STATE UNITARY ENTERPRISE „BELARUSIAN NATIONAL REINSURANCE ORGANISATION”

Financial Statements
for the year ended 31 December 2013

Content

Information about the Company

Name of company	*STATE UNITARY ENTERPRISE "BELARUSIAN NATIONAL REINSURANCE ORGANISATION"*
Legal status	*State Unitary Enterprise*
Insurance license	#02200/13-00048, valid until 30 November 2016
Address	14 Chkalov str., Minsk, Belarus
Reporting year	01/01/2013-31/12/2013
Information on shareholders	The Council of Ministers of the Republic of Belarus (100.00%)
Auditors	KPMG, Limited Liability Company 5 Dimitrova str., 220004 Minsk, Belarus

As of 31 December 2013 the members of the Management of the Company were as follows:

Management of the Company		**Date of appointment**
Mikchail Bulavkin	General Director	29.07.2009
Svetlana Kopytkova	Chief Accountant	14.05.2012
Andrey Unton	Deputy General Director	01.09.2009

As of the date of signing the financial statements the members of the Management of the Company were the same.

Statement of management responsibility

Management is responsible for preparing the financial statements of State Unitary Enterprise "Belarusian National Reinsurance Organisation". The financial statements on pages 7 to 49 present fairly the financial position of the Company as at 31 December 2013, the results of its operations and cash flows for 2013 in accordance with International Financial Reporting Standards (IFRS).

The Management confirms that appropriate accounting policies have been used and applied consistently. Reasonable and prudent judgment and estimates have been made in the preparation of the Company financial statements. The Management also confirms that the Company's financial statements have been prepared on a going concern basis.

The Management of the Company is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. It is also responsible for operating the Company in compliance with the Law and relevant legislation of the Republic of Belarus.

Mikchail Bulavkin
General Director

24 April 2014

KPMG, Limited liability company
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220004 Minsk Belarus

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Independent Auditors' Report

To the shareholder of
State Unitary Enterprise "Belarusian National Reinsurance Organisation"

We have audited the accompanying financial statements of State Unitary Enterprise "Belarusian National Reinsurance Organisation" ("the Company"), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Company carried its investment in securities in the amount of 700 000 millions BYR at cost instead of fair value as at 31 December 2013 as it was unable to obtain a reliable measure of fair value. Such accounting treatment of these investments is not in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. A reliable measure of fair value for the Company's investment in securities could have been obtained through the current market value of similar securities in accordance with IFRS 13 *Fair value measurement*, which states that 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 effect of such non-compliance to the aforementioned standards on the fair value of investment in securities and equity of the Company was not quantified as at 31 December 2013, respectively.

Qualified Opinion

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects the financial position of State Unitary Enterprise “Belarusian National Reinsurance Organisation” as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the fact that, as described in Note 2, in 2011 the economy of the Republic of Belarus was classified as a hyperinflationary economy under International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies”.In 2012 and 2013 the economy of the Republic of Belarus is still classified as hyperinflationary. The functional currency of the Company is the Belarusian Ruble and accordingly the financial statements for the year ended 31 December 2013 including corresponding information have been adjusted in accordance with IAS 29.

Edgars Volskis
Director
KPMG in Belarus
24 April 2014

Statement of comprehensive income for the year ended 31 December 2013

All amounts are in millions of BYR

	Notes	2013	2012 (restated)
Earned premiums			
Written premiums			
Gross written premiums	5	433 684	296 031
Reinsurers’ share in written premiums	5	(270 085)	(178 368)
Net written premiums	5	***163 599***	***117 663***
Change in unearned premium and unexpired risk technical reserves			
Gross change	7	(97 372)	(36 504)
Reinsurers’ share	7	91 387	43 691
Change in net unearned premium and unexpired risk technical reserves	7	***(5 985)***	***7 187***
Net earned premiums	6	**157 614**	**124 850**
Incurred claims, net			
Paid claims, net			
Gross claims paid	8	(41 491)	(25 368)
Paid claims		*(42 128)*	*(25 193)*
Loss adjustment expenses		*(765)*	*(283)*
Recovered losses		*1 402*	*108*
Reinsurers’ share of claims	8	*12 548*	762
Reinsurers’ share in paid claims		*12 548*	*762*
Net paid claims	8	***(28 943)***	***(24 606)***
Change in outstanding claim technical reserve			
Gross change	9	(46 991)	(39 151)
Reinsurers’ share	9	31 828	8 984
Change in net outstanding claim technical reserve	9	***(15 163)***	***(30 167)***
Net incurred claims	10	**(44 106)**	**(54 773)**
Operating (expenses)/ income			
Client acquisition costs	11	(31 998)	(20 807)
Change in deferred client acquisition costs	11	9 798	7 013
Reinsurance commission income		6 983	7 891
Administrative expenses	12	(18 506)	(15 400)
Net operating expenses		**(33 723)**	**(21 303)**
Other technical expense, net	13	**1 191**	**(1 530)**

(continued)

Statement of comprehensive income for the year ended 31 December 2013

(continued)

All amounts are in millions of BYR

	Notes	2013	2012 (restated)
Investment income, net	14	82 551	69 383
Other expense, net	15	(39 795)	(14 378)
Loss on net monetary position due to inflation effect		(165 908)	(31 641)
Profit/(Loss) before tax		**(42 176)**	**70 608**
Income tax expense	16	(33 887)	(43 914)
Net profit / (loss) for the year		**(76 063)**	**26 694**
Other comprehensive incom		-	-
Total comprehensive income/ (loss) for the year		**(76 063)**	**26 694**

The accompanying notes on pages 14 to 49 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 24 April 2014, and the financial statements are signed on behalf of the Management of the Company by:

Mikchail Bulavkin
General Director

24 April 2014

Statement of financial position as at 31 December 2013

All amounts are in millions of BYR

	Notes	31 December 2013	31 December 2012 (restated)
Assets			
Property and equipment	18	**18 520**	**18 501**
Intangible assets		**-**	**1**
Financial investments			
Available-for-sale financial assets	19	1 390 427	1 554 097
Deposits with banks	20	365 699	307 718
Total financial investments		**1 756 126**	**1 861 815**
Receivables			
Receivables from direct insurance activities	21	151 973	90 315
Receivables from reinsurance activities		4 499	2 104
Other receivables	22	851	359
Total receivables		**157 323**	**92 778**
Accrued income and deferred expenses			
Deferred client acquisition costs	11	24 342	14 544
Other accrued income and deferred expenses		303	396
Total accrued income and deferred expenses		**24 645**	**14 940**
Reinsurance contract assets			
Reinsurers’ share in unearned premiums technical reserve	7	168 387	77 000
Reinsurers’ share in outstanding claim technical reserve	9	46 529	17 127
Total assets from reinsurance contracts		**214 916**	**94 127**
Cash and cash equivalents	23	**36 419**	**67 304**
Total assets		**2 207 949**	**2 149 466**

The accompanying notes on pages 14 to 49 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 24 April 2014, and the financial statements are signed on behalf of the Management of the Company by:

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Mikchail Bulavkin
General Director

24 April 2014

Statement of financial position as at 31 December 2013

All amounts are in millions of BYR

Equity and liabilities	**Notes**	**31 December 2013**	**31 December 2012 (restated)**
Equity			
Share capital	24	2 616 425	2 575 475
Accumulated losses		(1 017 913)	(834 655)
Total equity		**1 598 512**	**1 740 820**
Liabilities			
Technical reserves			
Technical reserves for unearned premiums and unexpired risks	7	286 215	189 664
Outstanding claim technical reserve	9	121 461	86 758
Total technical reserves		**407 676**	**276 422**
Creditors			
Direct insurance creditors		14 928	7 258
Reinsurance creditors		101 462	44 293
Current income taxes liabilities		10 751	12 602
Other creditors		18 272	6 811
Total creditors		**145 413**	**70 964**
Provision for unused vacations		**141**	**123**
Deferred tax liability	16	**56 207**	**61 137**
Total liabilities		**609 437**	**408 646**
Total equity and liabilities		**2 207 949**	**2 149 466**

The accompanying notes on pages 14 to 49 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 24 April 2014, and the financial statements are signed on behalf of the Management of the Company by:

Mikchail Bulavkin
General Director

24 April 2014

Statement of cash flows for the year ended 31 December 2013

All amounts are in millions of BYR

	Notes	2013	2012 (restated)
Cash flows from insurance activities			
Net profit/(loss) for the year		**(76 063)**	**26 694**
Adjustments for:			
Loss on net monetary position due to inflation effect		165 908	31 641
Unrealized forex gain		(14 990)	(11 653)
Investment income	14	(82 551)	(69 383)
Increase in impairment allowance for bad debtors	21	(1 191)	1 530
Written-off insurance debtors	21	(1 487)	(1 435)
Depreciation of property and equipment	18	184	203
Change in provision for unused vacations		18	34
Impairment of available for sale financial assets	15	70 169	29 028
Income tax expense	16	33 887	43 914
Cash flows from operating activities before changes in operating assets and liabilities		**93 884**	**50 573**
(Increase)/decrease in operating assets:			
Receivables from direct insurance activities		(86 432)	(22 062)
Receivables from reinsurance activities		(2 907)	(1 045)
Other receivables		(586)	(101)
Reinsurance contract assets		(123 215)	(52 675)
Accrued income and deferred expenses		(9 705)	(7 155)
Increase/(decrease) in operating liabilities:			
Technical reserves		143 542	75 655
Direct insurance creditors		9 387	3 881
Reinsurance creditors		65 183	20 697
Other creditors		13 411	13 608
Net cash inflow from insurance activities before income tax paid		**102 562**	**81 376**
Income tax paid		(30 229)	(10 767)
Total cash flows from insurance activities		**72 333**	**70 609**
Cash flows from investing activities			
Investment income received		55 194	69 383
Proceeds from disposal of investments held to maturity		-	2 808
Purchase of available for sale financial assets		-	(815 500)
Net placements of deposits with banks		(85 262)	(83 594)
Purchase of property and equipment		(203)	(18 132)
Dividends received		27 357	-
Total cash flows used in investing activities		**(2 914)**	**(845 035)**

(continued)

Statement of cash flows for the year ended 31 December 2013

(continued)

All amounts are in millions of BYR

	Notes	2013	2012 (restated)
Cash flow from financing activities			
Increase of share capital by the owner		-	815 500
Dividends paid to the owner		(66 245)	(25 193)
Total cash flow from financing activities		**(66 245)**	**790 307**
Cash and cash equivalents net increase/ (decrease)		**3 174**	**15 881**
Cash and cash equivalent at the beginning of the year		**67 304**	**34 500**
Effect of inflation on cash and cash equivalents		(34 059)	15 963
Effect of exchange rate fluctuations on cash held		-	960
Cash and cash equivalent at the end of the year	23	**36 419**	**67 304**

