CJSC BTA Bank
Financial Statements

Year ended 31 December 2013
Together with Independent Auditors' Report

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Translation from the original in Russian

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report on the financial statements of Closed Joint Stock Company BTA Bank for the period from 1 January to 31 December 2013

To Mr. S.T. Marenov,
Chairman of the Management Board of Closed Joint Stock Company BTA Bank

To the Shareholders and Supervisory Board of Closed Joint Stock Company BTA Bank

We have audited the accompanying financial statements of Closed Joint Stock Company BTA Bank (hereinafter, the "Bank"), which comprise the statement of financial position as of 31 December 2013, and the statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on 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 Activity", Rules for Auditing Activities effective in the Republic of Belarus and with International Standards on Auditing. Those rules and standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing 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 which is based on the assessment of the risk 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Closed Joint Stock Company BTA Bank as of 31 December 2013, and its financial performance and cash flows for the year 2013 in accordance with International Financial Reporting Standards.

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

11 June 2014

Details of the audited entity

Name: Closed Joint Stock Company BTA Bank
Closed Joint Stock Company BTA Bank is registered by the National Bank of the Republic of Belarus on 25 July 2002, registration No. 807000071.
Address: Republic of Belarus 220123, Minsk, ul. V. Khoruzhey, 20

Details of the auditor

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

Translation from the original in Russian

Statement of financial position
As of 31 December 2013

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

	Notes	*2013*	*2012*
Assets			
Cash and cash equivalents	5	139,902	152,099
Amounts due from the National Bank of the Republic of Belarus	6	7,897	5,355
Amounts due from credit institutions	7	291	-
Derivative financial assets	8	73,736	105,009
Loans to customers	9	596,832	466,480
Investment securities available for sale	10	30,250	31,747
Property and equipment	11	46,479	46,543
Intangible assets	12	702	459
Deferred income tax assets	13	1,229	605
Current income tax assets		994	839
Other assets	14	1,425	5,953
Total assets		**899,737**	**815,089**
Liabilities			
Amounts due to credit institutions	16	242	190
Derivative financial liabilities	8	3	3
Amounts due to customers	17	597,034	472,000
Debt securities issued	18	48,316	80,244
Other liabilities	14	2,312	2,503
Subordinated debt	19	117,163	119,826
Total liabilities		**765,070**	**674,766**
Equity			
Share capital	20	229,770	229,770
Accumulated loss		(116,267)	(109,090)
Revaluation reserve for property and equipment		21,164	19,643
Total equity		**134,667**	**140,323**
Total equity and liabilities		**899,737**	**815,089**

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

S.T. Marenov Chairman of the Management Board

N.M. Sergievich Chief Accountant

11 June 2014

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

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 of 31 December 2013)

	Notes	*2013*	*2012*
Interest income			
Loans to customers		131,110	101,296
Amounts due from credit institutions		2,273	15,383
Investment securities available for sale		2,779	12,000
Other		620	5
		136,782	**128,684**
Interest expense			
Amounts due to customers		(61,641)	(59,858)
Amounts due to credit institutions		(4,555)	(3,227)
Subordinated debt		(8,515)	(9,266)
Debt securities issued		(5,640)	(9,367)
Other		(23)	(241)
		(80,374)	**(81,959)**
Net interest income		**56,408**	**46,725**
Reversal/(charge) of allowance for loan impairment	9	(4,173)	7,712
Net interest income after allowance for loan impairment		**52,235**	**54,437**
Net fee and commission income	22	18,953	19,539
Loss on initial recognition of financial instruments at fair value		-	(5,491)
Net losses from investment securities available for sale		-	(687)
Net gains/(losses) from foreign currencies:			
- dealing		11,349	9,943
- translation differences		(16,344)	(2,506)
Net income from derivatives		12,459	8,332
Other income		3,788	892
Non-interest income		**30,205**	**30,022**
Personnel expenses	24	(36,434)	(35,634)
Depreciation and amortization	11, 12	(2,632)	(3,499)
Other operating expenses	24	(24,332)	(23,150)
Other impairment and provisions	15	(3,899)	(1,915)
Taxes other than income tax		(2,358)	(1,910)
Non-interest expense		**(69,655)**	**(66,108)**
Profit before income tax expense and loss on net monetary position		**12,785**	**18,351**
Income tax expense	13	(1,633)	(4,404)
Profit before loss on net monetary position		**11,152**	**13,947**
Loss on net monetary position		(18,329)	(17,570)
Net loss for the year		**(7,177)**	**(3,623)**
Other comprehensive income			
Revaluation of property and equipment		1,567	(3,525)
Deferred tax arising from revaluation of property and equipment		(46)	3,511
Other comprehensive (loss)/ income for the year		**1,521**	**(14)**
Total comprehensive loss for the year		**(5,656)**	**(3,637)**

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

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 of 31 December 2013)

	Notes	*Share capital*	*Accumulated loss*	*Revaluation reserve for property and equipment*	*Total*
At 31 December 2011		**220,795**	**(96,492)**	**19,657**	**143,960**
Loss for the year		-	(3,623)	-	(3,623)
Other comprehensive loss		-	-	(14)	(14)
Total comprehensive loss for the year		-	(3,623)	(14)	(3,637)
Increase in share capital		8,975	(8,975)	-	-
At 31 December 2012		**229,770**	**(109,090)**	**19,643**	**140,323**
Loss for the year			(7,177)		(7,177)
Other comprehensive income				1,521	1,521
Total comprehensive (loss)/income for the year		-	(7,177)	1,521	(5,656)
At 31 December 2013		**229,770**	**(116,267)**	**21,164**	**134,667**

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

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 of 31 December 2013)

	Notes	*2013*	*2012*
Cash flows from operating activities			
Net profit for the year before hyperinflation		11,152	13,948
Adjustments for:			
Depreciation and amortization	11, 12	2,632	3,499
Deferred and current tax charge	13	1,633	4,404
Allowance for impairment and provisions		8,072	(2,238)
(Gain)/loss on disposal of property and equipment, intangible assets and other assets		(404)	42
Loss on initial recognition of financial instruments at fair value		-	5,491
Gain on financial assets recognition at amortized cost		-	(1,723)
Net change in interest accruals		(878)	8,433
Net loss/(gain) on revaluation of derivatives		16,425	(8,332)
Translation differences		16,344	2,506
Cash flows from operating activities before changes in operating assets and liabilities		**54,976**	**26,030**
Net (increase)/decrease in operating assets			
Amounts due from the National Bank of the Republic of Belarus		(3,299)	(2,150)
Amounts due from credit institutions		1,479	7,398
Loans to customers		(164,035)	(135,379)
Other assets		(7,042)	2,057
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(1,985)	(11,946)
Amounts due to customers		152,767	(1,231)
Debt securities issued		(26,589)	78,107
Other liabilities		225	382
Net cash flows from operating activities before income tax		**14,749**	**(36,732)**
Income tax paid		(2,544)	(5,348)
Net cash (used in)/from operating activities		**12,205**	**(42,080)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities available for sale		-	8,741
Purchase of investment securities available for sale		-	(8,717)
Expences related to disposal of property and equipment and intangible assets		(30)	-
Purchase of property and equipment and intangible assets		(1,825)	(1,833)
Net cash (used in)/from investing activities		**(1,855)**	**(1,809)**
Effect of exchange rate changes on cash and cash equivalents		4,200	2,162
Hyperinflation effect on cash and cash equivalents		(26,747)	(42,594)
Change in cash and cash equivalents		**(12,197)**	**(84,321)**
Cash and cash equivalents at 1 January	5	**152,099**	**236,420**
Cash and cash equivalents at 31 December	5	**139,902**	**152,099**

