Translation from original in Russian

OJSC "Paritetbank"

Financial statements

Year ended 31 December 2013
together with independent auditors' report

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Translation from original in Russian

Совершенствуя бизнес, улучшаем мир

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Independent auditor's report on the financial statements of Open Joint Stock company "Paritetbank" for the period ended 31 December 2013

To the Chairman of the Management Board
of Open Joint Stock Company "Paritetbank"
Mr. V.N. Gorozhankin

To the shareholders and Supervisory Council of Open Joint Stock Company "Paritetbank"

We have audited the accompanying financial statements of Open Joint Stock Company "Paritetbank", which comprise the statement of financial position as at 31 December 2013, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 2013, and a summary of significant accounting policies and other explanatory information.

Audited entity's responsibility for the financial statements

Management of the audited entity is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, including for the development, implementation and maintaining of an appropriate system of internal control as management determines it necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for selection and application of an appropriate accounting policy and reasonable estimates.

Auditor's responsibility

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

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

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

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

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

18 April 2014

Details of the audited entity

Name: Open Joint-Stock Company "Paritetbank"
Data on registration by the National Bank of the Republic of Belarus on 15 May 1991. Registration No. 5.
Address: Republic of Belarus 220002, Minsk, str. Kiseleva, 61 a.

Details of the auditor

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

Statement of financial position

As at 31 December 2013

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

	Notes	*2013*	*2012*
Assets			
Cash and cash equivalents	5	267,626	200,460
Amounts due from credit institutions	6	9,111	7,783
Derivative financial assets	7	175,340	175,833
Loans to customers	8	747,963	557,055
Assets held for sale	9	6,479	6,131
Available-for-sale investments	10	49,388	6,284
Property and equipment	11	88,463	90,916
Intangible assets	12	2,887	3,158
Current income tax assets		–	170
Deferred income tax assets	13	10,045	–
Other assets	15	6,738	6,740
Total assets		**1,364,040**	**1,054,530**
Liabilities			
Amounts due to credit institutions	16	103,852	16,588
Derivative financial liabilities		132	29
Amounts due to customers	17	771,338	718,509
Current income tax liabilities		3,787	–
Other liabilities	15	7,205	9,756
Total liabilities		**886,314**	**744,882**
Equity			
Share capital	18	1,036,763	886,763
Fair value revaluation reserve for investments available-for-sale		–	(1,027)
Treasury shares		(1,172)	–
Accumulated loss		(557,865)	(576,088)
Total equity		**477,726**	**309,648**
Total equity and liabilities		**1,364,040**	**1,054,530**

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

V.N. Gorozhankin Chairman of the Management Board

M.M. Abramenko Chief Accountant

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

18 April 2014

Statement of profit or loss

For the year ended 31 December 2013

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

	Notes	*2013*	*2012*
Interest income			
Loans to customers		195,394	167,116
Amounts due from credit institutions		11,350	11,197
Available-for-sale investments		8,974	9,922
Interest expense			
Amounts due to customers		(75,163)	(80,956)
Amounts due to credit institutions		(16,326)	(10,547)
Debt securities issued		(897)	(6,286)
Net interest income		**123,332**	**90,446**
Allowance for loan impairment		(4,751)	(8,336)
Net interest income after allowance for loan impairment		**118,581**	**82,110**
Net fee and commission income	20	22,882	19,201
Net gains/(losses) from investment securities available-for-sale		(789)	300
Net gains/(losses) from foreign currencies:			
- dealing		10,249	16,610
- translation differences		(28,361)	(8,468)
Net gains from derivative financial instruments	24	26,175	52,326
Other income	21	6,428	10,136
Non-interest income		**36,584**	**90,105**
Personnel expenses	22	(51,608)	(53,312)
Depreciation and amortization	11, 12	(8,608)	(8,748)
Other operating expenses	22	(45,788)	(45,798)
Other impairment and provisions (reversal)	14	607	(759)
Non-interest expense		**(105,397)**	**(108,617)**
Profit before income tax expense on net monetary position		**49,768**	**63,598**
Loss on net monetary position resulting from hyperinflation		(31,716)	(13,201)
Profit before income tax expense and after loss on net monetary position		**18,052**	**50,397**
Income tax benefit/(expense)	13	1,488	(5,306)
Profit for the year		**19,540**	**45,091**

Statement of comprehensive income

For the year ended 31 December 2013

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

	Notes	2013	2012
Profit for the year		**19,540**	**45,091**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Comprehensive gains/(losses) on disposal of available-for-sale investments reclassified to the statement of profit or loss		789	(300)
Unrealized gains/(losses) on available-for-sale investments		238	2,638
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,027**	**2,338**
Other comprehensive income for the year, net of tax		**1,027**	**2,338**
Total comprehensive income for the year		**20,567**	**47,429**

Statement of changes in equity

For the year ended 31 December 2013

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

	Share capital	*Treasury shares*	*Accumulated loss*	*Fair value revaluation reserve for available-for-sale investments*	*Total*
31 December 2011	**787,077**	**–**	**(620,156)**	**(3,365)**	**163,556**
Profit for the year	–	–	45,091	–	45,091
Other comprehensive income for the year	–	–	–	2,338	2,338
Total comprehensive income for the year	**–**	**–**	**45,091**	**2,338**	**47,429**
Increase in share capital	99,686		–	–	99,686
Dividends declared	–		(1,023)	–	(1,023)
31 December 2012	**886,763**	**–**	**(576,088)**	**(1,027)**	**309,648**
Profit for the year	–	–	19,540	–	19,540
Other comprehensive income for the year	–	–	–	1,027	1,027
Total comprehensive income for the year	**–**	**–**	**19,540**	**1,027**	**20,567**
Increase in share capital (Note 18)	150,000	–	–	–	150,000
Dividends declared (Note 18)	–	–	(1,317)	–	(1,317)
Purchase of treasury shares	–	(1,172)	–	–	(1,172)
At 31 December 2013	**1,036,763**	**(1,172)**	**(557,865)**	**–**	**477,726**

Statement of cash flows

For the year ended 31 December 2013

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

	Notes	*2013*	*2012*
Cash flows from operating activities			
Profit before income tax expense and after loss on net monetary position		18,052	50,397
Adjustments for:			
Depreciation		8,608	8,748
Allowance for loan impairment		4,751	8,336
Allowance / (reversal of allowance) for loan impairment		(607)	761
Loss on disposal of property and equipment and intangible assets	22	58	75
Loss on impairment of property and equipment		–	1,507
Net change in interest accruals		(11,526)	3,193
Gain on revaluation of derivative financial instruments		(26,068)	(37,659)
Unused vacation and bonus accrual		32	2,177
Amortization of discount on financial instruments with non-market terms and amortization of commission on loans		–	3,665
Loss from translation differences		28,361	8,468
Loss on write-off of office equipment	22	1,044	584
Assets received as debt repayment under the loan agreements		(486)	(4,529)
Gains on disposal of non-current assets held for sale	21	(261)	(5,619)
Other adjustments		–	2,479
Hyperinflation effect		29,960	13,201
Cash flows from operating activities before changes in operating assets and liabilities		**51,918**	**55,784**
Net increase/(decrease) in operating liabilities			
Amounts due from credit institutions		(564)	14,900
Loans to customers		(239,310)	(70,045)
Derivative financial instruments		23	98,323
Other assets		1,892	1,774
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		81,773	(137,372)
Amounts due to customers		101,965	(14,697)
Other liabilities		(3,586)	166
Net cash flows from operating activities before income tax		**(5,889)**	**(51,167)**
Income tax paid		(4,624)	(8,146)
Net cash used in operating activities		**(10,513)**	**(59,313)**
Cash flows from investing activities			
Purchase of property and equipment and intangible assets		(7,202)	(6,278)
Acquisition of available-for-sale investments		(48,226)	–
Proceeds from sale of property and equipment and intangible assets		132	4
Proceeds from sale of assets held for sale		138	8,942
Proceeds from redemption of available-for-sale investments, net		10,138	11,694
Net cash from / (used in) investing activities		**(45,020)**	**14,362**