The accompanying notes on pages 14 to 49 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 24 April 2014, and the financial statements are signed on behalf of the Management of the Company by:

Mikchail Bulavkin
General Director
24 April 2014

Statement of changes in equity for the year ended 31 December 2013

All amounts are in millions of BYR

	Notes	Share capital	Accumulated losses	Total equity
Balance at 1 January 2012 (restated)		**1 432 082**	**(673 610)**	**758 472**
Prior year restatements for hyperinflation		312 195	(146 848)	165 347
Balance at 1 January 2012 (restated)		**1 744 277**	**(820 458)**	**923 819**
Total comprehensive income for the year	24	-	26 694	26 694
Transactions with owner, recorded directly in equity				
Increase of share capital by the owner		815 500	-	815 500
Increase of share capital due to profit reallocation		15 698	(15 698)	-
Dividends paid		-	(25 193)	(25 193)
Balance at 31 December 2012 (restated)		**2 575 475**	**(834 655)**	**1 740 820**
Balance at 1 January 2013		**2 210 708**	**(716 442)**	**1 494 266**
Prior year restatements for hyperinflation		364 767	(118 213)	246 554
Balance at 1 January 2013 (restated)		**2 575 475**	**(834 655)**	**1 740 820**
Total comprehensive income for the year	24	-	(76 063)	(76 063)
Transactions with owner, recorded directly in equity				
Increase of share capital due to profit reallocation	24	40 950	(40 950)	-
Dividends paid	24	-	(66 245)	(66 245)
Balance at 31 December 2013		**2 616 425**	**(1 017 913)**	**1 598 512**

The accompanying notes on pages 14 to 49 form an integral part of these financial statements.

The Management of the Company approves for issue these financial statements on 24 April 2014, and the financial statements are signed on behalf of the Management of the Company by:

Mikchail Bulavkin
General Director

24 April 2014

Notes to the financial statements

(1) General information

(a) Principal activities

The Company was incorporated in 2006 as a State Unitary Enterprise and registered under the laws of the Republic of Belarus. The Company is the first specialized reinsurance organization in the Republic of Belarus and was established by the Regulation of the Council of Ministers of the Republic of Belarus dated 4th November, 2006 № 1463 "On Establishment of Belarusian National Reinsurance Organization" in compliance with the Order of the President of the Republic of Belarus dated 25th of August, 2006 № 530 "On Insurance Operations". During the reporting year the Company operated under the reinsurance license #02200/13-00048, valid until 30 November 2016.

In accordance with the legislation of the Republic of Belarus State Unitary Enterprise "Belarusian National Reinsurance Organization" ("Belarus Re" or "the Company") is the sole company which cooperates with foreign insurance and reinsurance organizations on reinsurance of risks, insured on the territory of the Republic of Belarus. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with insured. Consequently, all references to insurance contracts refer to reinsurance assumed. In accordance with the legislation of the Republic of Belarus all insurance companies operating on the territory of the Republic of Belarus are obliged to cede to State Unitary Enterprise "Belarusian National Reinsurance Organization" a portion of liabilities insured by them in excess of liability limits set by the legislation of the Republic of Belarus. Insurance companies are obliged to agree their tariffs for such cases with the Company.

The main insurance lines of the Company are aviation insurance, liability insurance, transport insurance, property insurance, pecuniary insurance, motor insurance (third party liability of motor vehicles owners – "green card"), marine insurance and accident insurance.

The head office is located in Minsk, Chkalova str., 14, Republic of Belarus.

(b) Shareholder

As of 31 December 2013 and 2012 the Company's shareholder was:

	31 December 2013	31 December 2012
The Council of Ministers of the Republic of Belarus	100.00%	100.00%
	100.00%	**100.00%**

(2) Basis of preparation

(a) Statement of compliance

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

The financial statements for the year ended 31 December 2013 were authorized for issue on 24 April 2014 and signed on behalf of the management by the General Director. The shareholder has the right not to accept financial statements and request that they be corrected.

(b) Hyperinflation

In 2013 and 2012 the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29, and IAS 29 has been applied retrospectively to the financial statements for the reporting period beginning on 1 January 2012.

IAS 29 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. Therefore application of IAS 29 results in an adjustment to the statement of comprehensive income for the gain or loss of purchasing power of the Belarusian Ruble under the caption "Net gain/loss on net monetary position". This gain or loss on net monetary position is calculated as a difference resulting from the restatement of non-monetary assets, non-monetary liabilities, equity and items of the statement of comprehensive income.

Notes to the financial statements

The Company's opening statement of financial position as at 31 December 2012 in relation to non-monetary items (non-monetary assets and equity) measured at historical cost was restated to reflect the effect of inflation from the date the assets were acquired and the liabilities were incurred or assumed, as well as respective effect on deferred tax until the end of the reporting period.

The corresponding figures for the year ended 31 December 2012 were restated for the changes in the general purchasing power of the Belarusian Ruble for 2013.

The restatement was calculated using the conversion factors derived from the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The CPIs for the seven years ended 31 December 2013 are the following:

Year	**%**
2007	12.1%
2008	13.3%
2009	10.1%
2010	9.9%
2011	108.7%
2012	21.8%
2013	16.5%

(c) Functional and Presentation Currency

The amounts presented in these financial statements are in millions of Belarusian Rubles (BYR), unless otherwise stated, as this is the Company's functional currency.

(d) Reporting period

Reporting period includes 12 months from 1 January 2013 to 31 December 2013.

(e) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the following items which are carried at fair value: available-for-sale instruments except those whose fair value cannot be reliably estimated.

(f) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Insurance liabilities
- Valuation of financial instruments
- Impairment of financial instruments
- Impairment of loans and receivables
- Recognition of provisions
- Deferred tax
- Restatement for hyperinflation.

Insurance liabilities

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case

Notes to the financial statements

basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the recognition of incurred but not reported claims reserve ("IBNR") and unexpired risks reserves ("URR"). The sufficiency of insurance technical reserves is monitored regularly through a liability adequacy test, performed on a line by line basis.

Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the note 3.4(d). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Impairment of financial instruments

The determination of impairment indication is based on a comparison of the financial instrument’s carrying value and the fair value.

For the purposes of impairment loss measurement, the Company’s management makes estimates of any expected changes in future cash flows from a specific financial instrument based on an analysis of the financial position of the issuer of the financial instrument.

Impairment of loans and receivables

There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that the Company’s assessment of an issuer’s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Company or changes in other facts and circumstances will lead the Company to change its investment decision. Any of these situations could result in a charge against the statement of comprehensive income in a future period to the extent of the impairment charge recorded.

Recognition of provisions

Provisions are established when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

Deferred tax

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Restatement for hyperinflation

The restatement of the financial statements in accordance with IAS 29 requires the application of certain procedures as well as judgment.

The management applies the Consumer Price Index (CPI), published by the Ministry of Statistics and Analysis of the Republic of Belarus for calculation of restatement of financial statements for inflation in accordance with requirements of IAS 29 as CPI represents the best available general price index that reflects changes in general purchasing power.

The restated cost, or cost less depreciation, of non-monetary assets and liabilities is determined by applying to its historical cost and accumulated depreciation the change in general price index from the month of acquisition (average monthly CPI is used) to the end of the reporting period.

The amounts of income and expenses are restated by applying the change in the general price index from the month when the items of income and expenses were initially recorded in the financial statements (average monthly CPI is used) to the end of the reporting period.

(3) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements for the purposes of the transition to IFRSs, unless otherwise indicated.

The accounting policies have been applied consistently.

3.1 New standards, changes to standards and interpretations

A number of new Standards, amendments to Standards and Interpretations are not yet effective for the annual period ended 31 December 2013 and have not been applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the Company’s operations. The Company plans to adopt these pronouncements when they become effective.

IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010.

The Company recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Company’s consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Company does not intend to adopt this standard early.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable.

The new Standard is not expected to have a significant effect on the financial statements of the Company.

Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13.

The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

Notes to the financial statements

IFRIC 21 *Levies* provides guidance on accounting for levies in accordance with the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. Levies do not arise from executory contracts or other contractual arrangements. However, outflows within the scope of IAS 12 *Income taxes*, fines and penalties, and liabilities arising from emission trading schemes are explicitly excluded from the scope. The interpretation confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if it has no realistic opportunity to avoid the triggering event. The interpretation is effective for annual periods commencing on or after 1 January 2014. The interpretation is applied on a retrospective basis. Early adoption is permitted.

The Company has not yet analysed the likely impact of the new Standard on its financial position or performance.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted.

The new Standard is not expected to have a significant effect on the financial statements of the Company.

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2014. The Company has not yet analysed the likely impact of the improvements on its financial position or performance.

3.2 Foreign currency, foreign currency transactions

Transactions in currencies other than the functional currency of the Company are initially recorded at the rates of exchange prevailing on the dates of transactions. Monetary assets and liabilities, including off-balance-sheet assets and liabilities denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the National Bank of the Republic of Belarus on the last date of the reporting period. Non monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognised in the profit or loss account in the period in which the fluctuation occurs. Foreign exchange differences arising on translation on foreign operations are recognised in the statement of comprehensive income.

Foreign exchange rates for the key currencies at the end of the reporting period were the following:

	31 December 2013	31 December 2012	31 December 2011
BYR/USD	9 510.00	8 570.00	8 350.00
BYR/EUR	13 080.00	11 340.00	10 800.00
BYR/RUB	290.50	282.00	261.00

3.3 Insurance and reinsurance contracts

(a) Classification of insurance contracts

According to Appendix B to IFRS 4 “Insurance contracts” an insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All the Company’s insurance contracts are classified as insurance contracts. An assumed reinsurance contract is a type of insurance contract whereas the insurance risk is assumed from another insurer. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with insured. Consequently, all references to insurance contracts refer to reinsurance assumed.

When classifying insurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

- Aviation insurance;
- Property insurance;
- Pecuniary insurance (including the risk of outstanding credit occurrence insurance);
- Motor insurance (third party liability of motor vehicles owners – "green card");
- Transport insurance;
- Liability insurance;
- Marine insurance;
- Accident insurance.

Each of these lines of insurance the Company may be divided in more detail by taking into account the substance of the transferred insurance risk.

Ceded reinsurance

During the course of its business, the Company enters into reinsurance contracts to restrict the potential net loss through diversification of risks. Reinsurance contracts do not relieve the Company from its liabilities to reinsured by the Company.