Additional information:

	2013	*2012*
Interest paid	(72,868)	(78,422)
Interest received	135,463	117,470

The accompanying notes on pages 5 to 48 are an integral part of these financial statements.

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

1. Principal activities

CJSC "BTA Bank" (the "Bank") was formed in 2002 as a joint stock company with foreign investments under the laws of the Republic of Belarus. The Bank operates under a general banking license #17 issued by the National Bank of the Republic of Belarus ("NBRB"). In addition, the Bank has a license for securities operations issued by the Ministry of Finance and a license for safeguarding activities issued by the Ministry of Internal Affairs.

The Bank's registered legal address is 20, V. Khoruzhey St., Minsk, Republic of Belarus.

The Bank transfers payments, grants loans to local corporate customers (investment, working capital, import financing), provides finance to small and medium businesses; attracts deposits and grants loans to retail clients (car and consumer financing); performs operations with foreign currencies on behalf of its customers and on its own behalf, and performs operations with securities for liquidity and investment purposes. The Bank accepts deposits from the public and extends credit, transfers payments in the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. The head office of the Bank is located in Minsk and the Bank has four centres for banking servicies in Minsk, Mogilev, Brest and Vitebsk.

Shareholder	***2013, %***	***2012, %***
JSC "BTA Bank" (Republic of Kazakhstan)	99.7	99.7
Other	0.3	0.3
Total	**100.0**	**100.0**

JSC "BTA Bank" (Republic of Kazakhstan) is the ultimate parent of the Bank. The government of the Republic of Kazakhstan is the ultimate controlling shareholder.

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 Belarusian accounting and banking legislation and related instructions ("BAS"). These financial statements are based on these BAS accounting records, as adjusted and reclassified in order to comply with IFRS.

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

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

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

2. Basis of preparation (continued)

Inflation accounting

With the effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*. Accordingly, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian 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 has used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the State Committee on Statistics of the Republic of Belarus. The CPI for the eight year period and respective conversion factors after Belarus previously ceased to be considered hyperinflationary on 1 January 2006 are as follows:

Year	Index, %	Conversion factors
2006	106.6	455.1
2007	112.1	406.0
2008	113.3	358.3
2009	110.1	325.4
2010	109.9	296.1
2011	208.7	141.9
2012	121.8	116.5
2013	116.5	100.0

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

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

3. Summary of accounting policies

Changes in accounting policies

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

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

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

IFRS 13 Fair Value Measurement

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

IFRS 13 also requires specific disclosures on fair values, that replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed financial statements. The Bank provided these disclosures in Note 26.

Amendment to IAS 19 Employee Benefits

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

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. The amendments had no impact on the Bank's financial position.

Amendment to IAS 1 Presentation of Items of Other Comprehensive Income

The amendment changes 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) should 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 Requirements for Comparative Information

The amendment clarifies the difference between voluntary 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.

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

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

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

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as property and equipment, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 26.

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

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

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

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

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

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 − Valuation techniques for which the lowest level inputs that are significant to the fair value measurement are directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level inputs that are significant to the fair value measurement are 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 inputs that are significant to the fair value measurement as a whole) at the end of each reporting period.

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

3. Summary of accounting policies (continued)

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 market place.

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 as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

Held-to-maturity investments

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

Loans and receivables

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

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

3. Summary of accounting policies (continued)

Financial assets (continued)

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 of 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 the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

Cash and cash equivalents

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

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 held for trading and are initially recognized 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 comprehensive income as net gains from derivative financial instruments.

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

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers and debt securities issued. After initial recognition, borrowings are 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.

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

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.

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.

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

3. Summary of accounting policies (continued)

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in 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 comprehensive income.

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

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its 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 profit or loss. Impairment losses on equity investments are not reversed through profit or loss; 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 statement of comprehensive income.

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

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

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in 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 comprehensive income. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

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

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus and is based on the financial statements prepared in accordance with the regulations of the Republic of Belarus (BAS) and adjusted for taxation purposes.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be 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.

The Republic of Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are recognized in the statement of comprehensive income as taxes other than income tax.

Property and equipment

Previously the Bank used the cost model for measurement of items of buildings after their initial recognition. In 2011, the Bank decided to apply a revaluation model for buildings in accordance with paragraph 31 of IAS 16 *Property, Plant and Equipment.* This change in accounting policy has been applied prospectively.

Following initial recognition at cost, buildings of the Bank are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income, in which case the increase is taken to the financial result. A revaluation deficit is recognized in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment (except buildings) 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 amount of property and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

3. Summary of accounting policies (continued)

Property and equipment (continued)

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	9-100
Furniture and fixtures	1-10
Computers and office equipment	4-5
Motor vehicles	7-8

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

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

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost, as adjusted for hyperinflation. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized over the useful economic lives of one to five years and assessed for impairment whenever there is an indication that the intangible asset 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.

Retirement and other employee benefit obligations

The Bank participates in the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned. Expenses relating to pension scheme contributions are recognized in the statement of comprehensive income as personnel expenses. In addition, the Bank has no significant post-retirement benefits.

Charter capital

Charter capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as share premium.

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.

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

3. Summary of accounting policies (continued)

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.

Fee and commission income

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

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

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

3. Summary of accounting policies (continued)

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 comprehensive income as gains less 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 at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains/(losses) from dealing in foreign currencies (trading transactions).

	31 December 2013	31 December 2012
USD/BYR	9,510	8,570
EUR/BYR	13,080	11,340
RUB/BYR	290.5	282

Standards and interpretations issued but not yet effective

IFRS 9 Financial Instruments

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

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

These amendments become 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. Amendments are expected to have no impact on the Bank, as the Bank has no subsidiaries.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

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

IFRIC Interpretation 21 Levies (IFRIC 21)

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

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

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

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

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are provided in Note 26.