Statement of cash flows (continued)

For the year ended 31 December 2013

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

	Notes	*2013*	*2012*
Cash flows from financing activities			
Issue of ordinary shares		150,000	99,686
Purchase of treasury shares		(1,172)	–
Net outflow from redemption of debt securities		–	(57,578)
Dividends paid		(1,256)	(1,014)
Net cash from financing activities		**147,572**	**41,094**
Net increase/(decrease) in cash and cash equivalents		**92,039**	**(3,857)**
Effect of exchange rates changes on cash and cash equivalents		3,636	724
Effect of hyperinflation on cash and cash equivalents		(28,509)	(31,027)
Net increase/(decrease) in cash and cash equivalents		**67,166**	**(34,160)**
Cash and cash equivalents, beginning		**200,460**	**234,620**
Cash and cash equivalents, ending	5	**267,626**	**200,460**

Interest paid and received by the Bank during the year ended 31 December 2013 amounted to BYR 92,386 million and BYR 215,718 million, respectively.

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to BYR 87,537 million and BYR 180,312 million, respectively.

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

1. Principal activities

Commercial Bank "Poisk" (hereinafter - the "Bank") was registered by the National Bank of the Republic of Belarus (hereinafter – "NBRB) under number 5 of May 15, 1991. In 1992 the Bank was reorganized as SCB "Poisk" (Meeting of shareholders as of March 12, 1992, minute №1) and registered in NBRB on July 2, 1992 under number 5. In 1999 the National Bank of the Republic of Belarus became the principal shareholder of the Bank. On November 21, 2000 NBRB registered amendments and additions to the Statute of SCB "Poisk", accepted by the meeting of the Bank's shareholders on September 21, 2000 (minute №2) and connected with changes in the name to the OJSC "Bank"Poisk". On March 26, 2004 General shareholders meeting decided to rename OJSC "Bank "Poisk" to OJSC "Paritetbank". Changes were registered by NBRB on May 5, 2004 under number 5.

The Bank's primary areas of operations include granting loans to customers, money transfers, foreign currency transactions on the behalf of the customers and in its own name as well as fund raising and securities operations. The Bank was granted banking license No. 5 issued on 8 May 2013, the Bank also possesses a license for securities and stock exchange operations.

The Bank has 19 structural divisions in the Republic of Belarus and a head office, located in Minsk and having its registered address at 220002, Republic of Belarus, Minsk, str. Kiseleva, 61 a.

As of 31 December 2013 and 2012, the Bank's share capital is distributed among its shareholders as follows:

Shareholder	***2013, %***	***2012, %***
The National Bank of the Republic of Belarus	99.65	99.36
Other	0.35	0.64
Total	**100.00**	**100.00**

The Bank is ultimately controlled by the National Bank of the Republic of Belarus, the latter is agency of state administration.

The Bank has the following investments in associates:

		Ownership interest		*Business*
Name	*Country of operation*	**2013**	**2012**	*activity*
LLC "Investment Company "Paritet"	Republic of Belarus	–	50.0%	Finance lease

Associate was accounted for under the equity method. Total unrecognized share of the Bank in loss of its associate for the year ended 31 December 2012 amounted to BYR 2,388 million. As of 31 December 2012, unrecognized share of the Bank in accumulated loss of its associate amounted to BYR 4,758 million (cumulative total). In 2013 the Bank ceased to recognize investments in its associate taking amounts of investments to the Bank's expenses in line "Other operating expense".

These financial statements were approved by the Bank's Management Board on 18 April 2014.

2. Basis of preparation

General

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

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

Inflation accounting

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

These financial statements are presented in millions of Belarusian rubles (hereinafter - "BYR million"), unless otherwise indicated.

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

2 Basis of preparation (continued)

Inflation accounting (continued)

With effect from 1 January 2012, the Belarusian economy is considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*. Accordingly, adjustments and reclassifications for the purposes of presentation of the IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian ruble. The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date.

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

Year	*Index, %*	*Conversion factor*
2006	106.5	454.6
2007	112.0	405.9
2008	113.4	357.9
2009	109.9	325.7
2010	110.0	296.1
2011	208.7	141.9
2012	121.8	116.5
2013	116.5	100.0

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

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

Reclassifications

The following reclassifications have been made to 2012 balances to conform to the 2013 presentation:

Line item in the statement of financial position	***Line item in the statement of financial position as previously reported***	***Reclassification***
Cash and cash equivalents	Cash and balances with the National Bank of the Republic of Belarus	19,694
Amounts due from credit institutions	Amounts due from banks and other financial institutions	(19,694)

3. Summary of accounting policies

Changes in accounting policies

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

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

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

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* The Bank provided these disclosures in Note 24.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. A subsidiary controlled with less than a majority of voting rights can serve as an example. IFRS 12 disclosures are provided in Notes 4, 15.

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

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

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

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognized in profit or loss, and its share of movements in reserves is recognized in other comprehensive income. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

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

3. Summary of accounting policies (continued)

Investments in associates (continued)

Unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 24.

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

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

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

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

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

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

3. Summary of accounting policies (continued)

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

Reclassification of financial assets

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

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of the Republic of Belarus (hereinafter - "NBRB"), excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

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

Borrowings

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

3. Summary of accounting policies (continued)

Leases

i. Finance – Bank as lessor

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

ii. Operating – Bank as lessee

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

iii. Operating – Bank as lessor

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

Measurement of financial instruments at initial recognition

When financial instruments are recognized initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

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

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

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

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

Available-for-sale financial investments

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.
Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in profit and loss on a straight-line basis over the life of the guarantee.

Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus based on the results recorded in the Bank's separate statement of comprehensive income prepared in accordance with the BAS including adjustments for tax purposes.

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

3. Summary of accounting policies (continued)

Taxation (continued)

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available in the future, against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property and equipment

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

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

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

	Years
Buildings and facilities	8-100
Computers	2-10
Motor vehicles	7-10
Office furniture and other property and equipment	5-10

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 50 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Assets classified as held for sale

The Bank classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank’s management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of the date of classification of the non-current asset (or disposal group) as held for sale.