(b) Insurance premium and premium income

Written premiums include the amounts, which are due for insurance contracts signed during the reporting year, that have come into force in the reporting year irrespective of whether these premiums have been received or not. Premiums written are decreased by premiums cancelled during the reporting period.

If insurance premiums are expected to be paid in several installments during the insurance contract period, written premiums include the premiums that related to the entire insurance contract period. If an insurance contract is signed for several years, the premium of the respective year is reflected in each year.

The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. The unearned portion of premiums, relating to future periods, is recognised under technical reserves.

Reinsurers' share in written premiums is calculated in accordance with reinsurance contracts in force. Outward reinsurance premiums are recognised as an expense in accordance with the pattern of reinsurance service received and the portion of reinsurance expenses attributable for future periods are recognised as assets under the reinsurance part of the unearned premium reserve.

(c) Insurance and reinsurance receivables and payables

Amounts due to and from reinsured, brokers and reinsurers are financial instruments and are included in insurance and reinsurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Amounts that are overdue are reversed against premium income once the contract is cancelled. Allowances are recognised for overdue insurance receivables. Allowances are recognised for the outstanding amount depending on the number of days outstanding. Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables. Allowances for doubtful debts are recognised when the Company's management believes that the recoverability of these assets is uncertain. Receivables are written off when their recoverability is considered impossible.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as loans and receivables and are included within insurance and other receivables in the statement of financial position.

Amounts recoverable under reinsurance contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities.

(d) Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, the corresponding claim handling expenses (loss adjustment expenses) and

Notes to the financial statements

changes in the claim reserves. Claims paid are decreased by the amount of losses recoverable through cession or subrogation.

The claims amounts recoverable under ceded reinsurance contracts are assessed on each reporting date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the reinsurer.

(e) Technical reserves

The Company establishes technical reserves to reflect the estimate of liabilities arising from insurance contracts: unearned premium and unexpired risk reserve, outstanding claim technical reserve.

The reinsurer's share in the technical reserves is disclosed under assets in the statement of financial position.

Unearned premium and unexpired risk reserves

Unearned premium reserves (UPR)

Unearned premium reserves represent the proportion of premiums written which relate to the period of risk subsequent to the accounting year. Reserves are calculated for each insurance policy under the 365- day Pro Rata Temporis method based on the period in force for a particular insurance contract.

Unexpired risk reserve (URR)

A provision is made for unexpired risks arising from the general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums reserve in relation to such contracts after the deduction of any deferred acquisition costs.

URR is provided when it is expected that the unearned premium reserve will not be sufficient to cover the claims and expenses arising on the insurance contracts in force (note 3.3(g)). URR is established in order to reduce the risk of possible fluctuations in the operating result of the Company and guarantees the protection from possible future risks resulting from claims and expenses arising from the insurance contracts being in force as at the reporting date.

Outstanding claims technical reserves

An outstanding claims technical reserve comprises a reserve for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and the related internal and external claim handling expenses. Provisions for non-life claims outstanding are not discounted.

Reported but not settled claims reserve (RBNS)

The RBNS claims reserve includes case reserves. Case reserves are set on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled as at the reporting date. The sensitivity analysis for insurance liabilities is disclosed in note 4.3(e) and claim development analysis is disclosed in note 4.3(f).

Incurred but not reported claims reserve (IBNR)

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period. For the purposes of IBNR determination as at the reporting date, the management uses data on historical accidents in the reporting and previous periods using claim development triangle methods. The claim development analysis is disclosed in note 4.3(f).

(f) Client acquisition costs

Client acquisition costs represent commissions paid to intermediaries related to the acquisition of insurance contracts.

Deferred client acquisition costs represent the portion of client acquisition costs that are attributable to future reporting periods in accordance with the proportion of unearned premium technical reserves versus gross written premiums for each insurance contract.

(g) Liability adequacy test

Management assesses at each reporting date the adequacy of its recognised insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities after the deduction of the deferred acquisition costs.

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Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and the investment income from assets backing the insurance contract provisions are used in performing these tests.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as a loss for the financial year by setting aside additional unexpired risk reserves.

The liability adequacy test is applied to the gross amounts of reserves, i.e. the effect of reinsurance is not taken into account.

3.4 Financial instruments

(a) Classification

At inception, all financial instruments are classified into one of the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, are designated by the Company as at fair value through the profit or loss. The Company did not classify any financial instruments to this category in 2013 (2012: nil).

Available-for-sale assets are financial assets classified at inception as available for sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available for sale instruments include certain equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and debtors in the statement of financial position. Insurance receivables are classified in this category.

Financial liabilities carried at amortised cost represent financial liabilities of the Company other than financial instruments designated at fair value through profit or loss. This category includes due to creditors.

(b) Recognition and derecognition

Financial instruments are recognised when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognised in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

(c) Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Subsequent to initial measurement, all financial assets and liabilities designated at fair value through profit or loss and all available for sale financial assets are measured at fair value except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities and other financial assets including loans and receivables, deposits with banks and held to maturity assets are measured at amortised cost using the effective interest rate method. All

Notes to the financial statements

instruments are subject to revaluation when impaired. Short term receivables and payables are not discounted.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognised in the statement of comprehensive income. Differences arising from changes to the fair value of available for sale financial instruments are recognised through other comprehensive income in equity.

(d) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

The fair value of financial instruments that have a quoted market price in an active market is determined based on the quoted price on the reporting date or the last working date of the respective market. Where reference to an active market for a financial instrument is not possible, discounted cash flows techniques are used or other measurement models available in the respective market provided if the use of such models may ensure a reliable estimate of the fair value.

Where discounted cash flow techniques are used, estimated future cash flows are based on management’s best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

The fair value of non-exchange-traded derivatives is estimated at the amount that the Company would receive or pay to terminate the contract at the reporting date taking into account the current market conditions and the current creditworthiness of the counterparties.

(e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.5 Impairment

(a) Financial assets

At each reporting date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Company considers evidence of impairment at both a specific asset level and a collective level. All individually significant financial assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting date.

Insurance receivables that are overdue are reversed against premium income once the policy is cancelled. No impairment allowances are recognised in respect of amounts that have not yet become due if no portion of the premium is taken to income.

Other debtors are stated at recoverable amount.

(b) Non financial assets

Non financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

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All impairment losses in respect of non financial assets are recognised in the statement of comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Property and equipment

Property and equipment is recorded at historical cost less accumulated depreciation and impairment loss (if any). Depreciation is calculated using a linear method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment and furniture	10-20% per year
Machinery and equipment	2-20% per year
Vehicles	12,5% per year

Maintenance costs of equipment are recognised in the profit or loss statement as incurred. Costs of capital repairs of equipment (leasehold improvements) are added to the value of the respective asset and are written off on a straight line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Profit or loss from disposal of equipment is calculated as the difference between the book value of the asset and income generated from sale, and reflected in the profit or loss statement when disposed.

Depreciation methods, useful lives and residual values are reviewed annually.

3.7 Leases

The Company as lessee

Operating lease payments are recognised in the statement of comprehensive income on a straight-line basis over the lease term. Discounts received are recognised in the statement of comprehensive income as a significant part of the total lease expenses.

3.8 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognised in profit or loss on the date that the Company's right the receive payment is established.

Finance expenses comprise changes in the fair value of financial assets at fair value through profit or loss.

3.9 Corporate income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in other comprehensive income or in equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the expected tax payable on the taxable income for the year and is calculated in accordance with the legislation of the Republic of Belarus, using tax rates enacted or substantively enacted at the reporting date (18 per cent in 2013 and 18 per cent in 2012), and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised for temporary differences arising between the carrying value of assets and liabilities in the financial statements (financial reporting purposes) and the amounts used for local reporting purposes. Deferred tax asset (liability) is recognised by applying the statutory tax rate 18 per cent as at 31 December 2013 and 2012.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

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3.10 Cash and cash equivalents

In the cash flow statement cash and cash equivalents comprise demand deposits, overnight deposits and term deposits with banks with the initial maturity term less than three months. In the cash flow statement, cash flows are presented using the indirect method.

3.11 Profit distribution to the shareholder

In accordance with the legislation of the Republic of Belarus the Company is obliged to distribute part of its profits to the government of the Republic of Belarus. In 2013 and 2012 profit distribution to the shareholder comprised payments to budget of a certain percentage of the profit for the year earned by the Company in accordance with Belorussian accounting principles. The percentage depends on the profitability of the Company and is stated in the Order of the President of the Republic of Belarus #637 dated 28 December 2005 (with the editions followed). The maximum level of the payment is limited by 25 per cents of the profit for the companies with 30 per cent profitability ratio and above. Profitability ratio is determined by dividing the cost of providing insurance services through income (loss) from the providing insurance services made in accordance with Belorussian accounting principles.

3.12 Related parties

Related parties are defined as the shareholder of the Company, members of the Management of the Company and companies in which the Management of the Company have a significant influence or control. The Government of the Republic of Belarus, which controls the Company, and related bodies are defined as related parties of the Company.

3.13 Employee benefits

Short term employee benefits, including salaries and social security contributions, bonuses and vacation benefits are included in net operating expenses on an accrual basis as the related service is provided. The Company pays fixed social security contributions to the State Social Fund on behalf of its employees during the employment period in accordance with local legal requirements and will have no obligations to pay further contributions relating to employee services in respect of retired employees.

3.14 Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(4) Risk and risk management

4.1 Risk and risk management

The objective of risk management performed by the Company is to protect the interests of stakeholders, i.e. reinsured and shareholders of the Company, and the management of risks. Risk management includes a set of measures the performance of which requires involvement of each staff member within the scope of his or her competency.

The Company's risk management includes:

- Capital sufficiency requirements and capital management;
- Insurance risk identification and risk management;
- Financial risk identification and management;
- Operational risks identification and management.

4.2 Solvency requirements and Capital management

The Company's objectives when managing capital are to comply with minimum capital requirements stipulated by the Instruction on the criteria and evaluation of insurance organizations' solvency, approved by the Decree of Ministry of finance of the Republic of Belarus on 10 March 2007 №73. The Company is obliged to hold the minimum amount of capital required to write a particular business. The minimum required capital is calculated based on the statutory accounting records and must be maintained at all times throughout the year and to safeguard the Company's ability to continue as a going concern.

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In order to ensure the stability of the insurer's financial activities, the insurance company should constantly have at its disposal own funds, which should be equal to or larger than a determined solvency margin.