Allowance for loan impairment

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

The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Revaluation of office buildings

The Bank regularly remeasures the fair value of its buildings to ensure that the current value of buildings does not differ from their fair value by more than 10%. The buildings were revalued at the market value by an independent professional appraiser as of 31 December 2012 and 2013. Revalued (impaired) buildings are depreciated in accordance with their remaining useful life effective from 1 January 2013.

Deferred income tax assets

Deferred income tax assets are recognized for all deductible temporary differences only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. The estimated probability is based on management's forecasts with respect to future taxable profit and is complemented by the subjective judgment of the Bank's management. Further details regarding taxation issues are provided in Note 13.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013	*2012*
Cash on hand	30,298	33,994
Current accounts with the NBRB	96,861	92,548
Current accounts with other credit institutions	12,743	17,261
Time deposits with credit institutions up to 90 days	-	8,296
Cash and cash equivalents	**139,902**	**152,099**

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

6. Amounts due from the National Bank of the Republic of Belarus

As of 31 December 2013 and 2012, amounts due from the National Bank of the Republic of Belarus are represented by the obligatory reserve with the National Bank of the Republic of Belarus (BYR 7,897 million and BYR 5,355 million, respectively).

Credit institutions are required to maintain a 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 this deposit is significantly restricted by statutory legislation.

7. Amounts due from credit institutions

As of 31 December 2013, amounts due from credit institutions are represented by a guarantee deposit used as collateral for settlements with Visa plastic cards in JSC Belagroprombank in the amount of BYR 291 million (2012: 0).

8. Derivative financial instruments

The Bank enters into derivative financial instruments for trading purposes. 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 outstanding transactions at the year-end and are not indicative of the credit risk.

	2013			***2012***		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Forwards and swaps with NBRB	104,100	73,733	-	156,803	104,989	-
Forwards and swaps – domestic	5,230	1	-	-	-	-
Forwards and swaps – foreign	37,932	2	(3)	73,241	20	(3)
Total derivative assets/ liabilities		**73,736**	**(3)**		**105,009**	**(3)**

Foreign and domestic in the table above stand for counterparties where foreign means non-resident entities and domestic means entities of the Republic of Belarus.

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

Forwards

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

Swaps

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

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

9. Loans to customers

Loans to customers comprise:

	2013	*2012*
Corporate lending	466,209	359,751
Entrepreneurs lending	21,598	17,860
Consumer lending	121,680	98,732
Gross loans to customers	**609,487**	**476,343**
Less – Allowance for impairment	(12,655)	(9,863)
Loans to customers	**596,832**	**466,480**

Allowance for impairment of loans to customers

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

	Corporate lending 2013	*Entrepreneurs lending 2013*	*Consumer lending 2013*	*Total 2013*
At 1 January 2013	7,059	114	2,690	9,863
Charge for the year	3,152	6	1,015	4,173
Amounts written off	(41)	-	(136)	(177)
Foreign exchange effect	167	-	23	190
Gain on net monetary position	(996)	(17)	(381)	(1,394)
At 31 December 2013	**9,341**	**103**	**3,211**	**12,655**
Individually impaired	3,360	53	665	4,078
Collectively impaired	5,981	50	2,546	8,577
	9,341	**103**	**3,211**	**12,655**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	11,609	497	2,196	14,302

	Corporate lending 2012	*Entrepreneurs lending 2012*	*Consumer lending 2012*	*Total 2012*
At 1 January 2012	31,983	89	6,561	38,633
Reversal for the year	(5,944)	41	(1,809)	(7,712)
Amounts written off	(13,601)	-	(986)	(14,587)
Foreign exchange effect	341	-	97	438
Gain on net monetary position	(5,720)	(16)	(1,173)	(6,909)
At 31 December 2012	**7,059**	**114**	**2,690**	**9,863**
Individually impaired	2,652	12	767	3,431
Collectively impaired	4,407	102	1,923	6,432
	7,059	**114**	**2,690**	**9,863**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	30,311	12	1,269	31,592

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

9. Loans to customers (continued)

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, as of 31 December 2013, comprised BYR 165 million (2012: BYR 334 million).

Collateral and other credit risk enhancements

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

The main types of collateral obtained are as follows:
- For corporate lending - charges over real estate properties, equipment, inventory and trade receivables, property rights, cash deposits and guarantees;
- For entrepreneurs and consumer lending - charges over vehicles and guarantees.

The Collateral Division 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 211,479 million due from the ten largest third party borrowers (35% of gross loan portfolio) (2012: BYR 197,690 million, or 42%). An allowance of BYR 3,391 million (2012: BYR 2,680 million) was recognized against these loans.

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

	2013	*2012*
Trading enterprises	245,007	184,770
Individuals	121,680	98,732
Manufacturing	119,574	87,012
Transport	41,989	30,723
Real estate business	33,997	36,767
Entrepreneurs	21,598	17,860
Other	25,642	20,479
Loans to customers	**609,487**	**476,343**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as of 31 December 2013 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	936	8,564	9,500
Unearned future finance income on finance leases	(83)	(1,968)	(2,052)
Net investment in finance leases	**853**	**6,596**	**7,448**

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

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total*
Gross investment in finance leases	17,127	2,821	19,948
Unearned future finance income on finance leases	(5,092)	(567)	(5,659)
Net investment in finance leases	**12,035**	**2,254**	**14,289**

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

10. Investment securities available for sale

Securities available for sale comprise bonds of JSC "Belgasprombank" totaling BYR 30,250 million as of 31 December 2013 (2012: BYR 31,747 million). The bonds were denominated in US dollars and have an interest rate amounting to 8.75% (2012: 8.75%). These bonds will be redeemed on 30 November 2015.