3. Summary of accounting policies (continued)

Assets classified as held for sale (continued)

The Bank measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-off of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Provisions

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

Share capital

Share capital

Ordinary shares and non-redeemable preferred shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Where the Bank purchases the Bank's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from total equity as treasury shares until they are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are stated at weighted average cost.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

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

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

- *Fee income from providing transaction services*

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

Dividend income

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. The official NBRB exchange rates as of 31 December 2013 and 31 December 2012 were BYR 9,510 and BYR 8,570 to 1 USD, respectively.

Standards and interpretations issued but not yet effective

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

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

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

3. Summary of accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

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

4. Significant accounting judgments and estimates

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

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Fair value of financial instruments

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

Deferred tax assets

Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Useful lives of property and equipment

The Bank reviews useful lives of property and equipment at least at each financial year-end. If expectations differ from previous estimates, changes are treated as changes in accounting estimates. These estimates may have a material impact on the carrying amounts of property and equipment and on depreciation recognized in the statement of profit or loss.

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

5. Cash and cash equivalents

As of 31 December, cash and cash equivalents comprised:

	2013	*2012*
Cash on hand	74,085	45,951
Current accounts with the NBRB	156,143	127,032
Current accounts with other credit institutions	16,401	20,888
Time deposits with credit institutions up to 90 days	20,997	6,589
Cash and cash equivalents	**267,626**	**200,460**

As of 31 December 2013, BYR 18,754 million (2012 – BYR 16,397 million) was placed on current accounts and inter-bank deposits with six (2012 – seven) internationally recognized OECD banks, which are the main counterparties of the Bank in performing international settlements.

6. Amounts due from credit institutions

As of 31 December, amounts due from credit institutions comprised:

	2013	*2012*
Obligatory reserve with the NBRB	8,157	7,783
Guarantee deposits	954	–
Amounts due from credit institutions	**9,111**	**7,783**

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

7. Derivative financial instruments

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

	2013			*2012*		
	Notional	***Fair values***		***Notional***	***Fair values***	
	amount	***Asset***	***Liability***	***amount***	***Asset***	***Liability***
Foreign exchange contracts						
Swaps – foreign	86,634	170	–	8,683	2	5
Swaps – domestic	340,882	175,170	132	272,134	175,831	24
Total derivative assets/liabilities	427,516	**175,340**	**132**	280,817	**175,833**	**29**

In the table above domestic contracts represent deals with Belarusian entities and foreign contracts represent deals with counterparties which are non-Belarusian entities.

As of 31 December 2013 and 2012, the Bank has positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

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

8. Loans to customers

As of 31 December, loans to customers comprised:

	2013	*2012*
Corporate lending	626,217	462,357
Consumer lending	159,511	134,021
Net investment in finance leases	526	902
Gross loans to customers	**786,254**	**597,280**
Less: allowance for impairment	(38,291)	(40,225)
Loans to customers	**747,963**	**557,055**

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

	Corporate lending	*Consumer lending*	*Net investment in finance leases*	*Total*
At 1 January 2013	**34,907**	**5,309**	**9**	**40,225**
Charge/(reversal) for the year	(5,400)	10,111	40	4,751
Amounts written off	(1,157)	(555)	–	(1,712)
Hyperinflation effect	(4,098)	(874)	(1)	(4,973)
At 31 December 2013	**24,252**	**13,991**	**48**	**38,291**
Individual impairment	9,018	–	–	9,018
Collective impairment	15,234	13,991	48	29,273
	24,252	**13,991**	**48**	**38,291**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**123,801**	**–**	**–**	**123,801**

	Corporate lending	*Consumer lending*	*Net investment in finance leases*	*Total*
At 1 January 2012	**35,043**	**5,941**	**–**	**40,984**
Charge for the year	7,601	726	9	8,336
Amounts written off	(664)	(158)	–	(822)
Hyperinflation effect	(7,073)	(1,200)	–	(8,273)
At 31 December 2012	**34,907**	**5,309**	**9**	**40,225**
Individual impairment	21,484	–	–	21,484
Collective impairment	13,423	5,309	9	18,741
	34,907	**5,309**	**9**	**40,225**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**188,149**	**–**	**–**	**188,149**

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2013, comprised BYR 30,606 million (2012: BYR 53,725 million).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2013 amounts to BYR 93,323 million (2012 - BYR 107,637 million).

Loans may be written off through the use of the allowance account in cases when it was determined that the probability of repayment is remote upon the decision of the Credit Committee, which was approved by the Board of Directors.

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

8. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, inventory and trade receivables;
- For consumer lending – surety, charges over residential properties and vehicles;
- For finance lease – usually no additional to the leased equipment collateral is obtained.

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

Concentration of loans to customers

As of 31 December 2013, the Bank had a concentration of loans represented by BYR 293,624 million due from the ten largest third party borrowers (39% of gross loan portfolio) (2012: BYR 217,923 million or 39% of gross loan portfolio). An individual impairment allowance of BYR 7,486 million was recognized against these loans as of 31 December 2013 (2012: BYR 14,596 million).

During the years 2009-2011 the Bank issued construction loans to the employees working for one of its customers, which is a related party to the Bank. The nominal loans issued as of 31 December 2013 and 2012 amounted to BYR 20,046 million and BYR 18,382 million, respectively. The loans were issued with a maturity of up to 20 years bearing interest of 4.75% per annum, which is much lower than market rate level for similar financial instruments. These loans were issued using amounts received from this customer as deposits and placed in the Bank at an interest rate of 0.01% with maturity of 3 years, which is also much lower than market rate. Deposits with a nominal value of BYR 61,707 million as of 31 December 2012 were closed in 2013. In accordance with customer agreement at the date of loan issue the balance between the deposit placed and loans issued by the Bank had to be not less than the established ratio, moreover the client had no option to withdraw the placed deposit before expiry of a 3-year period The Bank bears all credit risks in the event the loans issued will not be repaid. Loans issued and the deposit placed are initially recognized at approximate fair value using corresponding discount methods and the effective interest rate method with subsequent measurements at amortized cost. As of 31 December 2013 and 2012 the carrying amount of loans was BYR 9,632 million and BYR 11,941 million respectively. The carrying amount of deposits was BYR 58,498 million as of 31 December 2012 and was repaid during 2013.

Loans have been extended to the following types of customers:

	2013	***2012***
Legal entities	626,743	463,259
Individuals	159,511	134,021
	786,254	**597,280**

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

	2013	***2012***
Trade and catering	271,941	157,023
Individuals	159,511	134,021
Manufacturing	153,100	111,250
Transport	71,180	80,847
Leasing companies	30,051	49,713
Real estate construction	50,490	17,523
Agriculture	14,917	9,674
Real estate transactions	9,778	13,360
Individual entrepreneurs	3,207	3,887
Other	22,079	19,982
	786,254	**597,280**
Less: allowance for impairment	(38,291)	(40,225)
Total loans to customers	**747,963**	**557,055**

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

8. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans to customers include finance lease receivables. The analysis of finance lease receivables is as follows:

	2013	*2012*
Gross investment in finance leases receivable:		
Not later than 1 year	466	615
Later than 1 year and not later than 5 years	363	896
	829	**1,511**
Unearned future finance income on finance leases	(303)	(609)
Net investment in finance leases	**526**	**902**

	2013	*2012*
Net investment in finance leases receivable:		
Not later than 1 year	248	290
Later than 1 year and not later than 5 years	278	612
Net investment in finance leases	**526**	**902**

9. Assets held for sale

As of 31 December 2013 and 2012, assets held for sale included property (primarily, real estate) transferred to the Bank as repayment of loans in the amount of BYR 6,479 million and BYR 6,131 million, respectively. As of 31 December 2013, the Bank's management approved a plan to sell the property. The Bank plans to complete the sales of these assets in 2014.