In millions of BYR	**2013**	**2012**
Solvency margin based on premiums received	83 283	48 800
Solvency margin based on claims paid	15 626	10 490
Solvency margin (the largest amount)	**83 283**	**48 800**
Reinsurance ratio	0,5000	0,8205
Solvency margin adjusted by reinsurance ratio	**41 642**	**40 040**
Total capital for capital adequacy (own funds)	**1 342 231**	**1 462 180**
Capital adequacy surplus	**1 300 589**	**1 422 140**

4.3 Insurance risk identification and risk management

The business of assumed reinsurance represents the transfer of risk from the reinsured to the reinsure and management of this risk. The largest insurance risks result from assuming risks in reinsurance, assessing them, choosing the reinsurance cover and fulfilling obligations with respect to the signed contracts. Insurance risk is the possibility that the reinsured by the Company event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Insurance risk is the most significant risk faced by the Company in day-to-day activities.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its assumed reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to significantly mitigate financial risks.

Adherence to the underwriting authorities is being monitored by management on an on-going basis. Those transactions requiring special authorisation are subject to the special attention of the Management of Company's and Insurance Committee in particular.

(a) Basic product features

The terms and conditions of assumed reinsurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from assumed reinsurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

The main objective of reinsurance is the provision of reinsurance protection to the insurance/reinsurance companies.

There are the following main insurance products of the Company:

- Aviation insurance;
- Property insurance;
- Pecuniary insurance (including the risk of outstanding credit occurrence insurance);
- Motor insurance (third party liability of motor vehicles owners – green card);
- Transport insurance;
- Liability insurance;
- Marine insurance;
- Accident insurance.

The evaluation of the Company's main insurance products and means by which the risks connected with them are managed are given below.

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Aviation insurance

Aviation insurance is a common name for the complex of property, personal and liability insurance, which results from the usage of aviation transport and protects the valuable interest of individuals and legal entities in case of the occurrence of events, set by the insurance contract or legislation.

Order and conditions of aviation insurance are specific and require the detailed description. This is stipulated by the following factors:

- Aviation insurance deals with unique, differing from other types of property, risks;
- Significant part of the insured amount provides for the coordination of activities between insurer and reinsurer;
- Aviation risks may lead to enormous and cumulative losses;
- Aviation insurance is strongly connected with a global insurance market;
- Aviation insurance is regulated both by national and international law;
- For conduction of aviation insurance operations the special developed infrastructure is required;
- Aviation risks require a high demand for the professional training of specialists in charge of the insurance process.

The goal of civil aviation insurance is the protection of interests of aircraft operators, passengers and third parties. It includes:

- Liability insurance of air carrier against damage caused to passengers, baggage, mail, cargo;
- Liability insurance of aircraft operators against damage caused to third parties;
- Insurance of aircraft crew and other aviation personnel;
- Aircraft casco insurance;
- Insurance of aerial work requester’s employees, personnel, connected with the provision of technological process during the aerial works.

Reinsurance of aviation risks is possible to be provided with help of an extensive reinsurance system. From the insured amount point of view aviation risks are the largest ones from all lines of business (dozens and thousands of millions of dollars).Therefore, in order to reinsure such risks the global insurance market’s services are required. This cannot be done without reinsurance contracts with international insurance brokers.

Ceding of risks is performed on the facultative quota share basis. Ceding broker on international markets is Willis Limited (UK). Retrocessioners are syndicates Lloyd’s (UK), Munich Re (Germany), Allianz Global Corporate&Specialty AG (Germany), Swiss Re AG (Germany), Chartis Ltd (UK), Liberty Mutual Insurance Europe Ltd (UK), Aviabel S.A. Brussels (Belgium), Aspen Insurance (UK), Generali IARD (France), Ingosstrakh Insurance Company (Russia).

Property insurance

This insurance covers losses incurred as a result of damage to the property of individuals and legal entities. Assumed reinsurance portfolio of the Company for this line of business includes the following types of insurance:

- Catastrophic risks insurance;
- Building and construction risks insurance;
- Citizens’ homestead insurance;
- Citizens’ buildings insurance;
- Companies’ property insurance;
- Insurance of animals belonging to legal entities;
- Cash counter insurance;
- Insurance of space risks.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company’s Insurance Committee meetings. When assuming the contracts in reinsurance the risks are thoroughly appraised and there is performed the analysis of:

- The information on the object of insurance (its characteristics, period of insurance, location);
- The information on the amount of cover (specification of risks);

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- Economic indicators (insurance amount, premiums, deductibles, priority of the reinsured, order of reinsurance premium payment);
- Historical information on loss development;
- The existence of the cumulation risk;
- Other available data related to the risks' estimation.

Pecuniary insurance (including the risk of outstanding debt repayment)

Pecuniary (financial) risk is a risk of losses arising from the breach of obligations by the counterparty of the policyholder connected with the entrepreneurial activities of the policyholder. This insurance covers losses incurred as a result of the neglect (not proper fulfillment) of obligations by the policyholder's counterparty for the following types of transactions:

- Non-delivery, incomplete delivery of goods, non-transfer of property, non-fulfillment of works, services by the time set in contract;
- Repayment of debt issued by insured;
- Rent, including leasing;
- Cash payment in terms and amounts set by the conditions of bonds issue;
- Storage keeping;
- Pledging of security (guarantee).

In order to minimize the losses, connected with insurance (reinsurance) of pecuniary risks, qualitative and thorough analysis of customer's, debtor's, issuer's financial performance is performed, using the data from their financial statements, then the decision whether it's possible to assume these risks in reinsurance is made by the Insurance Committee.

The majority of pecuniary risks are assumed in reinsurance from the following companies: BRUIC “Belgosstrakh”, Export-import insurance company of the Republic of Belarus “Eximgarant” , UJSC «Belvneshstrakh», CJSC «Promtransinvest», CJSC “Belneftestrakh”.

Motor insurance (third party liability of motor vehicles owners – green card)

Since 1 June 2007 the Republic of Belarus is a full member of the International green card insurance system. The Company has been ceding Belarusian “green card” certificates since 2008. The leading reinsurers of Belarusian “green card” certificates reinsurance contracts in 2013 is Swiss Re. Ceding broker – «Marsh – Insurance Brokers».

The Company assumes in reinsurance a part of first and second levels of the obligatory reinsurance contract on Belarusian “green card” certificates

Liability insurance

Liability insurance covers losses associated with the emergence of the policyholder liabilities for damages to third parties on account of any act or omission by the insured. The Company assumes in reinsurance the following types of third party liability insurance:

- Third party liability insurance:
  * Third party liability insurance of legal entities;
  * Third party liability insurance of minor ships' owners;
  * Third party liability insurance against non-fulfillment of public contract's obligations;
  * Third party liability insurance of reactor operator;
  * Third party liability insurance against nuclear damage;
  * Third party liability insurance against harm caused due to professional activity;
  * Third party liability custom authorities insurance;
  * Third party liability insurance of commodity producer;
  * Third party liability insurance of carrier and forwarder;
  * Third party liability insurance of high-threat organizations;
  * Third party liability insurance of employer;
  * Third party liability insurance against harm caused to third parties;
  * Third party liability insurance of local carriers;
  * Liability insurance against constructional defects;
- Insurance against bank risks;

- Insurance against the loss of ownership of property;
- Insurance against the non-fulfillment of obligations under the contract of shared construction;
- Custom authorities insurance (carnet);
- Insurance against losses due to forced disruption of production;
- Insurance against other types of liabilities;
- Carnet insurance.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company’s Insurance Committee meetings.

Transport insurance (CASCO)

Means the reinsurance of risks connected with compensation of losses which arise from damage to, destruction or loss of vehicle. This line of business is represented by assuming in reinsurance the following types of insurance:

- Individuals’ vehicle insurance;
- Legal entities’ vehicle insurance;
- Insurance of agricultural machines;
- Insurance of ships;
- Rail transport insurance.

Marine insurance

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. The Company assumes in reinsurance the following groups of marine insurance agreements:

- Contractual – supposes the contract of marine insurance is concluded with insurer, which for the certain fee (premium) undertakes the responsibility to reimburse losses resulting from a claim accident to the insured or insurance beneficiary.
- Mutual – takes part at mutual insurance clubs. The main feature of mutual insurance is the reimbursement of possible losses of the member of the mutual insurance club from the mutual fund composed from the club members’ fees.

The Company assumes in reinsurance the following types of marine insurance agreements:

- Marine (river) CASCO – the insurance of ship’s hull and equipment. The main risks covered include:
  * Collision of ships;
  * Damage of freight due to bad weather conditions;
  * Running aground;
  * Fire, explosion, lightning stroke;
  * General accident;
  * Other risks.
- Freight insurance. Freight gross value is insured, including ship owner’s profit and costs of insurance.

Ship owner’s third party liability insurance is usually maintained through insurance clubs on these clubs’ conditions.

Since 2007 The Company has been reinsuring marine risks, including risks of The Joint Stock Company “Belarusian Potash Company”. Responsibility limit of ship owner’s third party liability insurance is USD 80 million. Reinsurance of marine risks in mentioned above amounts is possible to be provided with help of an extensive reinsurance system, involving reinsurance capacity of the worldwide insurance market. This is impossible without reinsurance contracts with worldwide insurance brokers. Ceding of risks is performed on the facultative quota share basis. Ceding broker on the foreign markets is Filhet Allard Maritime (France). Retrocessioners are AMLIN CORPORATE INSURANCE plc.

Marine insurance line of business includes also insurance of cargo, which consists of marine, air, railway and mixed types of cargo insurance.

The Company assumes in reinsurance three main options:

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- All risks;
- Including responsibility for particular accident;
- Excluding responsibility for particular accident.

Accident insurance

Accident insurance provides a benefit in the event damage to health or death of the insured, it also allows to compensate costs of treatment and losses due to disablement. The Company offers reinsurance cover on the following types of risk:

- Accident and disease insurance during the trip abroad;
- Accident insurance at the expense of legal entities;
- Accident insurance of individuals, etc.

In order to minimize the risks connected with assuming the above mentioned risks in reinsurance the Company thoroughly appraises them, analyzes the historical information on loses, the information about the object of insurance, the existence of cumulation on risk, other available data related to the level of risk’s estimation.

It is worth mentioning that the Company strictly limits the reinsurance of risks connected with accident and disease insurance during a trip abroad due to a high possibility of accumulation of these risks.

(b) Insurance risk concentration

Within the assumed reinsurance process, concentrations of risk may arise where a particular event or series of events could impact heavily upon the Company’s liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Company’s management is aware that there is an insurance concentration risk. Risk concentration may occur as a result of different coincidences and regularities. Most often risk concentration is observed in a specific type of insurance in which private persons are insured; e.g. with personal accident insurance this occurs when a Company of persons suffers from a personal accident and all of these persons have been insured in the Company. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an economic and geographic area in total, for which several risks are assumed in reinsurance by the Company. When assuming in reinsurance such risks, an obligatory precondition is the assessment of the company’s financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. When evaluating financial risks, the tendencies of economic growth and the risks that might impact this area are studied.

