republic of Belarus gradually decreased the refinancing rate from 30% as at the beginning of the year to 23.5% as at 31 December 2013. As at the end of 2013 the Standard & Poor's Rating Services confirmed long-term credit rating of the Republic of Belarus for national and foreign currency liabilities on "B-" level. The prediction for ratings is set as stable.

### **38. Subsequent events**

In January 2014 an office building, which had been previously rent out to the Bank under operating lease, was transferred to the Bank by its shareholder LLC "Dikris" as non-monetary contribution to the share capital. The contribution amounted to BYR 74 000 million (Note 2). For the purposes of non-monetary contribution to the share capital the value of the building was defined by an independent professional valuer and confirmed by an assessment performed in accordance with the laws of the Republic of Belarus.

The General Meeting of Shareholders of CJSC "RRB-Bank" held on 28.03.2014 decided not to pay fixed dividends on preference shares for 2013 (Notes 2, 19).

On 16 April 2014 the refinancing rate was decreased to 22.5%.

*Sonyeno S. P. U. Kapzinski*