10. Available-for-sale investments

Available-for-sale securities comprise:

	2013	*2012*
Government bonds	38,335	–
Corporate bonds	10,995	6,226
Equity securities	58	58
Available-for-sale investments	**49,388**	**6,284**

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings and structures	*Computers*	*Motor vehicles*	*Office furniture and other property and equipment*	*Assets under construction*	*Total*
Cost						
31 December 2012	**70,331**	**18,636**	**4,218**	**31,510**	**3,331**	**128,026**
Additions	208	3,307	–	1,409	59	4,983
Transfers	78	–	–	356	(434)	–
Disposals	–	(4)	–	(2,739)	(153)	(2,896)
31 December 2013	**70,617**	**21,939**	**4,218**	**30,536**	**2,803**	**130,113**
Accumulated depreciation						
31 December 2012	**6,296**	**12,733**	**2,020**	**16,061**	**–**	**37,110**
Depreciation charge	1,512	1,166	520	4,072	–	7,270
Disposals	–	(4)	–	(2,726)	–	(2,730)
31 December 2013	**7,808**	**13,895**	**2,540**	**17,407**	**–**	**41,650**
Net book value:						
31 December 2012	**64,035**	**5,903**	**2,198**	**15,449**	**3,331**	**90,916**
31 December 2013	**62,809**	**8,044**	**1,678**	**13,129**	**2,803**	**88,463**

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

11. Property and equipment (continued)

	Buildings and structures	*Computers*	*Motor vehicles*	*Office furniture and other property and equipment*	*Assets under construction*	*Total*
Cost						
31 December 2011	**66,175**	**18,380**	**4,218**	**31,540**	**4,871**	**125,184**
Additions	5,281	1,070	–	1,137	424	7,912
Transfers	383	39	–	485	(907)	–
Transfers to intangible assets	–	–	–	–	(1,057)	(1,057)
Impairment	(1,508)	–	–	–	–	(1,508)
Disposals	–	(853)	–	(1,652)	–	(2,505)
31 December 2012	**70,331**	**18,636**	**4,218**	**31,510**	**3,331**	**128,026**
Accumulated depreciation						
31 December 2011	**4,863**	**10,916**	**1,495**	**15,195**	**–**	**32,469**
Depreciation charge	1,433	2,668	525	2,497	–	7,123
Disposals	–	(851)	–	(1,631)	–	(2,482)
31 December 2012	**6,296**	**12,733**	**2,020**	**16,061**	**–**	**37,110**
Net book value:						
31 December 2011	**64,742**	**15,712**	**3,693**	**29,043**	**4,871**	**118,061**
31 December 2012	**64,035**	**5,903**	**2,198**	**15,449**	**3,331**	**90,916**

As of 31 December 2013, the Bank had no equipment held under finance leases; in 2012, the carrying amount of equipment held under finance leases was BYR 2,360 million.

12. Intangible assets

The movements in intangible assets were as follows:

	Computer software	
	2013	***2012***
Cost		
1 January	**5,707**	**4,726**
Additions	1,091	1,131
Transfers	–	1,057
Disposals	(976)	(1,207)
31 December	**5,822**	**5,707**
Accumulated depreciation		
1 January	**2,549**	**2,131**
Amortization charge	1,338	1,625
Disposals	(952)	(1,207)
31 December	**2,935**	**2,549**
Net book value:		
1 January	**3,158**	**2,595**
31 December	**2,887**	**3,158**

13. Taxation

The corporate income tax expense comprises:

	2013	***2012***
Current tax charge	10,027	5,306
Deferred tax credit — origination and reversal of temporary differences	(11,515)	–
Income tax (benefit)/expense	**(1,488)**	**5,306**

The tax rate for banks for profits other than on government securities was 18% in 2013 and 2012.

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

13. Taxation (continued)

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

	2013	*2012*
Profit before income tax expense	**18,052**	**50,397**
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	**3,249**	**9,071**
Tax exempt income	(1,546)	(1,792)
Non-deductible expenses:		
- charity	138	–
- remuneration, bonuses and financial assistance to employees	767	1,406
- other	249	370
Change in unrecognized deferred tax assets	(10,365)	(7,047)
Statutory revaluation	(2,392)	(5,498)
Hyperinflation effect	8,412	8,796
Income tax expense	**(1,488)**	**5,306**

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

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*			
	2011	*In profit for the year*	*In other comprehensive income*	*Hyperinflation effect*	*2012*	*In profit for the year*	*In other comprehensive income*	*Hyperinflation effect*	*2013*
Tax effect of deductible temporary differences:									
Property and equipment and intangible assets	3,626	944	1,508	(513)	5,565	2,113	–	(787)	6,891
Loans to customers	6,955	(501)	–	(984)	5,470	(2,096)	–	(774)	2,600
Other liabilities	1,117	(96)	–	(158)	863	(123)	–	(123)	617
Other assets	(544)	771	–	76	303	551	–	(43)	811
Available-for-sale investments	544	–	(418)	(77)	49	–	–	(8)	41
Deferred tax assets	**11,698**	**1,118**	**1,090**	**(1,656)**	**12,250**	**445**	**–**	**(1,735)**	**10,960**
Tax effect of taxable temporary differences:									
Amounts due from banks and other financial institutions	165	(130)	–	(23)	12	104	–	(1)	115
Amounts due to customers	2,660	(1,706)	–	(376)	578	(415)	–	(81)	82
Derivative financial instruments	(8,539)	8,626	–	1,208	1,295	(394)	–	(183)	718
Deferred tax liabilities	**(5,714)**	**6,790**	**–**	**809**	**1,885**	**(705)**	**–**	**(265)**	**915**
Net deferred tax assets/(liabilities)	**17,412**	**(5,672)**	**1,090**	**(2,465)**	**10,365**	**1,150**	**–**	**(1,470)**	**10,045**
Unrecognized deferred tax asset	(17,412)	5,672	(1,090)	2,465	(10,365)	10,365	–	–	–
Net deferred tax asset	**–**	**–**	**–**	**–**	**–**	**11,515**	**–**	**(1,470)**	**10,045**

14. Allowance for impairment of other assets

The movements in allowance for impairment of other assets were as follows:

	Other assets
31 December 2011	**–**
Charge	759
Hyperinflation effect	(59)
31 December 2012	**700**
Reversal	(607)
Hyperinflation effect	(93)
31 December 2013	**–**

Allowance for impairment of assets is deducted from the carrying amounts of the related assets.