The Company’s key methods in managing these risks are two-fold. Firstly, the risk is managed through appropriate underwriting. Underwriters are not permitted to underwrite risks unless the expected profits are commensurate with the risks assumed. Secondly, the risk is managed through the use of reinsurance. The Company purchases reinsurance coverage for various classes of its business. The Company assesses the costs and benefits associated with the reinsurance program on an ongoing basis.

(c) Catastrophes

The Company’s management is aware that catastrophe risks are possible. The Company assumes risks from different geographical areas and these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but they may occur.

In order to minimise the impact of catastrophe risk on the Company, reinsurance is used. In addition, facultative reinsurance is purchased for large risks.

(d) Insurance risk management

In order to restrict insurance risk, the Company has developed different control and management mechanisms. The Company has the Insurance Committee which has responsibility for monitoring the risks underwritten by the Company and the retrocessional coverage of the Company. Key performance indicators that are important to the achievement of financial objectives are identified and monitored to identify any unusual or unexpected trends or relationships.

In order to minimise insurance risks, the Company has developed and uses the quality management system, which describes all processes and reserves that are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk, employing a substantial degree of experience and judgment. The level of such provisions has been set on the basis of information which is currently available. Whilst the Company considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability may vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed at least annually and, if adjustments prove necessary, they will be reflected in future financial statements.

(e) Sensitivity analysis for insurance liabilities

The process used to undertake sensitivity analysis on the assumptions used is intended to assess the likely scenarios of changes in estimates. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the estimations of the IBNR reserve and URR reserve. However, considering the current market situation, the Company believes that inflation and currency exchange rate fluctuations may significantly impact the amount of RBNS.

The table below presents the change in RBNS as at 31 December 2013 in the case of 20 per cent currency devaluation or 5 per cent currency deflation.

In millions of BYR **Line of business**	**RBNS, as at 31 December 2013**	**Increased RBNS if projected annual inflation increased by 20%**	**Decreased RBNS if projected annual inflation decreased by 5%**
Aviation	18 276	21 931	17 362
Property	69 080	82 896	65 626
Pecuniary	9 173	11 008	8 714
Motor	2 485	2 982	2 361
Transport	1 062	1 274	1 009
Liability	1 152	1 382	1 094
Marine	938	1 126	891
Accident	-	-	-
	102 166	**122 599**	**97 057**

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The table below presents the change in RBNS as at 31 December 2013 in the case of 30 per cent Belarusian Ruble devaluation and 5 per cent appreciation against foreign currency.

In millions of BYR **Currency**	**RBNS, as at 31 December 2013**	**Increased RBNS if projected Belarusian Ruble devaluation is 30%**	**Decreased RBNS if projected Belarusian Ruble appreciation is 5%**
BYR	2 011	2 011	2 011
USD	56 909	73 982	54 064
EUR	18 607	24 189	17 677
RUR	24 639	32 031	23 407
	102 166	**132 213**	**97 159**

The management of the Company considers inflation to be the most volatile assumption related to IBNR. The table below presents the change in IBNR as at 31 December 2013 in the case of 20 per cent currency devaluation or 5 per cent currency deflation.

In millions of BYR **Line of business**	**IBNR, as at 31 December 2013**	**Increased IBNR if projected annual inflation increased by 20%**	**Decreased IBNR if projected annual inflation decreased by 5%**
Aviation	2 161	2 593	2 053
Property	7 871	9 445	7 477
Pecuniary	2 457	2 948	2 334
Motor	2 830	3 396	2 689
Transport	1 884	2 261	1 790
Liability	944	1 133	897
Marine	677	812	643
Accident	471	565	447
	19 295	**23 153**	**18 330**

The next assumptions identified relates to URR reserve, the amount of which depends on the claim ratio and administrative expenses ratio. The Management of the Company doesn’t expect significant changes in the amount of administrative expenses and their allocation by lines of business as well as considers claims ratio to be more volatile. Change in the claim ratio does not significantly affect the amount of URR as at 31 December 2013.

(f) Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such corrections made in the prior years may be included as part of the corrections made during the prior years.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of technical reserves as at 31 December 2013 as adequate.

Financial statements for the year ended 31 December 2010 were the Company’s first financial statements prepared in accordance with IFRSs and the following table represents claim development analysis for the five year period IFRSs have been applied to.

Claim development analysis, *millions of BYR*

	Year of insurance event occurrence					
	2009 (restated)	**2010 (restated)**	**2011 (restated)**	**2012 (restated)**	**2013**	**Total**
Estimate of cumulative claims at end of accident year	68 811	44 917	43 473	49 180	98 189	**98 189**
- one year later (2010 (restated))	62 319	42 415	47 854	24 994		**24 994**
- two years later (2011 (restated))	62 288	46 321	62 561			**62 561**
- three years later (2012 (restated))	61 370	39 594				**39 594**
- four years later (2013)	66 234					**66 234**
Cumulative payments to date	66 208	35 846	35 119	18 095	14 841	**170 109**
Outstanding claims reserves at 31 December 2013	**26**	**3 748**	**27 442**	**6 899**	**83 348**	**121 463**

4.4 Financial risks and risk management

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company’s business.

The Company’s financial assets and liabilities, including investments, insurance receivables and reinsurance assets, are exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely impact the insurer’s assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, equity price risk and currency risk;
- *Credit risk*: failure to fulfill a contractual obligation may cause financial losses to the Company,
- *Liquidity risk*: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

(a) Market risks

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Company’s income or the value of its portfolios.

Market risks comprise:

- interest rate risk;
- currency risk;
- price risk.

i) Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Company’s income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

The following interest rate repricing analysis tables presents the Company’s financial assets and liabilities analysis according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing:

Notes to the financial statements

Rate repricing analysis as at 31 December 2013

In millions of BYR	**Interest rate**	**Up to 12 months**	**Non-interest bearing**	**Total**
Financial assets				
Available-for-sale financial assets	0%-28,5%	713 098	677 329	**1 390 427**
Deposits with banks	4%-40%	365 699	-	**365 699**
Receivables from direct insurance activities	-	-	151 973	**151 973**
Receivables from reinsurance activities	-	-	4 499	**4 499**
Cash and cash equivalents	7,5%-35%	30 020	6 399	**36 419**
Total financial assets		**1 108 817**	**840 200**	**1 949 017**
Financial liabilities				
Direct insurance creditors	-	-	(14 928)	**(14 928)**
Reinsurance creditors	-	-	(101 462)	**(101 462)**
Part of other creditors	-	-	(18 271)	**(18 271)**
Total financial liabilities	**-**	**-**	**(134 661)**	**(134 661)**

Rate repricing analysis as at 31 December 2012 (restated)

In millions of BYR	**Interest rate**	**Up to 12 months**	**Non-interest bearing**	**Total**
Financial assets				
Available-for-sale financial assets	0%	815 500	738 597	**1 554 097**
Deposits with banks	6-40%	307 718	-	**307 718**
Receivables from direct insurance activities	-	-	90 315	**90 315**
Receivables from reinsurance activities	-	-	2 104	**2 104**
Cash and cash equivalents	7-35%	61 875	5 429	**67 304**
Total financial assets		**1 185 093**	**836 445**	**2 021 538**
Financial liabilities				
Direct insurance creditors	-	-	(7 259)	**(7 259)**
Reinsurance creditors	-	-	(44 293)	**(44 293)**
Part of other creditors	-	-	(6 468)	**(6 468)**
Total financial liabilities		**-**	**(58 020)**	**(58 020)**

Interest rate sensitivity analysis

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

The Company is subject to interest risk mainly on deposits in banks and investments held to maturity nominated in Belarussian rubles at floating interest depending on the interest rate stated by the National Bank of the Republic of Belarus. Interest rates for assets are mostly fixed and the Company does not have interest bearing liabilities as at 31 December 2013 and 2012.

The table below represents impact on income and equity of change by 100 basis points in floating interest rates as at the reporting date with assumption that all other terms are unchangeable:

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In millions of BYR	**2013**	**2012 (restated)**
	Profit before income tax expense	**Profit before income tax expense**
Increase of interest rates by 100 basis points	6 374	3 090
Decrease of interest rates by 100 basis points	(6 374)	(3 090)

ii) Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

According to the approved policy of the Company insurance premium currency matches the currency of the undertaken insurance obligations.

On 24 May 2011 and 21 October 2011 the National Bank of the Republic of Belarus devalued the Belarusian rubles against foreign currencies by 54.42 and 50.90 per cent, respectively. An analysis of the sensitivity of the Company’s income for the year and its equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2013 and 2012 and a simplified scenario of a change in EUR, USD and RUB to BYR exchange rates is as follows (in millions of BYR):

In millions of BYR	**2013**		**2012 (restated)**	
	Profit before income tax expense	**Profit after income tax expense**	**Profit before income tax expense**	**Profit after income tax expense**
20% appreciation of EUR against BYR	35 270	28 921	26 901	20 445
5% depreciation of EUR against BYR	(8 818)	(7 231)	(6 726)	(5 111)
20% appreciation of USD against BYR	26 262	21 535	(19 078)	14 500
5% depreciation of USD against BYR	(6 566)	(5 384)	(4 770)	(3 624)
20% appreciation of RUB against BYR	13 065	10 713	12 766	9 702
5% depreciation of RUB against BYR	(3 266)	(2 678)	(3 192)	(2 426)

The following table provides the analysis of the Company’s financial assets and liabilities by currency profile:

Company’s financial assets and liabilities currency profile as at 31 December 2013

In millions of BYR	**BYR**	**USD**	**EUR**	**RUB**	**Other**	**Total**
Financial assets						
Available-for-sale financial assets	1 382 065	-	-	8 362	-	**1 390 427**
Deposits with banks	64 545	84 874	163 171	53 109	-	**365 699**
Receivables from direct insurance activities	7 900	126 038	6 995	9 977	1 063	**151 973**
Receivables from reinsurance activities	2 552	842	278	827	-	**4 499**
Cash and cash equivalents	3 808	14 265	9 631	8 715	-	**36 419**
Total financial assets	**1 460 870**	**226 019**	**180 075**	**80 990**	**1 063**	**1 949 017**
Financial liabilities						
Direct insurance creditors	(577)	(12 839)	(905)	(457)	(150)	**(14 928)**
Reinsurance creditors	(1 142)	(81 869)	(2 820)	(15 206)	(425)	**(101 462)**
Part of other creditors	(18 271)	-	-	-	-	**(18 271)**
Total financial liabilities	**(19 990)**	**(94 708)**	**(3 725)**	**(15 663)**	**(575)**	**(134 661)**
Open currency position	**1 440 880**	**131 311**	**176 350**	**65 327**	**488**	**1 814 356**