11. Property and equipment

Movements in property and equipment are as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost/ revalued amount						
31 December 2012	**39,863**	**11,302**	**6,383**	**1,729**	**-**	**59,277**
Additions	-	415	388	-	1	**804**
Disposals	-	(10)	(77)	-	-	**(87)**
Revaluation	1,098	-	-	-	-	**1,098**
31 December 2013	**40,961**	**11,707**	**6,694**	**1,729**	**1**	**61,092**
Accumulated depreciation						
31 December 2012	**-**	**6,006**	**5,688**	**1,040**		**12,734**
Depreciation charge	469	1,267	475	216		**2,427**
Disposals	-	(2)	(77)	-		**(79)**
Revaluation	(469)	-	-	-		**(469)**
31 December 2013	**-**	**7,271**	**6,086**	**1,256**		**14,613**
Net book value:						
31 December 2012	**39,863**	**5,296**	**695**	**689**	**-**	**46,543**
31 December 2013	**40,961**	**4,436**	**608**	**473**	**1**	**46,479**

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost/ revalued amount						
31 December 2011	**43,951**	**10,768**	**6,137**	**1,729**	**9**	**62,594**
Additions	-	583	268	-	-	**851**
Disposals	-	(49)	(22)	-	(9)	**(80)**
Revaluation	(4,088)	-	-	-	-	**(4,088)**
31 December 2012	**39,863**	**11,302**	**6,383**	**1,729**	**-**	**59,277**
Accumulated depreciation						
31 December 2011	**-**	**4,765**	**5,112**	**836**		**10,713**
Depreciation charge	563	1,257	598	204		**2,622**
Disposals	-	(16)	(22)	-		**(38)**
Revaluation	(563)	-	-	-		**(563)**
31 December 2012	**-**	**6,006**	**5,688**	**1,040**		**12,734**
Net book value:						
31 December 2011	**43,951**	**6,003**	**1,025**	**893**	**9**	**51,881**
31 December 2012	**39,863**	**5,296**	**695**	**689**	**-**	**46,543**

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2013. If the buildings were measured using the cost model, the carrying amounts would be as follows:

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

11. Property and equipment (continued)

	2013	*2012*
Cost	22,862	22,862
Accumulated depreciation and impairment	(3,523)	(2,966)
Net book value	**19,339**	**19,896**

12. Intangible assets

Movements in intangible assets are as follows:

	Licenses	*Computer software*	*Total*
Cost			
31 December 2012	**341**	**762**	**1,103**
Additions	735	286	1,021
Disposals	-	(864)	(864)
31 December 2013	**1,076**	**184**	**1,260**
Accumulated amortization			
31 December 2012	**340**	**304**	**644**
Amortization charge	92	113	205
Disposals	-	(291)	(291)
31 December 2013	**432**	**126**	**558**
Net book value:			
31 December 2012	**1**	**458**	**459**
31 December 2013	**644**	**58**	**702**

	Licenses	*Computer software*	*Total*
Cost			
31 December 2011	**340**	**901**	**1,241**
Additions	1	703	**704**
Disposals	-	(842)	**(842)**
31 December 2012	**341**	**762**	**1,103**
Accumulated amortization			
31 December 2011	**340**	**287**	**627**
Amortization charge	-	877	877
Disposals	-	(860)	(860)
31 December 2012	**340**	**304**	**644**
Net book value:			
31 December 2011	**-**	**614**	**614**
31 December 2012	**1**	**458**	**459**

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

13. Taxation

The income tax expense comprises:

	2013	*2012*
Current tax charge	2,389	2,780
(Benefit)/ expense on deferred tax – origination and reversal of temporary differences	(756)	1,624
Income tax expense	**1,633**	**4,404**

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

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 and loss on net monetary position	12,785	18,351
Statutory tax rate	18%	18%
Theoretical income tax expense at the statutory rate	2,301	3,303
Adjustments to current income tax on prior year profit	(288)	-
Non-taxable income on government securities	(461)	(561)
Non-deductible expenses	688	**131**
Reversal of statutory revaluation for taxation purposes and hyperinflation effect	(607)	1,531
Income tax expense	**1,633**	**4,404**

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

		Origination and reversal of temporary differences			
	2013	*In the statement of comprehensive income*	*In other comprehensive income*	*Hyperinflation effect*	*2012*
Tax effect of deductible temporary differences:					
Allowance for loan impairment	1,508	120	-	(229)	1,617
Property and equipment	139	(13)	(46)	(33)	231
Other assets	611	603	-	(1)	9
Amounts due from credit institutions	1,444	1,444	-	-	-
Gross deferred tax asset	**3,702**	**2,154**	**(46)**	**(263)**	**1,857**
Tax effect of taxable temporary differences:					
Amounts due from credit institutions	-	(960)	-	(158)	1,118
Amounts due to credit institutions	2,304	2,304	-	-	-
Other impairment and provisions	168	53	-	(19)	134
Gross deferred tax liability	**2,473**	**1,398**	**-**	**(177)**	**1,252**
Deferred tax asset	**1,229**	**756**	**(46)**	**(86)**	**605**

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

13. Taxation (continued)

		Origination and reversal of temporary differences			
	2012	***In the statement of comprehensive income***	***In other comprehensive income***	***Hyperinflation effect***	***2011***
Tax effect of deductible temporary differences:					
Derivative financial instruments	-	(9,340)	-	(2,035)	11,375
Allowance for loan impairment	1,617	(853)	-	(538)	3,008
Property and equipment	231	(3,280)	3,511	-	-
Other assets	9	(120)	-	(28)	157
Effective interest rate adjustment on loans to customers	-	(158)	-	(35)	193
Other impairment and provisions	-	(82)	-	(16)	98
Gross deferred tax asset	**1,857**	**(13,833)**	**3,511**	**(2,652)**	**14,831**
Tax effect of taxable temporary differences:					
Amounts due from credit institutions	1,118	1,118	-	-	-
Property and equipment	-	(3,374)	-	(735)	4,109
Amounts due to credit institutions	-	(10,087)	-	(2,196)	12,283
Other impairment and provisions	134	134	-	-	-
Gross deferred tax liability	**1,252**	**(12,209)**	**-**	**(2,931)**	**16,392**
Deferred tax liability	**605**	**(1,624)**	**3,511**	**279**	**(1,561)**

14. Other assets and liabilities

Other assets comprise:

	2013	***2012***
Cash shortages	2,828	-
Bad debt	2,533	2,590
Other prepayments	604	252
Deferred expenses	380	190
Materials and inventory	189	134
Prepayments for property and equipment	51	260
Prepaid taxes other than income tax	32	1,455
Collateral property for sale	-	2,824
Other	430	255
	7,047	**7,960**
Less – Allowance for impairment of other assets (Note 15)	(5,622)	(2,007)
Other assets	**1,425**	**5,953**

Other liabilities comprise:

	2013	***2012***
Accrued expenses	647	889
Amounts due to employees	634	1,303
Amounts due to the budget	505	-
Other settlements	526	311
Other liabilities	**2,312**	**2,503**

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

15. Other impairment and provisions

The movements in other impairment allowances were as follows:

	Other assets
31 December 2011	112
Charge	1,915
Gain on net monetary position	(20)
31 December 2012	**2,007**
Charge	3,899
Gain on net monetary position	(284)
31 December 2013	**5,622**

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

16. Amounts due to credit institutions

Included in amounts due to credit institutions are amounts on current accounts with non-resident banks totaling BYR 242 million (2012: BYR 190 million).