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

15. Other assets and liabilities

Other assets comprise:

	2013	***2012***
Prepayments	1,799	3,346
Accrued income	1,698	791
Prepayments for property and equipment.	1,136	8
Taxes reimbursable, other than income tax	921	1,398
Materials	255	70
Other	929	1,827
Less: allowance for impairment of other assets	–	(700)
Other assets	**6,738**	**6,740**

Other liabilities comprise:

	2013	***2012***
Settlements with employees	4,006	3,974
Settlements with other creditors	760	1,750
Taxes payable other than income tax	774	1,978
Dividends payable to shareholders of the Bank	16	25
Liabilities under finance lease agreements	–	540
Deferred income	18	–
Other	1,631	1,489
Other liabilities	**7,205**	**9,756**

As of 31 December 2013, the Bank had no liabilities under finance lease agreements.

Liabilities under finance lease agreements as of 31 December 2012 are analyzed as follows:

	Not later than 1 year	***Later than 1 year and not later than 5 years***	***Total***
Minimum lease payments	510	373	883
Future finance costs	(190)	(153)	(343)
Net liabilities under finance lease agreements	**320**	**220**	**540**

As of 31 December 2013 and 2012, other financial assets included investments in associates disclosed below:

Associate	**Ownership interest**	**31 December 2013**	**Ownership interest**	**31 December 2012**
LLC "Investment Company Paritet"	–	–	50%	83

The associate was accounted for under the equity method. Total unrecognized share of the Bank in the associate's loss for the year ended 31 December 2012 amounted to BYR 2,388 million. As of 31 December 2012, unrecognized share of the Bank in the associate's accumulated loss amounted to BYR 4,758 million (cumulative total). In 2013, the Bank derecognized investments in the associate and included the respective amounts in line "Other operating expense".

16. Amounts due to credit institutions

As of 31 December, amounts due to credit institutions comprise:

	2013	***2012***
Current accounts	176	2,059
Time deposits	103,676	14,529
Amounts due to credit institutions	**103,852**	**16,588**

As of 31 December 2013 and 2012, amounts due to banks included funds of BYR 63,910 million (62% of the total balance) received from one bank and funds of BYR 16,405 million (99% of the total balance) received from two banks, respectively.

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

17. Amounts due to customers

As of 31 December, amounts due to customers comprise:

	2013	*2012*
Current accounts	87,645	124,953
Time deposits	683,693	593,556
Amounts due to customers	**771,338**	**718,509**

As of 31 December 2013, amounts due to customers of BYR 127,885 million (17%) were due to the ten largest customers (2012 – BYR 145,858 million (20%)).

As of 31 December 2013, included in time deposits are deposits of individuals in the amount of BYR 521,117 million (2012 – BYR 465,721 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits upon demand of a depositor within 5 days. In case a time deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	2013	*2012*
State organizations	86,433	86,789
Private enterprises	131,618	132,105
Individuals	553,287	499,615
Amounts due to customers	**771,338**	**718,509**

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

	2013	*2012*
Individuals	553,287	499,615
Insurance	111,369	29,853
Trade	29,121	35,727
Commerce	27,334	17,745
Manufacturing	12,174	67,256
Health care	10,719	17,093
Culture and arts	7,893	–
Construction	6,618	8,336
Transport and communication	4,110	4,557
Public organizations	4,027	1,224
Chemical	2,713	–
Agriculture	1,325	1,490
Consulting	16	22,766
Real estate	6	5,938
Other	626	6,909
Amounts due to customers	**771,338**	**718,509**

18. Equity

Share capital

Movements in shares outstanding, issued and fully paid were as follows:

	Number of shares		***Nominal amount***			
	Preferred	***Ordinary***	***Preferred***	***Ordinary***	***Inflation adjustment***	***Total***
31 December 2011	**18,838,294**	**31,103,973,440**	**57**	**93,312**	**693,708**	**787,077**
Increase in share capital	–	28,333,333,333	–	85,000	14,686	99,686
31 December 2012	**18,838,294**	**59,437,306,773**	**57**	**178,312**	**708,394**	**886,763**
Increase in share capital	–	50,000,000,000	–	150,000	–	150,000
31 December 2013	**18,838,294**	**109,437,306,773**	**57**	**328,312**	**708,394**	**1,036,763**

18. Equity (continued)

Share capital (continued)

As of 31 December 2012 and 2013, according to the Bank's Charter, the authorized and fully paid share capital comprised 59,456,145,067 and 109,456,145,067 shares with a par value of BYR 3 each (at historical value).

In December 2013, the National Bank of the Republic of Belarus contributed BYR 150,000 million (in nominal terms) to the Bank's share capital. The nominal amount of shares of OJSC "Paritetbank" remained unchanged at BYR 3.

The share capital of the Bank was contributed by the shareholders in Belarusian rubles. Shareholders are entitled to dividends in Belarusian rubles.

In 2013, the Bank declared dividends in the total amount of BYR 1,317 million (2012 - BYR 1,023 million).

In accordance with Belarusian legislation, dividends may only be declared to the shareholders of the Bank from retained and unreserved earnings as shown in the Bank's financial statements prepared in accordance with BAS. As of 31 December 2013, retained and unreserved earnings comprised BYR 73,116 million (2012 - BYR 44,994 million (not hyperinflated)).

Nature and purpose of other reserves

Unrealized gains (losses) on available-for-sale investment securities

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

19. Commitments and contingencies

Operating environment

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

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

The significant financial support provided by Russia (extension of loans in 2011 and 2012 and participation in privatization of state assets at the end of 2011) and a positive foreign trade balance contributed to a significant increase in reserves of the National Bank and stabilization of the macroeconomic situation in the country in 2012. According to the Government and the National Bank, the reserves as of 31 December 2012 are sufficient and stable enough to avoid foreign currency shortages and to satisfy the external financing needs of the country in the short and medium term. In 2012, there were no significant changes in the official exchange rate. In 2012, the inflation rate was 21.8%, the basic refinancing rate reduced to 30% as of 31 December 2012.

The year 2013 demonstrated obvious signs of stabilization of the macroeconomic situation as compared to 2012. Inflation rate dropped to 16.5% in 2013. As of 31 December 2013, the basic refinancing rate was reduced to 23.5%. The GDP grew by 0.9% in 2013. In the second half of 2013 the banking system faced liquidity crisis resulting in increased Belarusian ruble rates at resource market as compared to the beginning of 2013. In the first half of 2013, the official exchange rate of the Belarusian ruble was relatively stable, however, gradual weakening of Belarusian ruble against major currencies started in June. In December 2013 Russia provided additional credit support amounting to USD 2 billion. The first tranche of USD 440 million was provided at the end of December, which had stabilizing effect on further exchange rates determination at the year end.