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Company's financial assets and liabilities currency profile as at 31 December 2012 (restated)

In millions of BYR	BYR	USD	EUR	RUB	Other	Total
Financial assets						
Available-for-sale financial assets	1 554 097	-	-	-	-	**1 554 097**
Deposits with banks	70 075	73 110	114 768	49 766	-	**307 719**
Receivables from direct insurance activities	12 214	61 364	9 378	6 956	403	**90 315**
Receivables from reinsurance activities	204	1 385	245	259	12	**2 105**
Cash and cash equivalents	42 534	723	13 840	10 207	-	**67 304**
Total financial assets	**1 679 124**	**136 582**	**138 231**	**67 188**	**415**	**2 021 540**
Financial liabilities						
Direct insurance creditors	(1 135)	(4 737)	(655)	(692)	(41)	**(7 260)**
Reinsurance creditors	(2 334)	(36 453)	(3 069)	(2 286)	(151)	**(44 293)**
Part of other creditors	(6 468)	-	-	-	-	**(6 468)**
Total financial liabilities	**(9 937)**	**(41 190)**	**(3 724)**	**(2 978)**	**(192)**	**(58 021)**
Open currency position	**1 669 187**	**95 392**	**134 507**	**64 210**	**223**	**1 963 519**

iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

The Company's investment portfolio is not sensitive to financial instruments market price risk as at 31 December 2013 and 2012 there are no financial instruments with quoted market price in the investment portfolio.

(b) Credit risk

Credit risk is the risk incurred by failure of contractual parties to meet their liabilities or changes in credit worthiness of the contractual parties.

Carrying amounts versus estimated fair values

The carrying amounts of financial assets do not differ significantly from their estimated fair values.

Fair value of available for sale financial assets represented by share in OJSC "Belagroprombank" and OJSC "Promagroleasing" is not determinable.

i) Maximum credit risk

Exposure to maximum credit risk is managed through the regular analysis of the ability of to meet interest and capital repayment obligations and by changing these exposures where appropriate.

In millions of BYR	**31 December 2013**		**31 December 2012 (restated)**	
Maximum credit risk	**Gross**	**Net**	**Gross**	**Net**
Available for sale financial assets	1 390 427	1 390 427	815 500	815 500
Deposits with banks	365 699	365 699	307 718	307 718
Receivable from direct insurance activities	152 095	151 973	90 675	90 315
Receivables from reinsurance activities	4 499	4 499	2 104	2 104
Cash and cash equivalents	36 419	36 419	67 304	67 304
Total	**1 949 139**	**1 949 017**	**1 283 301**	**1 282 941**

Available for sale financial assets represented by share in OJSC "Belagroprombank" and OJSC "Promagroleasing" are not exposed to the credit risk.

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Investment analysis by ratings as at 31 December 2013, in millions of BYR:

Ratings by Fitch	Deposits with banks	Available for sale financial assets	Total
B-	325 080	-	325 080
No rating	40 619	1 390 427	1 431 046
	365 699	**1 390 427**	**1 756 126**

ii) Insurance receivables from direct insurance operations

Direct insurance amounts receivable are monitored by management on a periodic basis and contracts are cancelled if appropriate notification has been provided to the reinsured and the amounts due are not paid.

iii) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted as for financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related assumed reinsurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided to the Company based on the expected pattern of the reinsured risks. The unearned portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Company in respect of its rights under such contracts.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related assumed reinsurance contracts.

Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid. These are classified as receivables and are included within insurance and other receivables in the statement of financial position.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

The reinsurance cession result was negative at the December 31, 2013 and 2012 in the amount of BYR127,339 million and BYR117,040 million, respectively (Note 17).

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys both facultative and obligatory proportional and non-proportional reinsurance. For the details of retrocession programs for particular lines of business refer to note 4.3(a).

Ceded reinsurance contains credit risk, and such reinsurance recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically.

During 2013 and 2012, there have been no cases where a retrocessioner had not met its liabilities to the Company.

(c) Liquidity risks

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Company manages its asset and liability structure so as to meet its obligations as and when they fall due. The potential liquidity risk

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is limited by investing a certain amount of funds in short term deposits and other funds with a high degree of liquidity.

The tables below show the allocation of the Company's financial assets and liabilities to maturity groups based on the time remaining from the reporting date to the contractual maturity dates as at 31 December 2013 and 31 December 2012 (restated):

Maturity dates of the Company's financial assets and liabilities as at 31 December 2013

In millions of BYR	**Up to 12 months**	**From 1 to 5 years**	**Over 5 years**	**No fixed term**	**Total**
Financial assets					
Available-for-sale financial assets	-	713 098	-	677 329	**1 390 427**
Deposits with banks	292 864	72 835	-	-	**365 699**
Receivables from direct insurance activities	33 148	57 549	61 276	-	**151 973**
Receivables from reinsurance activities	3 842	450	207	-	**4 499**
Cash and cash equivalents	36 419	-	-	-	**36 419**
Total financial assets	**366 273**	**843 932**	**61 483**	**677 329**	**1 949 017**
Financial liabilities					
Direct insurance creditors	(2 659)	(6 196)	(6 073)	-	**(14 928)**
Reinsurance creditors	(23 699)	(30 668)	(47 095)	-	**(101 462)**
Part of other creditors	(29 022)	-	-	-	**(29 022)**
Total financial liabilities	**(55 380)**	**(36 864)**	**(53 168)**	**-**	**(145 412)**
Financial assets and liabilities maturity gap	**310 893**	**807 068**	**8 315**	**677 329**	**1 803 605**

Maturity dates of the Company's financial assets and liabilities as at 31 December 2012 (restated)

In millions of BYR	**Up to 12 months**	**From 1 to 5 years**	**Over 5 years**	**No fixed term**	**Total**
Financial assets					
Available-for-sale financial assets	815 500	-	-	738 597	**1 554 097**
Deposits with banks	307 718	-	-	-	**307 718**
Receivables from direct insurance activities	58 413	27 969	3 933	-	**90 315**
Receivables from reinsurance activities	1 314	772	17	-	**2 103**
Cash and cash equivalents	67 304	-	-	-	**67 304**
Total financial assets	**1 250 249**	**28 741**	**3 950**	**738 597**	**2 021 537**
Financial liabilities					
Direct insurance creditors	(3 629)	(3 045)	(585)	-	**(7 259)**
Reinsurance creditors	(35 889)	(8 233)	(171)	-	**(44 293)**
Part of other creditors	(6 468)	-	-	-	**(6 468)**
Total financial liabilities	**(45 986)**	**(11 278)**	**(756)**	**-**	**(58 020)**
Financial assets and liabilities maturity gap	**1 204 263**	**17 463**	**3 194**	**738 597**	**1 963 517**

Liquidity risk management specific to insurance and reinsurance companies is connected with the monitoring of insurance liabilities. Remaining maturities of insurance liabilities are presented in Note 27.

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4.5 Operating risks and risk management

Operational risks arise from deficiencies and errors in processes which may occur due to staff error or under the influence of external factors. These risks are managed by internal control, internal processes and procedures and monitoring of performance.

(5) Net written premiums

In millions of BYR	2013			2012 (restated)		
	Gross written premiums	**Reinsurers' share in premiums**	**Net written premiums**	**Gross written premiums**	**Reinsurers' share in premiums**	**Net written premiums**
Aviation	21 891	(18 286)	3 605	52 325	(48 095)	4 230
Property	260 503	(185 168)	75 335	109 260	(58 750)	50 510
Pecuniary	61 178	(12 083)	49 095	46 190	(8 984)	37 206
Motor	54 006	(41 058)	12 948	43 703	(40 643)	3 060
Transport	7 848	(161)	7 687	8 972	(400)	8 572
Liability	17 096	(7 255)	9 841	20 101	(8 541)	11 560
Marine	11 162	(6 074)	5 088	15 467	(12 955)	2 512
Accident	-	-	-	13	-	13
	433 684	**(270 085)**	**163 599**	**296 031**	**(178 368)**	**117 663**

In 2013 BYR 415,065 million of premiums were underwritten on the territory of the Republic of Belarus (2012: BYR 220,508 million) and BYR15,954 million of premiums were underwritten on the territory of the Russian Federation (2012: BYR 21,629 million).
Structure of risks ceded by financial stability ratings of the retrocessionaires and counterparties is disclosed in the Note 4.4 (b) iii).

(6) Net earned premiums

In millions of BYR	2013			2012 (restated)		
	Gross earned premiums	**Reinsurers' share in premiums**	**Net earned premiums**	**Gross earned premiums**	**Reinsurers' share in premiums**	**Net earned premiums**
Aviation	43 923	(37 700)	6 223	45 330	(41 238)	4 092
Property	121 783	(72 170)	49 613	80 498	(28 312)	52 186
Pecuniary	76 562	(13 343)	63 219	44 497	(3 452)	41 045
Motor	54 006	(41 058)	12 948	43 703	(40 643)	3 060
Transport	8 673	(306)	8 367	9 158	(140)	9 018
Liability	18 819	(7 633)	11 186	19 937	(8 326)	11 611
Marine	12 183	(6 488)	5 695	16 755	(12 566)	4 189
Accident	363	-	363	(351)	-	(351)
	336 312	**(178 698)**	**157 614**	**259 527**	**(134 677)**	**124 850**

(7) Technical reserves for unearned premiums and unexpired risk technical reserves

In millions of BYR	**Gross**	**Reinsurers' share**	**Net**
Balance at 1 January 2012 (restated)	**154 134**	**(33 309)**	**120 825**
Written premiums	*296 031*	*(178 368)*	*117 663*
Premiums earned	*(259 527)*	*134 677*	*(124 850)*
Changes during year	36 504	(43 691)	*(7 187)*
Effect of hyperinflation	(974)	-	(974)

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Balance at 31 December 2012 (restated)	**189 664**	**(77 000)**	**112 664**
Written premiums	*433 684*	*(270 085)*	*163 599*
Premiums earned	*(336 312)*	*178 698*	*(157 614)*
Changes during year	97 372	(91 387)	5 985
Effect of hyperinflation	(821)	-	(821)
Balance at 31 December 2013	**286 215**	**(168 387)**	**117 828**

In millions of BYR	**31 December 2013**			**31 December 2012 (restated)**		
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
UPR	280 419	(168 387)	112 032	183 868	(77 000)	106 868
URR	5 796	-	5 796	5 796	-	5 796
	286 215	**(168 387)**	**117 828**	**189 664**	**(77 000)**	**112 664**