17. Amounts due to customers

Amounts due to customers include the following:

	2013	*2012*
Current accounts	88,507	68,434
Time deposits	508,527	403,566
Amounts due to customers	**597,034**	**472,000**
Held as security against letters of credit	2,013	1,338
Held as security against guarantees and undrawn loan commitments	13,991	10,298

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

	2013	*2012*
Private enterprises	381,868	174,832
Individuals	215,166	297,168
Amounts due to customers	**597,034**	**472,000**

An analysis of customer accounts by economic sector follows:

	2013	*2012*
Individuals	215,166	297,168
Trade	172,417	79,869
Manufacturing	165,084	67,855
Real estate construction	11,133	21,323
Transport and communication	7,831	660
Insurance	2,691	2,151
Other	22,712	2,974
Amounts due to customers	**597,034**	**472,000**

Included in time deposits are deposits of individuals in the amount of BYR 198,378 million (2012: BYR 277,712 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 term deposit is repaid upon demand of the 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.

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

18. Debt securities issued

In 2013, the Bank redeemed the 9th, 10th and 11th issues of bonds issued earlier. Bonds of the 9th issue (BYR 134 million as of 31 December 2012) bear an interest rate of 40% and mature in July 2013. Bonds of the 10th issue (BYR 19,974 million as of 31 December 2012) and of the 11th issue (BYR 60,136 million as of 31 December 2012) bear interest rates of 7% and 8% and mature in July and December 2013, respectively.

As of 31 December 2013, the Bank placed bonds of the 12th issue (denominated in US dollars) in the amount of BYR 48,316 million. The bonds bear an interest rate of 7% and mature in July 2017.

19. Subordinated debt

As of 31 December 2013, the Bank has two USD-denominated subordinated loans and one EUR-denominated subordinated loan from JSC "BTA Bank" (the Republic of Kazakhstan):

Counterparty	*Interest rate*	*Maturity*	*Currency*	*2013*	*2012*
JSC "BTA Bank"	7.23%	15 December 2016	EUR	78,905	79,674
JSC "BTA Bank"	7.50 %	14 November 2016	USD	19,129	20,076
JSC "BTA Bank"	7.75 %	17 February 2016	USD	19,129	20,076
Subordinated debt				**117,163**	**119,826**

20. Equity

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

	Number of shares	*Nominal value*	*Inflation adjustment*	*Total*
31 December 2011	**344**	**54,835**	**165,960**	**220,795**
Increase in share capital		6,500	2,475	8,975
31 December 2012 and 2013	**344**	**61,335**	**158,336**	**229,770**

The total number of authorized ordinary shares is 344 (2012: 344), with a nominal value per share of BYR 178.3 million (2012: BYR 178.3 million).

The share capital of the Bank was contributed by the shareholders in Belarusian rubles and they are entitled to dividends and any capital distribution in Belarusian rubles.

The Bank’s distributable reserves are determined by the amount of its reserves as disclosed in its accounts prepared in accordance with BAS. As of 31 December 2013, the statutory accounts of the Bank disclosed distributable reserves of BYR 74,952 million (2012: BYR 58,124 million) and the amount of non-distributable reserves was BYR 3,983 million (2012: BYR 3,392 million). Non-distributable reserves are represented by a general reserve fund, which is established to cover general banking risks, including future losses and other unforeseen risks or contingencies.

21. Commitments and contingencies

Operating environment

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

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

21. Commitments and contingencies (continued)

Operating environment (continued)

In 2011, Belarus experienced a significant macroeconomic setback. The key factors determining the economic decline were an acute deficit in current operations, reduction and limitation of external funding, absence of a significant foreign currency inflow at the beginning of 2011. These factors resulted in a significant reduction of gold and foreign currency reserves of the National Bank in the first quarter of 2011 followed by a deficit in foreign currency in the country and a significant decrease in the official exchange rate accompanied by the growth in inflation and an increase in the basic refinancing rate up to 45% as of 31 December 2011. In 2011, the rate of inflation was 108.7% (Note 2).

Significant financial support from Russia, which consisted in issuing loans in 2011 and 2012 and participating in privatization of state owned assets at the end of 2011, and an excess of the foreign trade balance contributed to a noticeable increase in the National Bank's reserves and stabilization of the macroeconomic situation in the country in 2012. The representatives of the Government and the National Bank of the Republic of Belarus believe that reserves as of 31 December 2012 were sufficient to maintain stability, avoid foreign currency deficit and satisfy the country's needs in external funds in the short- and medium-term. The official exchange rate remained virtually unchanged in 2012. In 2012, the rate of inflation was 21.8%, the basic refinancing rate was reduced to 30% as of 31 December 2012.

The year 2013 demonstrated obvious signs of stabilization of the macroeconomic situation as compared to 2012. The inflation rate dropped to 16.5% in 2013. The basic refinancing rate was reduced to 23.5% as of 31 December 2013. The GDP grew by 0.9% in 2013. In the second half of 2013, the banking system faced a liquidity crisis, which led to higher rates in Belarusian rubles on the resource market against 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. A tranche of USD 440 million was provided at the end of December 2013, which helped stabilize the exchange rate policy at the end of the year.

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

Legal

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

Taxation

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

It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

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

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

21. Commitments and contingencies (continued)

Commitments and contingencies

As of 31 December 2013, the Bank's commitments and contingencies comprise:

	2013	*2012*
Credit-related commitments		
Letters of credit	1,655	1,338
Guarantees	4,283	3,438
Undrawn loan commitments	62,394	70,584
	68,332	**75,360**
Operating lease commitments		
Not later than 1 year	-	3,522
Later than 1 year but not later than 5 years	-	8,852
	-	**12,374**
Commitments and contingencies	**68,332**	**87,734**
Less – Cash held as security against letters of credit, guarantees and undrawn loan commitments (Note 17)	(16,004)	(11,636)
Commitments and contingencies	**52,328**	**76,098**

22. Net fee and commission income

Net fee and commission income comprises:

	2013	*2012*
Operations with customers	16,413	17,449
Currency conversion operations	3,408	3,437
Current account replenishment	79	257
Other	1,845	1,639
Fee and commission income	**21,745**	**22,782**
Currency conversion operations	(294)	(394)
Transactions with banks	(1,556)	(1,776)
Bank plastic card operations	(815)	(903)
Documentary transactions	(68)	(126)
Other	(59)	(44)
Fee and commission expense	**(2,792)**	**(3,243)**
Net fee and commission income	**18,953**	**19,539**

23. Other income

	2013	*2012*
Income tax overpaid in 2010-2012	1,598	-
Income from sale of other assets	1,015	-
Fines and penalties received	1,133	751
Other	42	141
Total other income	**3,788**	**892**

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

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2013	*2012*
Salaries and bonuses	27,886	27,707
Social security costs	8,548	7,927
Personnel expenses	**36,434**	**35,634**
Software expenses	6,351	4,319
Occupancy and rent	4,457	4,446
Contributions to deposit insurance fund	2,938	3,940
Marketing and advertising	2,076	2,342
Repair expenses	1,888	1,870
Transportation expenses	1,504	1,625
Utility expenses	896	976
Legal and consultancy	778	1,071
Security	765	719
Loss on disposal of property and equipment and intangible assets	611	-
Audit expenses	530	573
Communications	446	340
Information services	324	305
Office supplies	62	58
Charity	13	73
Other	695	493
Other operating expenses	**24,332**	**23,150**

25. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk and liquidity 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 responsibility for approval of strategy and principles of risk management, design of effective system of risk management and internal controls lies within the Board of Directors. The Risk Committee was created to assist the Board of Directors in executing this function. There are also separate independent bodies responsible for managing and monitoring risks.