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

19. Commitments and contingencies (continued)

Operating environment (continued)

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

Legal

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

Taxation

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

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

Commitments and contingencies

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

	2013	*2012*
Credit related commitments		
Undrawn loan commitments	29,378	45,267
Guarantees issued	8,756	1,055
Letters of credit	1,363	1,860
	39,497	**48,182**
Operating lease commitments		
Not later than 1 year	133	161
Later than 1 year and not later than 5 years	243	127
Later than 5 years	38	66
	414	**354**
Commitments and contingencies (before deducting collateral)	**39,911**	**48,536**
Less: Cash held as security against letters of credit and guarantees	(7,931)	(4,037)
Commitments and contingencies	**31,980**	**44,499**

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

20. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Settlement operations	23,837	20,991
Currency conversion operations	3,255	3,672
Fee and commission income	**27,092**	**24,663**
Settlement operations	3,396	5,027
Currency conversion operations	150	164
Other	664	271
Fee and commission expense	**4,210**	**5,462**
Net fee and commission income	**22,882**	**19,201**

21. Other income

Other income comprises:

	2013	*2012*
Fines and penalties received	4,311	2,651
Income from debt write-off	680	1,090
Income from operating leases	127	131
Income from sale of other assets	261	5,619
Other income	1,049	645
Total other income	**6,428**	**10,136**

22. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	39,283	40,850
Social security costs	12,325	12,462
Personnel expenses	**51,608**	**53,312**
Payments to individuals deposits insurance fund	6,723	6,533
Occupancy and rent	5,078	5,302
Software maintenance	4,160	3,337
Repair and maintenance of property and equipment	4,030	3,490
Services of automated interbank settlement system	3,653	2,250
Operating taxes	3,134	3,879
Communications	2,518	2,690
Utilities	2,281	2,382
Security	2,183	2,515
Legal, audit and consulting services	1,940	2,175
Transportation	1,563	772
Office supplies	1,044	584
Charity	772	–
Marketing and advertising	671	1,514
Business travel and related	591	489
Losses on disposal of property and equipment and intangible assets	58	75
Loss on impairment of property and equipment	–	1,507
Other	5,389	6,304
Other operating expenses	**45,788**	**45,798**

As of 31 December 2013, loss on derecognition of investments in the associate in the amount of BYR 83 million is included in line "Other".

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23. Risk management

Introduction

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

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

Risk management structure

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

Supervisory Board

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

Risk Committee

The Risk Committee headed by the Independent Director is responsible for monitoring of the risk management strategy implementation and execution of decisions adopted by the Bank's Supervisory Board with regard to the Bank's risk profile and risk tolerance, assessing the effectiveness of the Bank's risk management system and providing complex solutions to issues related to the analysis of key banking risks and development of the relevant risk management policies.

Audit Committee

The Audit Committee headed by the Independent Director is responsible for overall management and effective functioning of internal control system, internal audit function of the Bank and selection of and cooperation with audit firms.

Management Board

The Management Board has the responsibility for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Financial Committee

The Financial Committee's objective is to implement uniform financial policies for financial resource management for the purpose of securing regular growth of the Bank's revenue and enhancing efficiency of financial resources used.

Assets and Liabilities Committee

The major objective of ALCO is to ensure the strategic management of the Bank's assets and liabilities in the medium and long term in order to maximize profit and minimize risks, whilst at the same time following prudential ratios and statutory legislation requirements.

Credit Committee

The Credit Committee is responsible for complex credit risk management, coordinates the activities of the Bank's divisions in the field of credit risk management in order to reach the optimal balance of credit risks and yields.

Risk controlling department

The department performs qualitative and quantitative assessment of banking risks, provides analytical and methodological support in analyzing and managing risks, informs the Bank's management bodies on the level of assumed risks.

23. Risk management (continued)

Introduction (continued)

Bank Treasury

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

Internal audit

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

Risk measurement and reporting systems

The Bank's risks are measured using various risk measurement tools: scenario methods which allow assessing the level of risk in various case scenarios, client risk assessments, stress-testing and other.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity while performing calculations of capital adequacy and other prudential regulations.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the Supervisory Board, the Management Board, the Assets and Liabilities Committee and the Financial and Credit Committees (within their competence). The reports include aggregate credit exposure, liquidity ratios, levels of operational and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. On a quarterly basis, the Supervisory Board receives a report on Bank's implementation of Strategic development plan that provides the information about performance and financial result.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by local statutory requirements to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

23. Risk management (continued)

Credit risk (continued)

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

- monitoring of issued credit instruments by the corresponding structural units of the Bank;
- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;
- control over customers' fulfillment of conditions upon credit and similar agreements which is performed by Department for Corporate Business.

Control of the accepted credit risk level in relation to amounts placed within banks acting as counteragents to the Bank includes the following:

- analysis of negative financial and non-financial information while applying previously set limits (performed by the risk controlling department);
- routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank by executive units – units directly operating within the set limits (sub-limits).

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for clients attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

The Bank receives collateral and guarantees from entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

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

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

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

Credit-related commitments risks

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines of the statement of financial position, based on the Bank's credit rating system.

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

23. Risk management (continued)

Credit risk (continued)

High grade includes the Bank's highest quality financial assets. The possibility of deterioration is generally considered remote. Financial performance has been strong and good. All factors are favorable and participation potential or ability to refinance is considered good. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

Standard grade includes good quality financial assets. The possibility of deterioration is generally considered remote but there is some amount of uncertainty. These assets are neither overdue nor any other significant signs of impairment are identified. Financial performance has been strong and good but it can deteriorate as a result of some possible factors in the future. Financial history shows good liquidity and cash flow with good basic trends, or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

Substandard grade includes normal quality financial assets. The possibility of deterioration exists and there is identifiable amount of uncertainty. These assets are not overdue yet but some insignificant signs of impairment are identified. Financial performance has been strong and good but there is a likelihood that it can deteriorate as a result of some probable factors in the future. Financial history generally shows good liquidity and cash flow with good basic trends, however some overdue amounts could happen in the past or the company may be new with insufficient financial history to develop a trend. Refinancing at another institution or elsewhere on short notice, even in adverse economic conditions, could likely be accomplished.

		Neither past due nor individually impaired					
	Notes	*High grade 2013*	*Standard grade 2013*	*Sub-standard grade 2013*	*Past due but not individually impaired 2013*	*Individually impaired 2013*	*Total 2013*
Amounts due from credit institutions	6	–	9,111	–	–	–	9,111
Loans to customers:	8						
Corporate lending		–	502,044	–	898	123,801	626,743
Consumer lending		–	151,258	–	8,253	–	159,511
Available-for-sale investments		–	49,388	–	–	–	49,388
Total		**–**	**711,801**	**–**	**9,151**	**123,801**	**844,753**

		Neither past due nor individually impaired					
	Notes	*High grade 2012*	*Standard grade 2012*	*Sub-standard grade 2012*	*Past due but not individually impaired 2012*	*Individually impaired 2012*	*Total 2012*
Amounts due from credit institutions	6	–	7,783	–	–	–	7,783
Loans to customers:	8						
Corporate lending		–	271,616	–	3,494	188,149	463,259
Consumer lending		–	133,434	–	587	–	134,021
Available-for-sale investments		–	6,284	–	–	–	6,284
Total		**–**	**419,117**	**–**	**4,081**	**188,149**	**611,347**

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

23. Risk management (continued)

Credit risk (continued)

As of 31 December 2013, the Bank had BYR 9,151 million of past due loans which were considered to be unimpaired (2012: BYR 4,081 million). The ageing analysis of past due but not impaired loans per class of financial assets is provided below:

	Less than 30 days 2013	*31 to 60 days 2013*	*61 to 90 days 2013*	*More than 90 days 2013*	*Total 2013*
Loans to customers:					
Corporate lending	645	253	–	–	898
Consumer lending	3,695	1,745	517	2,296	8,253
Total	**4,340**	**1,998**	**517**	**2,296**	**9,151**

	Less than 30 days 2012	*31 to 60 days 2012*	*61 to 90 days 2012*	*More than 90 days 2012*	*Total 2012*
Loans to customers:					
Corporate lending	384	299	939	1,872	3,494
Consumer lending	33	13	494	47	587
Total	**417**	**312**	**1,433**	**1,919**	**4,081**

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

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards and consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated at each reporting date with each portfolio receiving a separate review.