Technical reserves for unearned premiums and unexpired risk technical reserves as at 31 December 2013 by currencies were as follows:

In millions of BYR	**BYR**	**USD**	**EUR**	**RUB**	**Other**	**Total**
Technical reserves for unearned premiums and unexpired risks, gross	28 452	206 997	26 881	16 877	7 008	**286 215**
Technical reserves for unearned premiums and unexpired risks, net	25 714	62 299	17 813	5 269	6 733	**117 828**

Technical reserves for unearned premiums and unexpired risk technical reserves as at 31 December 2012 (restated) by currencies were as follows:

In millions of BYR	**BYR**	**USD**	**EUR**	**RUB**	**Other**	**Total**
Technical reserves for unearned premiums and unexpired risks, gross	44 088	90 481	32 562	21 452	1 081	**189 664**
Technical reserves for unearned premiums and unexpired risks, net	40 361	38 092	22 130	11 066	1 015	**112 664**

(8) Net paid claims

In millions of BYR	**2013**			**2012 (restated)**		
	Gross claims paid	Reinsurers' share in claims	Net claims paid	Gross claims paid	Reinsurers' share in claims	Net claims paid
Aviation	483	(93)	390	854	-	854
Property	29 571	(7 515)	22 056	12 162	(556)	11 606
Pecuniary	1 650	(34)	1 616	-	-	-
Motor	4 338	(4 481)	(143)	-	-	-
Transport	3 424	(91)	3 333	9 254	-	9 254
Liability	1 502	(32)	1 470	1 958	-	1 958
Marine	523	(302)	221	693	(206)	487
Accident	-	-	-	447	-	447
	41 491	**(12 548)**	**28 943**	**25 368**	**(762)**	**24 606**

Notes to the financial statements

(9) Outstanding claim technical reserve

In millions of BYR	**Gross**	**Reinsurers' share**	**Net**
Balance at 31 January 2012 (restated)	**57 984**	**(9 918)**	**48 066**
Claims incurred during the period	*64 519*	*(9 746)*	*54 773*
Claims paid	*(25 368)*	*762*	*(24 606)*
Changes during year	39 151	(8 984)	30 167
Effect of hyperinflation	(10 377)	1 775	(8 602)
Balance at 31 December 2012 (restated)	**86 758**	**(17 127)**	**69 631**
Claims incurred during the period	*88 482*	*(44 376)*	*44 106*
Claims paid	*(41 491)*	*12 548*	*(28 943)*
Changes during year	46 991	(31 828)	15 163
Effect of hyperinflation	(12 288)	2 426	(9 862)
Balance at 31 December 2013	**121 461**	**(46 529)**	**74 932**

In millions of BYR	**31 December 2013**			**31 December 2012 (restated)**		
	Gross	**Reinsurers' share**	**Net**	**Gross**	**Reinsurers' share**	**Net**
RBNS	102 166	(46 529)	55 637	69 848	(17 127)	52 721
IBNR	19 295	-	19 295	16 910	-	16 910
	121 461	**(46 529)**	**74 932**	**86 758**	**(17 127)**	**69 631**

Outstanding claim technical reserve as at 31 December 2013 by currencies was as follows:

In millions of BYR	**BYR**	**USD**	**EUR**	**RUB**	**Total**
Outstanding claim technical reserves, gross	2 083	72 209	22 000	25 169	**121 461**
Outstanding claim technical reserves, net	1 988	35 305	13 816	23 823	**74 932**

Outstanding claim technical reserve as at 31 December 2012 (restated) by currencies was as follows:

In millions of BYR	**BYR**	**USD**	**EUR**	**RUB**	**Total**
Outstanding claim technical reserves, gross	17 849	38 349	13 529	17 031	**86 758**
Outstanding claim technical reserves, net	17 845	30 003	5 833	15 950	**69 631**

(10) Claims incurred

In millions of BYR	**2013**			**2012 (restated)**		
	Gross claims incurred	**Reinsurers' share in claims**	**Net claims incurred**	**Gross claims incurred**	**Reinsurers' share in claims**	**Net claims incurred**
Aviation	17 107	(16 859)	248	972	(61)	911
Property	55 674	(29 279)	26 395	53 826	(9 336)	44 490
Pecuniary	11 458	(696)	10 762	605	-	605
Motor	(1 366)	3 056	1 690	941	(136)	805
Transport	4 083	(210)	3 873	5 192	(1)	5 191
Liability	(99)	(24)	(123)	1 750	(5)	1 745
Marine	1 450	(359)	1 091	920	(207)	713
Accident	175	(5)	170	313	-	313
	88 482	**(44 376)**	**44 106**	**64 519**	**(9 746)**	**54 773**

Notes to the financial statements

(11) Change in deferred client acquisition costs

In millions of BYR		
Balance at 1 January 2012 (restated)		**7 531**
Written commissions		*(20 807)*
Deferred commissions allocated to statement of comprehensive income		*27 820*
	Changes during year	*7 013*
Balance at 31 December 2012 (restated)		**14 544**
Written commissions		*(31 998)*
Deferred commissions allocated to statement of comprehensive income		*41 796*
	Changes during year	*9 798*
Balance at 31 December 2013		**24 342**

In 2013 and 2012 client acquisition costs were as follows:

In millions of BYR	**2013**	**2012 (restated)**
Aviation	869	1 792
Property	21 007	9 512
Pecuniary	6 472	5 219
Motor	99	12
Transport	843	1 019
Liability	2 174	2 435
Marine	534	818
Accident	-	-
	31 998	**20 807**

In millions of BYR	**2013**	**2012 (restated)**
Commissions to reinsurance brokers	2 001	2 310
Commissions to insurance and reinsurance companies	29 997	18 497
	31 998	**20 807**

(12) Administrative expense

In millions of BYR	**2013**	**2012 (restated)**
Salaries and social contribution expenses	7 697	5 946
Bank commission	2 212	1 871
Social taxes	2 458	1 778
Taxes other than income tax	14	1 476
Professional services	999	1 089
Rent, utilities and maintenance	854	686
Cultural events	460	463
Insurance expenses	485	412
Advertisement and public relations	254	325
Charity	1 873	284

Notes to the financial statements

Business trips	351	261
Property and equipment depreciation	184	203
Low value items	107	199
Membership fees	91	77
Software	-	68
Telecommunication services	57	54
Transportation	39	44
Education	24	42
Other	347	122
	18 506	**15 400**

(13) Other technical expense, net

In millions of BYR	**2013**	**2012 (restated)**
Increase of impairment allowance for receivables from direct insurance operations (Note 21)	1 191	(1 530)
	1 191	**(1 530)**

(14) Investment income, net

In millions of BYR	**2013**	**2012 (restated)**
Interest income	53 826	67 517
Dividends income	27 357	-
Commercial bonds income, net	1 368	1 866
	82 551	**69 383**

(15) Other expense, net

In millions of BYR	**2013**	**2012 (restated)**
Foreign exchange differences	29 990	14 896
Impairment loss on available for sale financial assets	(70 169)	(29 028)
Taxes other than income tax	-	(246)
Penalties	-	-
Other	384	-
	(39 795)	**(14 378)**

(16) Income tax expense

In millions of BYR	**2013**	**2012 (restated)**
Current tax	30 158	21 913
Deferred tax expense/(benefit)	3 729	22 001
Tax expense	**33 887**	**43 914**

In millions of BYR	**2013**	**2012 (restated)**
Profit/(loss) before tax	**(42 176)**	**70 608**
Theoretical tax using the 18% (2012: 18%) rate	(7 592)	12 709
Net non-deductible expenses / (income)	(4 278)	217
Inflation effect on equity	45 757	30 988
Tax expense	**33 887**	**43 914**

In millions of BYR	**2013**	**2012 (restated)**
Deferred tax liability at the beginning of the year	**(61 137)**	**(47 667)**

Notes to the financial statements

Deferred tax benefit / (expense) during the reporting period attributable to profit or loss	(3 729)	(22 001)
Effect of hyperinflation	8 659	8 531
Deferred tax liability at the end of the year	**(56 207)**	**(61 137)**

Temporary differences as at 31 December 2013 and 31 December 2012 (restated) are as follows:

In millions of BYR	**31 December 2013**	**31 December 2012 (restated)**
Technical reserves for unearned premium and unexpired risks	42 360	106 698
Reinsurance creditors	1 116	44 293
Direct insurance creditors	(1)	7 259
Reinsurers’ share in outstanding claim technical reserve	9 973	6 700
Outstanding claim technical reserve	2 020	4 058
Other receivables	-	970
Provision for unused vacations	141	123
Intangible assets	7	9
Total tax deductible temporary differences	**55 616**	**170 110**
Receivables from direct insurance activities	3 662	(90 315)
Other creditors	(65 570)	(87 863)
Available for sale financial assets	(269 066)	(272 590)
Reinsurers’ share in unearned premiums technical reserve	(9 356)	(40 872)
Accrued income and deferred expenses	(24 031)	(14 940)
Receivables from reinsurance activities	(111)	(2 104)
Property and equipment	(3 403)	(1 074)
Total taxable temporary differences	**(367 875)**	**(509 758)**
Net temporary differences	**(312 259)**	**(339 648)**
Deferred tax liabilities	**(56 207)**	**(61 137)**

(17) Reinsurance cession result

In millions of BYR	**2013**	**2012 (restated)**
Reinsurance premiums	(270 085)	(178 368)
Reinsurers’ share in change of unearned premiums reserve	91 387	43 691
Reinsurers’ share of claims paid	12 548	762
Reinsurers’ share in change of reserve for outstanding claims	31 828	8 984
Reinsurance commission income	6 983	7 891
Total reinsurance cession result	**(127 339)**	**(117 040)**

(18) Property and equipment

In millions of BYR	**Vehicles**	**Machinery and equipment**	**Office equipment and furniture**	**Prepayments for buildings and equipment**	**Total**
Cost					
Balance at 1 January 2012 (restated)	305	341	753	-	**1 399**
Purchased	-	9	216	17 907	**18 132**

Notes to the financial statements

Balance at 31 December 2012 (restated)	305	350	969	17 907	**19 531**
Purchased	-	-	17	186	**203**
Balance at 31 December 2013	**305**	**350**	**986**	**18 093**	**19 734**
Accumulated depreciation					
Balance at 1 January 2012 (restated)	**(183)**	**(131)**	**(513)**	**-**	**(827)**
Depreciation for the year	(39)	(41)	(123)	-	**(203)**
Balance at 31 December 2012 (restated)	**(222)**	**(172)**	**(636)**	**-**	**(1 030)**
Depreciation for the year	(38)	(41)	(105)	-	**(184)**
Balance at 31 December 2013	**(260)**	**(213)**	**(741)**	**-**	**(1 214)**
Balance at 1 January 2012 (restated)	**122**	**210**	**240**	**-**	**572**
Balance at 31 December 2012 (restated)	**83**	**178**	**333**	**17 907**	**18 501**
Balance at 31 December 2013	**45**	**137**	**245**	**18 093**	**18 520**

(19) Available-for-sale financial assets

Investments classified as available-for-sale financial assets are shares in other companies which are not quoted and Government bonds.