Board of Directors

Board of Directors is responsible for general approach to risk management, approval of strategy and principals of risk management.

Risk Committee

Risk committee is responsible for the risk management system maintenance and supervision of the risk management divisions; assessment of the effectiveness of the Bank's risk management system; submission of the information to the Board of Directors on identified (based on risk reporting data) significant issues, deficiencies in the Bank's activities that affect the risk level of the Bank and may result in adverse consequences.

Audit Committee

Audit committee is responsible for monitoring and control of effectiveness of the risk management system, development of recommendations on organization of risk analysis and risk assessment system, enhancement of risk management system.

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

25. Risk management (continued)

Introduction (continued)

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.

Credit Committee

The Committee is responsible for implementation and improvement of Credit policy of the Bank, approval of decisions on loan projects and definition of their parameters. The Committee assesses the quality of cumulative claims of the Bank in respect to the assets subject to credit risk.

Assets and Liabilities Management Committee

The Committee is responsible for determining the policy of effective management of assets and liabilities, allowing to maximize profits while minimizing the risks and following prudential ratios and statutory acts. The Committee performs complex financial risk management, coordinates the activities of the Bank's branches in the field of risk management in order to reach the optimal balance of risks and profitability.

Risk Department

The Risk Department is responsible for developing the methods of risk identification, analysis and measurement, developing, realizing and controlling adherence to limits policy, implementing and performing risk management procedures. These activities are performed in order to ensure independent control process. The Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. This department also presents reports on risk levels to the Management Board and Board of Directors of the Bank.

Financial Controlling Department

Financial Controlling Department is responsible for organization of effective interest rate management system, that enables to maintain this type of risk at the acceptable level at which the Bank's financial stability, creditors and depositors interests are not being threatened. The Department is also responsible for the Bank's liquidity which is based on balance between assets and liabilities, maturity match between assets placed and resources attracted, the Department establishes principals and methods of the Bank's liquidity management. The Department provides Management Board and Board of Directors with reports on level of interest and liquidity risks.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Department of Internal Audit that examines both the adequacy of the procedures and the Bank's compliance with the procedures, submits proposals on improvement of the risk management system and internal controls. The Department of Internal Audit presents the results of all assessments to the Management Board of the Bank, and reports its findings and recommendations to the Audit Committee and Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using scenario methods that enable to assess the level of risk in different circumstances.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure when capital adequacy is calculated.

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

25. Risk management (continued)

Introduction (continued)

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 Risk Committee, Management Board, Assets and Liabilities Management Committee, Credit Committee. The report includes aggregate credit exposure, liquidity ratios, levels of operational, interest and currency risks and risk profile changes. Appropriateness of the allowance for credit losses is assessed on a quarterly basis. The Board of Directors (Risk Committee) receives a comprehensive report on loan portfolio and the Bank's financial position once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by the local statutory acts 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.

Main stages of risk management:

- identification of risks;
- risk measurement – quantitative description of identified risks (probability and amount of possible losses);
- choice of risk management methods while assessing their comparative effectiveness;
- decision-making and direct impact on the risk;
- monitoring of the accepted credit risk and control over the procedures being used.

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.

Risk Department performs monthly loan portfolio analysis and classification to assess the required loan impairment allowance the results of which are communicated to Credit Committee. The extended analysis of the loan portfolio is performed on quarterly basis – the Management Board and Board of Directors are informed on its results.

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25. Risk management (continued)

Credit risk (continued)

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

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

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.

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 letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk 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 amount 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 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in 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 of 31 December 2013)

25. 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 is generally considered remote but 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. The Bank considers that it holds no assets under substandard grade as of 31 December 2013 and 2012.

		Neither past due nor impaired				
	Notes	***High grade 2013***	***Standard grade 2013***	***Past due but not impaired 2013***	***Individually impaired 2013***	***Total 2013***
Cash and cash equivalents except cash on hand	5	109,604	-	-	-	**109,604**
Due from NBRB	6	7,897	-	-	-	**7,897**
Amounts due from credit institutions	7	291	-	-	-	**291**
Derivative financial assets	8	73,736	-	-	-	**73,736**
Loans to customers	9					
Corporate lending		449,114	5,044	442	11,609	**466,209**
Entrepreneurs lending		21,101	-	-	497	**21,598**
Consumer lending		114,641	24	4,819	2,196	**121,680**
		584,856	**5,068**	**5,261**	**14,302**	**609,487**
Investment securities available for sale	10	30,250	-	-	-	**30,250**
Total		**806,634**	**5,068**	**5,261**	**14,302**	**831,265**

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

25. Risk management (continued)

Credit risk (continued)

	Notes	Neither past due nor impaired: High grade 2012	Neither past due nor impaired: Standard grade 2012	Past due but not impaired 2012	Individually impaired 2012	Total 2012
Cash and cash equivalents except cash on hand	5	118,105	-	-	-	**118,105**
Due from NBRB	6	5,355	-	-	-	**5,355**
Derivative financial assets	8	105,009	-	-	-	**105,009**
Loans to customers	9					**-**
Corporate lending		328,989	393	58	30,311	**359,751**
Entrepreneurs lending		17,848	-	-	12	**17,860**
Consumer lending		96,694	369	400	1,269	**98,732**
		443,531	**762**	**458**	**31,592**	**476,343**
Investment securities available for sale	10	31,747	-	-	-	**31,747**
Total		**703,747**	**762**	**458**	**31,592**	**736,559**

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

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

	Less than 30 days 2013
Loans to legal entities	442
Consumer lending	4,819
Total	**5,261**

	Less than 30 days 2012
Loans to legal entities	58
Consumer lending	400
Total	**458**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 5 days for legal entities and 30 days for individuals 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 indicators of financial activity, their changes in the period of loan servicing, evaluation of quality of loan servicing, the realizable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

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

25. Risk management (continued)

Credit risk (continued)

Collectively assessed allowances

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

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred (5 days for corporate clients and 30 days for individuals) 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 and letters of credit are assessed and provision made in a similar manner as for loans.