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

23. Risk management (continued)

Credit risk (continued)

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

Financial guarantees are assessed and provision made in a similar manner as for loans.

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

	2013				*2012*			
	Belarus	*OECD*	*CIS and other countries*	*Total*	*Belarus*	*OECD*	*CIS and other countries*	*Total*
Assets:								
Cash and cash equivalents	245,624	18,754	3,248	267,626	182,150	15,106	3,204	200,460
Amounts due from credit institutions	9,111	–	–	9,111	7,783	–	–	7,783
Derivative financial assets	175,170	–	170	175,340	175,833	–	–	175,833
Loans to customers	747,963	–	–	747,963	556,107	948	–	557,055
Available-for-sale investments	49,388		–	49,388	6,284	–	–	6,284
Other assets	5,224	–	–	5,224	3,461	–	–	3,461
	1,232,480	**18,754**	**3,418**	**1,254,652**	**931,618**	**16,054**	**3,204**	**950,876**
Liabilities:								
Amounts due to credit institutions	99,060	4	4,788	103,852	22	–	16,566	16,588
Derivative financial liabilities	–	–	132	132	29	–	–	29
Amounts due to customers	771,338	–	–	771,338	717,666	498	345	718,509
Other liabilities	6,307	–	–	6,307	6,768	–	–	6,768
	876,705	**4**	**4,920**	**881,629**	**724,485**	**498**	**16,911**	**741,894**
Net assets and liabilities	**355,775**	**18,750**	**(1,502)**	**373,023**	**207,133**	**15,556**	**(13,707)**	**208,982**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

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

23. Risk management (continued)

Liquidity risk and funding management (continued)

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

	Normative, %	*2013 %*	*2012 %*
"Instant Liquidity Ratio" (assets receivable or realizable within one day / liabilities repayable on demand)	20	5	6
"Current Liquidity Ratio" (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	70	1,984	1,654
"Short-Term Liquidity Ratio" (assets receivable within a year / liabilities repayable within a year)	100	233	387

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As of 31 December 2013					
Amounts due to credit institutions	569	746	104,703	–	106,018
Derivative financial instruments					
- Contractual amounts payable	172,205	–	–	84,609	256,814
- Contractual amounts receivable	172,471	–	–	255,045	427,516
Amounts due to customers	236,935	276,217	365,633	35	878,820
Other liabilities	4,528	11	64	–	4,603
Total undiscounted financial liabilities	**586,708**	**276,974**	**470,400**	**339,689**	**1,673,771**

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As of 31 December 2012					
Amounts due to credit institutions	14,532	–	–	–	14,532
Derivative financial instruments					
- Contractual amounts payable	15,286	–	–	98,540	113,826
- Contractual amounts receivable	15,263	–	–	265,555	280,818
Amounts due to customers	193,576	208,286	345,799	9	747,670
Other liabilities	406	103	373	–	882
Total undiscounted financial liabilities	**239,063**	**208,389**	**346,172**	**364,104**	**1,157,728**

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013	2,967	28,457	8,073	–	**39,497**
2012	48,182	–	–	–	**48,182**

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23. Risk management (continued)

Liquidity risk and funding management (continued)

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

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

Term deposits of individuals are included in amounts due to customers. In accordance with the Belarusian legislation, the Bank is obliged to repay such deposits within 5 days upon demand of a depositor.

Market risk

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

Market risk – non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December.

Currency	*Increase in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of equity 2013*
BYR	18,680	36,148	–
USD/EUR	500	(8,259)	–

Currency	*Decrease in basis points 2013*	*Sensitivity of net interest income 2013*	*Sensitivity of equity 2013*
BYR	(18,680)	(41,556)	–
USD/EUR	(500)	11,236	–

Currency	*Increase in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
BYR	500	14,989	64
USD/EUR	500	–	–

Currency	*Decrease in basis points 2012*	*Sensitivity of net interest income 2012*	*Sensitivity of equity 2012*
BYR	(500)	(14,989)	(64)
USD/EUR	(500)	–	–

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

23. Risk management (continued)

Market risk – non-trading (continued)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2013 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYR, with all other variables held constant on the statement of comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in % 2013*	*Effect on profit before tax 2013*	*Change in currency rate in % 2012*	*Effect on profit before tax 2012*
USD/BYR	32	(10,992)	10	1,833
EUR/BYR	34	(3,156)	10	508
RUR/BYR	48	298	10	56
USD/BYR	(32)	10,992	(10)	(1,833)
EUR/BYR	(34)	3,156	(10)	(508)
RUR/BYR	(48)	(298)	(10)	(56)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall. As of 31 December 2013 and 2012, the Bank had no instruments exposed to such risk.

Operational risk

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

24. Fair value of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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24. Fair values of financial instruments (continued)

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

31 December 2013	***Level 2***	***Level 3***	***Total***
Financial assets			
Derivative financial instruments	170	175,170	175,340
Available-for-sale investments	49,388	-	49,388
	49,558	**175,170**	**224,728**
Financial liabilities			
Derivative financial instruments	(132)	–	(132)
	(132)	**–**	**(132)**

31 December 2012	***Level 2***	***Level 3***	***Total***
Financial assets			
Derivative financial instruments	-	175,833	175,833
Available-for-sale investments	6,284	-	6,284
	6,284	**175,833**	**182,117**
Financial liabilities			
Derivative financial instruments	(29)	–	(29)
	(29)	**–**	**(29)**

Financial instruments recorded at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated currency swaps with the National Bank of the Republic of Belarus. These derivatives are valued using the discounting cash flows model. The model incorporates various non-observable assumptions, which include market rate volatilities.