Available-for-sale financial assets are represented as follows:

In millions of BYR		**31 December 2013**		**31 December 2012 (restated)**	
	Sector	**% owned**	**Carrying amount**	**% owned**	**Carrying amount**
OJSC "Belagroprombank"	Bank	5,15%	628 329	5,30%	665 090
OJSC "Belinvestbank"	Bank		13 098		-
OJSC "Promagroleasing"	Leasing company	3,57%	49 000	3,57%	73 507
Ministry of finance of the Republic of Belarus			700 000		815 500
			1 390 427		**1 554 097**

OJSC "Belagroprombank" and OJSC "Promagroleasing" are not quoted companies and there is no available information for fair value measurement of their shares. Therefore, investments in OJSC "Belagroprombank" and OJSC "Promagroleasing" are recognised at cost based on the purchase price of the investments in December 2008 and September 2009, respectively. The Company doesn’t plan to sell these assets within the next year.

In 2013 and 2012 impairment loss on available for sale financial assets in the amount of BYR70,169 million and BYR29,028 million was recognized by the Company (Note 15). Carrying amount of OJSC "Belagroprombank" and OJSC "Promagroleasing" was calculated using expected amount of the companies’ net assets in accordance with IFRS.

The fair value of investments in shares of OJSC "Belagroprombank" and OJSC "Promagroleasing" was determined using discounted cash flow model. However, assessment of interest was performed by the Company based on the analysis of available open sources information on control acquisition transactions over the biggest banks in the Republic of Belarus by state-owned banks of the Russian Federation.

Investments in Government bonds are nominated at 0 percent interest rate. However, the management of the Company assesses its fair value to be equal to nominal value due to the evidence of the intention of third parties to purchase the investments from the Company at cost.

(20) Deposits with banks

In millions of BYR	**31 December 2013**	**31 December 2012 (restated)**

Notes to the financial statements

Deposits with banks	365 699	307 718
	365 699	**307 718**

As of 31 December 2013 and 31 December 2012 all deposit amounts were placed in domestic financial institutions. As of 31 December 2013 and 31 December 2012 there were BYR54,860 million and BYR 31,142 million of deposits provided as the security for the assumed reinsurance contracts and restricted in use.

(21) Receivables from direct insurance activities

In millions of BYR	**31 December 2013**	**31 December 2012 (restated)**
Due from policy holders	152 095	90 673
Impairment allowance for bad debtors	(122)	(358)
	151 973	**90 315**

In millions of BYR	**Allowance for policy holders, gross**
Allowance as at 1 January 2012 (restated)	**168**
Written off	(1 435)
Increase in allowance	1 530
Effect of inflation	96
Allowance as at 31 December 2012 (restated)	**359**
Written off	(1 487)
Increase in allowance	1 191
Effect of inflation	59
Allowance as at 31 December 2013	**122**

(22) Other receivables and prepayments

In millions of BYR	**31 December 2013**	**31 December 2012 (restated)**
Prepayments for professional services	131	143
Tax assets	230	62
Advances paid for rent and utilities	74	54
Other	416	100
	851	**359**

(23) Cash and cash equivalents

In millions of BYR	**31 December 2013**	**31 December 2012 (restated)**
Deposits under 3 months	30 020	61 875
Current accounts with credit institutions	6 399	5 429
Cash and cash equivalents	**36 419**	**67 304**

As of 31 December 2013 and 31 December 2012 all deposit amounts were placed in domestic financial institutions.

(24) Capital and reserves

As at 31 December 2013 the paid-in share capital of the Company comprised BYR 1,226,842 million (31 December 2012: BYR 1,189,703 million). As at 31 December 2013 the share capital was restated for the effect of inflation.

Notes to the financial statements

The sole shareholder of the Company is the Council of Ministers of the Republic of Belarus. The shareholder has the full voting rights, rights to receive dividends when declared and for the Company's residual assets.

Dividend distribution means profit allocation to the owner, details are disclosed in Note 3.11.

The Company's funds distributable to the owner are limited to the amount of distributable funds that are stated in the official statements of the Company, prepared according to Belarusian accounting rules.

Notes to the financial statements

(25) Related parties

In millions of BYR	2013		2012 (restated)	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Salary and other personnel costs (Note 12)	**748**	**7 697**	**563**	**5 946**
- Key management personnel	748	-	563	-

The Company is controlled by the Government of the Republic of Belarus. The Company operates in an economic regime dominated by entities directly or indirectly controlled by the Government of the Republic of Belarus through its government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities"). The Company has transactions with other government-related entities including but not limited to assuming risks in reinsurance, reinsuring the risks; receiving services; depositing money; and use of public utilities.

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related. The Company has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2013, management estimates that the aggregate amount of the Company's significant transactions with government-related entities are at least 79 percent of its gross premiums written (2012: 79 percent); 7 percent of reinsurers’ share in gross premiums written (2012: 6 percent); and 43 percent of its claims paid (2012: 41 percent).

According to the Order of the President of the Republic of Belarus #530 dated 26 August 2006 (with following changes and amendments) insurance companies with more than 50 percent of government shareholding are obliged to invest their own funds and insurance reserves in the state owned banks. Their own funds may be invested in government securities, securities of the National Bank, the local executive and administrative bodies only through state banks or divisions of the National Bank, as well as in securities of state banks and real estate. According to the letter #12-03-01-12/1073 dated 20 July 2010 received from State Property Committee OJSC “BPS-Bank” is included into the list of banks allowed for the investing of their funds by the insurance companies with more than 50 percent of government shareholding. All bank accounts of the Company as at 31 December 2013 and 2012 are opened in state-owned banks or OJSC “BPS-Bank”.

(26) Number of employees

	2013	2012
Average number of employees	54	50

(27) Remaining maturities of insurance liabilities

	31 December 2013			31 December 2012 (restated)		
	Gross liabilities	**Reinsurers’ share**	**Net liabilities**	**Gross liabilities**	**Reinsurers’ share**	**Net liabilities**
Unearned premium and unexpired risks technical reserves	286 215	(168 387)	**117 828**	189 664	(77 000)	112 664
Outstanding claim technical reserves	121 461	(46 529)	**74 932**	90 256	(17 127)	73 129
Total	**407 676**	**(214 916)**	**192 760**	**279 920**	**(94 127)**	**185 793**
Less than one year	230 445	(141 712)	**88 733**	207 438	(69 230)	138 208
From one to five years	115 733	(47 803)	**67 930**	68 480	(24 715)	43 765
More than five years	61 498	(25 401)	**36 097**	4 002	(182)	3 820

Notes to the financial statements

(28) Operating leases

Non-cancellable operating lease rentals are payable as follows:

In millions of BYR	**2013**	**2012 (restated)**
Less than one year	45	33
	45	**33**

(29) Subsequent events

The consumer price index (CPI) for the period of January - March 2014 was 4.9%.

(30) Fair value of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm’s length.

Analysis of financial instruments recorded at fair value by level of the fair value hierarchy is presented below:

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Available-for-sale financial assets	-	-	1 390 427	**1 390 427**
Total	-	-	1 390 427	**1 390 427**

31 December 2012 (restated)	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Available-for-sale financial assets	-	-	1 554 097	**1 554 097**
Total	-	-	1 554 097	**1 554 097**

Notes to the financial statements

During the year ended 31 December 2013 the Company did not change the levels of the fair value hierarchy for financial instruments.

The following table presents the reconciliation of amounts of financial assets of level 3 at the beginning and end of the reporting period, which are measured at fair value:

	Available-for-sale financial assets	**Total financial assets of Level 3**
31 December 2012 (restated)	**1 554 097**	**1 554 097**
Income/(expenses), recognised in statement of comprehensive income	(70 169)	**(70 169)**
Acquisitions	21 199	**21 199**
Inflation effect	(115 500)	**(115 500)**
31 December 2013	**1 390 427**	**1 390 427**

The following table presents the total amount of profit and loss for the reporting period recognised in profit statement of comprehensive income on financial assets of level 3, which are measured at fair value.

	Available-for-sale financial assets	**Total financial assets of Level 3**
Income/(expenses), recognised in statement of comprehensive income, including:	(70 169)	**(70 169)**
realized gains / (losses)	(70 169)	**(70 169)**
unrealized gains / (losses)	-	-
31 December 2013	**(70 169)**	**(70 169)**

The following table provides information on significant unobservable inputs used to estimate the fair value of financial instruments classified as Level 3 of fair value hierarchy.

Financial asset	**Fair value as at 31 December 2013**	**Valuation method**	**Use of unobservable inputs**	**The range of fair value measurement in relation to the unobserved data**
Available-for-sale financial assets	1 390 427	Method of assessing commercial bond includes discounted cash flow model. Fair value of the shares is determined by using expected value of net assets. Government bonds are valued at cost less impairment.	Future cash flows were discounted using the rates on deposits in Russian and Belarusian rubles.	For the Russian ruble: 7,5% For the Belarusian ruble: 23,5% - 28,5%

(31) Uncertainties

Economy of the Republic of Belarus

The economy of the Republic of Belarus has recently been characterized by high rates of inflation, significant changes in foreign currency exchange rates, a relatively high level of taxation and a high degree of State regulation. Business legislation of the Republic of Belarus constantly changes. Future economic development to a large extent depends on the effectiveness of measures taken by the Belarusian government

Notes to the financial statements

and is outside the control of the Company. The recoverability of the Company's assets and ability to maintain or pay debts as they mature is in part dependent on the future direction and results of the economic policy of the government of the Republic of Belarus. Management of the Company has made its best estimates of recoverability and classification assets and liabilities. However, uncertainty stated above may remain and have significant influence on the operations of the Company.

Legislation

Certain provisions of Belarusian business and tax legislation in particular may contain different treatments and may be applied inconsistently by different state institutions. In addition, interpretations made by Management may be different from official interpretations and compliance established by law may be changed by the authorities. As a result, the Company may be subject to additional tax payments and fines and other preventive actions. Management of the Company considers that it has made the required tax and other payments and no additional provisions are needed in the financial statements. The previous financial years remain open for consideration by the authorities. However, insurance legislation of the Republic of Belarus remains stable over the certain years.