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 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.

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:

	NBRB required minimum ratio value, %	*2013, %*	*2012, %*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70	142	303
"Short-Term Liquidity Ratio" (assets receivable or realizable within one year/ liabilities repayable within one year)	100	200	370
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20	390	510

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

25. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations except for trading derivatives which are shown at fair value in a separate column and gross settled derivatives which are shown by contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As of 31 December 2013	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	242	-	-	-	**242**
Derivative financial instruments					
- Contractual amounts payable	32,822	358	32,017	-	**65,196**
- Contractual amounts receivable	(43,232)	(210)	(102,979)	-	**(146,421)**
Amounts due to customers	332,358	200,663	186,223	-	**719,245**
Debt securities issued	766	2,496	56,703	-	**59,966**
Other liabilities	2,312	-	-	-	**2,312**
Subordinated debt	2,143	6,430	131,972	-	**140,545**
Total undiscounted financial liabilities	**327,412**	**209,737**	**303,936**	**-**	**841,085**

Financial liabilities As of 31 December 2012	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	190	-	-	-	**190**
Derivative financial instruments					
- Contractual amounts payable	73,519	19,870	39,519	-	**132,908**
- Contractual amounts receivable	(73,554)	(50,192)	(107,405)	-	**(231,151)**
Amounts due to customers	130,212	219,369	167,993	-	**517,574**
Debt securities issued	1,783	84,093	-	-	**85,876**
Other liabilities	904	-	-	-	**904**
Subordinated debt	2,193	6,579	143,715	-	**152,487**
Total undiscounted financial liabilities	**135,247**	**279,719**	**243,822**	**-**	**658,788**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The maturity analysis does not reflect the historical stability of current accounts and deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above.

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

25. Risk management (continued)

Liquidity risk and funding management (continued)

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2013	14,555	16,533	37,244	-	**68,332**
2012	32,372	37,036	18,326	-	**87,734**

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

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

Currency	*Increase in %* *2013*	*Sensitivity of net interest income* *2013*	*Sensitivity of equity less effect on net interest income* *2013*
BYR	18.68%	3,268	-
EUR	0.14%	(96)	-
USD	0.03%	(18)	9

Currency	*Decrease in %* *2013*	*Sensitivity of net interest income* *2013*	*Sensitivity of equity less effect on net interest income* *2013*
BYR	18.68%	(4,518)	-
EUR	0.14%	96	-
USD	0.03%	18	(9)

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

25. Risk management (continued)

Market risk – Non-trading (continued)

Currency	*Increase in %* 2012	*Sensitivity of net interest income* 2012	*Sensitivity of equity less effect on profit and loss* 2012
BYR	5.00%	1,901	-
EUR	1.00%	(917)	-
USD	1.00%	(1,491)	316

Currency	*Decrease in %* 2012	*Sensitivity of net interest income* 2012	*Sensitivity of equity less effect on profit and loss* 2012
BYR	10.00%	(4,515)	-
EUR	1.00%	948	-
USD	1.00%	1,535	(316)

Currency risk

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

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 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 Belarusian ruble, 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 the statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in %* 2013	*Effect on profit before tax* 2013	*Increase in currency rate in %* 2012	*Effect on profit before tax* 2012
USD	32.48%	(17,183)	34.01%	(14,479)
EUR	33.90%	1,754	32.08%	163

Currency	*Decrease in currency rate in %* 2013	*Effect on profit before tax* 2013	*Decrease in currency rate in %* 2012	*Effect on profit before tax* 2012
USD	32.48%	17,183	34.01%	14,479
EUR	33.90%	(1,754)	32.08%	(163)

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.

The management believes that the Bank is not exposed to prepayment risk.

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25. Risk management (continued)

Operational risk

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

26. Fair value measurement

Fair value of financial instruments carried at fair value

The Bank uses the following 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; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	Fair value measurement using			
At 31 December 2013	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Derivative financial assets	-	3	73,733	**73,736**
Investment securities available for sale	-	30,250	-	**30,250**
Property and equipment – buildings	-	-	40,961	**40,961**
Assets for which fair values are disclosed				
Cash and cash equivalents	139,902	-	-	**139,902**
Due from NBRB	-	7,897	-	**7,897**
Amounts due from credit institutions	-	291	-	291
Loans to customers	-	619,145	-	619,145
Liabilities measured at fair value				
Derivative financial liabilities	-	3	-	**3**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	242	-		**242**
Amounts due to customers	-	594,085	-	594,085
Debt securities issued	-	-	48,316	**48,316**
Subordinated debt	-	117,163	-	**117,163**
Other liabilities	-	-	2,312	**2,312**

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

26. Fair value measurement (continued)

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

Fair value of financial instruments carried at fair value

31 December 2013	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets on swap deals	-	3	73,733	73,736
Investment securities available for sale	-	30,250	-	30,250
	-	**30,253**	**73,733**	**103,986**
Financial liabilities				
Derivative financial liabilities on swap deals	-	(3)	-	(3)
	-	**(3)**	**-**	**(3)**

31 December 2012	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets on swap deals	-	20	104,989	**105,009**
Investment securities available for sale	-	31,747	-	**31,747**
	-	**31,767**	**104,989**	**136,756**
Financial liabilities				
Derivative financial liabilities on swap deals	-	(3)	-	**(3)**
	-	**(3)**	**-**	**(3)**

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. 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.

Investment securities available for sale

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

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26. Fair value measurement (continued)

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

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

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2013	***Total gains recorded in other comprehensive income – Net income from derivatives***	***At 31 December 2013***
Financial assets			
Derivative financial instruments	104,989	31,256	73,733
Total Level 3 financial assets	**104,989**	**31,256**	**73,733**

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

	2013			***2012***		
	Realized gains	***Unrealized gains***	***Total***	***Realized gains***	***Unrealized gains***	***Total***
Total gains included in the statement of comprehensive income	12,459	18,797	**31,256**	-	12,886	**12,886**

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

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

	31 December 2013		***31 December 2012***	
	Carrying amount	***Effect of reasonably possible alternative assumptions***	***Carrying amount***	***Effect of reasonably possible alternative assumptions***
Financial assets				
Derivative financial instruments	73,733	(2,224)	104,989	(1,627)

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 10%.