Movements in Level 3 financial instruments measured at fair value

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

	Balance at 1 January 2013	***Transfers from level 2***	***Gains/ losses recog-nized in state-ment of profit or loss***	***Hyperinflation effect***	***Balance at 31 December 2013***
Financial assets					
Derivative financial instruments	175,833	–	26,175	(26,838)	175,170
Total level 3 financial assets	**175,833**	**–**	**26,175**	**(26,838)**	**175,170**

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24. Fair values of financial instruments (continued)

	Balance at 1 January 2012	*Transfers from level 2*	*Gains/ losses recognized in statement of profit or loss*	*Hyperinflation effect*	*Balance at 31 December 2012*
Financial assets					
Derivative financial instruments	276,468	–	52,326	(152,961)	175,833
Total level 3 financial assets	**276,468**	**–**	**52,326**	**(152,961)**	**175,833**

Gains or losses on level 3 financial instruments included in other comprehensive income for the period comprise:

	2013			*2012*		
	Realized gains	*Unrealized gains*	*Total*	*Realized gains*	*Unrealized gains*	*Total*
Total gain included in the profit/loss for the period	–	26,175	26,175	–	52,326	52,326

Significant unobservable inputs and sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

The data used for fair value measurement of derivative financial instruments was as follows: for the USD - denominated part in 2013 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 7.495% (in 2012 the Bank used the rate of 7.764%); for the EUR - denominated part of the instrument in 2013 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 7.495% and adjusted for the difference between EURIBOR and LIBOR (-0,271%), at the reporting date in 2012 the Bank applied the rate which was equal to 7.3605%. For the BYR-denominated part of the instrument the Bank used the internal borrowing rate of 36.4% in 2013 and of 39% in 2012.

Significant unobservable inputs and the sensitivity of level 3 financial instruments measured at fair value to changes to key assumptions

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

	31 December 2013		*31 December 2012*	
	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
Financial assets				
Derivative financial instruments	175,170	(677)	175,833	(804)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash inflows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 100 basis points.

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities. Fair value of financial instruments was measured using significant observable inputs (level 2).

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24. Fair values of financial instruments (continued)

	Carrying amount 2013	*Fair value 2013*	*Unrecognized gain/(loss) 2013*	*Carrying amount 2012*	*Fair value 2012*	*Unrecognized gain/(loss) 2012*
Financial assets						
Cash and cash equivalents	267,626	267,626	–	200,460	200,460	–
Amounts due from credit institutions	9,111	9,111	–	7,783	7,783	–
Loans to customers	747,963	725,011	(22,952)	557,055	546,332	(10,723)
Financial liabilities						
Amounts due to credit institutions	103,852	103,852	–	16,588	16,588	–
Amounts due to customers	771,338	767,645	3,693	718,509	712,286	6,223
Total unrecognized change in unrealized fair value			**(19,259)**			**(4,500)**

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

Assets for which fair value approximates carrying amount

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

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25. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 23 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2013			*2012*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	267,626	–	267,626	200,460	–	200,460
Amounts due from credit institutions	–	9,111	9,111	–	7,783	7,783
Derivative financial assets	170	175,170	175,340	2	175,831	175,833
Loans to customers	262,821	485,142	747,963	320,267	236,788	557,055
Assets held for sale	6,479	–	6,479	6,131	–	6,131
Available-for-sale investments	4,942	44,446	49,388	119	6,165	6,284
Property and equipment	–	88,463	88,463	–	90,916	90,916
Intangible assets	–	2,887	2,887	–	3,158	3,158
Current income tax assets	–	–	–	–	170	170
Deferred income tax assets	–	10,045	10,045	–	–	–
Other assets	6,491	247	6,738	6,402	338	6,740
Total	**548,529**	**815,511**	**1,364,040**	**533,381**	**521,149**	**1,054,530**
Amounts due to credit institutions	1,131	102,721	103,852	16,588	–	16,588
Derivative financial liabilities	132	–	132	29	–	29
Amounts due to customers	449,312	322,026	771,338	396,641	321,868	718,509
Deferred income tax liabilities	3,787	–	3,787	–	–	–
Other liabilities	7,137	68	7,205	9,536	220	9,756
Total	**461,499**	**424,815**	**886,314**	**422,794**	**322,088**	**744,882**
Net position	**87,030**	**390,696**	**477,726**	**110,587**	**199,061**	**309,648**

26. Related party disclosures

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

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

The Republic of Belarus controls the Bank's activities through the National Bank of the Republic of Belarus.

The Republic of Belarus, acting through state agencies and other institutions, directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Bank performs the following banking transactions with these entities: lending, attracting deposits, cash and settlement operations, exchange operations, providing guarantees, and transactions with securities and derivatives. Transactions with state-related entities constitute a significant part of the Bank's operations.

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26. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2013			*2012*		
	NBRB	***Key management personnel***	***Other related parties***	***NBRB***	***Key management personnel***	***Other related parties***
Cash and cash equivalents	156,143	–	–	127,032	–	–
Amounts due from credit institutions	8,157	–	4,489	7,783	–	574
Loans outstanding at 1 January	**–**	**1,133**	**119,998**	**–**	**679**	**431,422**
Loans outstanding at 31 December	**–**	**1,168**	**104,847**	**–**	**1,133**	**119,998**
Less: allowance for impairment at 31 December	–	(73)	(1,743)	–	(30)	(6,736)
Loans outstanding at 31 December, net	**–**	**1,095**	**103,104**	**–**	**1,103**	**113,262**
Available-for-sale investments	–	–	42,689	–	–	–
Derivative financial assets	175,170	–	–	175,831	–	–
Amounts due to customers at 1 January	–	7,575	88,710	–	7	247,841
Amounts due to customers at 31 December	**–**	**4,879**	**96,239**	**–**	**7,575**	**88,710**
Amounts due to credit institutions	**–**	**–**	**–**	**–**	**–**	**–**
Commitments and guarantees issued	–	183	87	–	340	5,059

	2013			*2012*		
	NBRB	***Key management personnel***	***Other related parties***	***NBRB***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	–	361	33,045	–	217	43,955
Impairment charge for loans	–	(43)	4,993	–	28	(10,354)
Interest expense on deposits	–	733	6,536	–	864	15,670
Interest income on available-for-sale investments	–	–	5,112	–	–	–
Fee and commission income	–	13	250	–	1	709
Other income	–	–	32	–	–	232
Fee and commission expense	–	–	–	–	–	
Other operating expenses	–	–	895	–	–	8,540

Compensation to key management personnel comprises the following:

	2013	*2012*
Salaries and other short-term benefits	7,032	7,523
Social security costs	1,067	979
Total key management personnel compensation	**8,099**	**8,502**

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

27. Capital adequacy

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

As of 31 December 2013 and 2012, the Bank complied with all externally imposed capital requirements.

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

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

NBRB capital adequacy ratio

The NBRB requires banks to maintain a minimum capital adequacy ratio of 8% of risk-weighted assets, computed based on stand-alone BAS basis. As of 31 December 2013 and 2012, the Bank's capital adequacy ratio on this basis was as follows:

	2013	***2012***
Main capital	383,749	252,315
Additional capital	126,907	111,459
Total capital	**510,656**	**363,774**
Risk weighted assets	1,217,460	885,057
Risk-weighted off-balance commitments and contingencies	10,212	10,690
	1,227,672	**895,747**
Capital adequacy ratio	41.6%	40.6%

Capital adequacy ratio under 1988 Basel Capital Accord 1988

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

	2013	***2012***
Tier 1 capital	477,726	310,675
Tier 2 capital	–	–
Total equity	**477,726**	**310,675**
Risk weighted assets	**895,371**	**902,031**
Tier 1 capital ratio	**53.4%**	**34.4%**
Total capital ratio	**53.4%**	**34.4%**

28. Events after the reporting period

On 27 March 2014, the Bank declared dividends for 2013 in the amount of BYR 6,356 million.