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26. Fair value measurement (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	139,902	139,902	-	152,099	152,099	-
Amounts due from NBRB	7,897	7,897	-	5,355	5,355	-
Amounts due from credit institutions	291	291	-			
Loans to customers	596,832	619,145	22,313	466,480	466,480	-
Financial liabilities						
Amounts due to credit institutions	242	242	-	190	190	-
Amounts due to customers	597,034	594,085	(2,949)	472,000	472,000	-
Subordinated debt	117,163	117,163	-	119,826	119,826	-
Debt securities issued	48,316	48,316	-	80,244	80,244	-
Total unrecognized change in unrealized fair value						**-**
			19,364			**-**

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

Fixed and variable rate financial instruments

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

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27. 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 25 "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	139,902	-	139,902	152,099	-	152,099
Amounts due from NBRB	-	7,897	7,897	-	5,355	5,355
Amounts due from credit institutions	291	-	291	-	-	-
Derivative financial assets	3	73,733	73,736	32,337	72,672	105,009
Loans to customers	381,537	215,295	596,832	313,234	153,246	466,480
Investment securities available for sale	30,250	-	30,250	-	31,747	31,747
Property and equipment	118	46,361	46,479	445	46,098	46,543
Intangible assets	339	363	702	407	52	459
Deferred income tax assets	-	1,229	1,229	-	605	605
Current income tax assets	994	-	994	839	-	839
Other assets	1,425	-	1,425	3,754	2,199	5,953
Total	**554,859**	**344,878**	**899,737**	**503,115**	**311,974**	**815,089**
Amounts due to credit institutions	242	-	242	190	-	190
Derivative financial liabilities	3	-	3	3	-	3
Amounts due to customers	450,004	147,030	597,034	314,435	157,565	472,000
Debt securities issued	766	47,550	48,316	80,244	-	80,244
Other liabilities	2,312	-	2,312	2,503	-	2,503
Subordinated debt	-	117,163	117,163	-	119,826	119,826
Total	**453,327**	**311,743**	**765,070**	**397,375**	**277,391**	**674,766**
Net	**101,532**	**33,135**	**134,667**	**105,740**	**34,583**	**140,323**

The maturity analysis above does not reflect the historical stability of current accounts and time deposits which are included in amounts due to customers. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in up to one year.

In accordance with the Belarusian Banking Code, the Bank is obliged to repay time deposits within five days upon demand of a depositor. However, the Bank does not expect that many customers will request repayment at original maturity. These balances are therefore included in accordance with their contractual maturity.

28. Related party disclosures

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

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28. Related party disclosures (continued)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.
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***		
	Shareholders	***Key management personnel***	***Shareholders***	***Companies under common control***	***Key management personnel***
Cash and cash equivalents	227	-	127	-	-
Amounts due from credit institutions at 1 January, gross	-	-	-	8,449	-
Loans issued during the year	-	-	-	-	-
Loan repayments during the year	-	-	-	(6,700)	-
Other changes	-	-	-	(238)	-
Effect of net monetary position	-	-	-	(1,511)	-
Amounts due from credit institutions at 31 December, gross	**-**	**-**	**-**	-	-
Less: allowance for impairment at 31 December	-	-	-	-	-
Amounts due from credit institutions at 31 December, net	-	-	-	-	-
Loans outstanding at 1 January, gross	-	127	-	-	711
Loans issued during the year	-	3,399	-	-	1
Loan repayments during the year	-	(3,178)	-	-	(69)
Other changes	-	393	-	-	(389)
Effect of net monetary position	-	(18)	-	-	(127)
Loans outstanding at 31 December, gross	-	723	-	-	127
Less: allowance for impairment at 31 December	-	(12)	-	-	(2)
Loans outstanding at 31 December, net	**-**	**711**	**-**	-	**125**

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28. Related party disclosures (continued)

	2013		2012		
	Shareholders	***Key management personnel***	***Shareholders***	***Companies under common control***	***Key management personnel***
Subordinated debt at 1 January	119,826	-	139,276	-	-
Subordinated debt repaid during the year	-	-	-	-	-
Other changes	14,278	-	5,456	-	-
Effect of net monetary position	(16,941)	-	(24,906)	-	-
Subordinated debt at 31 December	117,163	-	119,826	-	-
Deposits at 1 January	-	1,302	-	-	1,920
Deposits received during the year	-	34,002	-	-	5,284
Deposits repaid during the year	-	(23,509)	-	-	(3,985)
Other changes	-	825	-	-	(1,575)
Effect of net monetary position	-	(184)	-	-	(342)
Deposits at 31 December	-	12,437	-	-	1,302
Undrawn loan commitments	-	289	-	-	115
Interest income	-	160	-	-	1
Interest expense	7,155	1,339	8,397	-	28
Commission income	-	20	-	-	-
Commission expenses	8	-	5	-	-

Compensation to key management personnel comprised the following:

	2013	***2012***
Salaries and other short-term benefits	6,231	2,998
Social security costs	1,703	619
Total key management compensation	**7,934**	**3,617**

Key management personnel includes six employees of the Bank as of 31 December 2012 and 2013.

29. 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 the ratios established by the Basel Capital Accord 1988 and the ratios established by the NBRB in supervising the Bank.

The Bank did not comply with the requirement for the minimum amount of regulatory capital for operating banks entitled to attract funds from individuals who are not individual entrepreneurs on accounts and/or deposits and/or open and manage bank accounts of such individuals. At 1 January 2014, the actual regulatory capital of the Bank amounted to EUR 11.6 million, with the minimum amount established at EUR 25 million. Though the Bank was not in compliance with the above requirement, no sanctions were applied by the National Bank of the Republic of Belarus (Note 30).

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29. Capital adequacy (continued)

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 capital adequacy ratio of 8% of risk-weighted assets, computed based on BAS. As of 31 December 2013 and 2012, the Bank's capital adequacy ratio on this basis was as follows:

	2013	***2012***
Main capital	75,813	85,013
Additional capital	75,813	85,013
Total capital	**151,626**	**170,026**
Risk-weighted assets	**959,124**	**676,917**
Capital adequacy ratio	15.8%	25.1%

Capital adequacy ratio under the Basel Capital Accord 1988

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

	2013	***2012***
Tier 1 capital	120,684	123,542
Tier 2 capital	60,342	61,771
Total capital	**181,026**	**185,313**
Risk-weighted assets	**605,792**	**438,955**
Tier 1 capital ratio	19.9%	28.1%
Total capital ratio	9.9%	14.1%

30. Events after the reporting period

On 28 March 2013, the annual general shareholders' meeting took place, where the following issues were approved: the report of the Revision commission on the results for 2013, the annual BAS financial statements, profit distribution, members of the Board of Directors and the Revision commission. The annual general shareholders' meeting decided neither to accrue nor pay any dividends.

On 6 April and 19 May 2014, the National Bank of the Republic of Belarus gradually reduced the basic refinancing rate, which at the date of these financial statements was 21.5% p.a.

On 27 May 2014, the NBRB issued a letter instructing the Bank to eliminate the regulatory capital violation by 1 January 2015.