CJSC «Joint Stock Bank of Reconversion and Development»

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

For the year ended 31 December 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders, the Board of Directors, the Management of CJSC "RRB Bank"
To the National Bank of the Republic of Belarus

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of CJSC "RRB Bank" (hereinafter - the Bank), which comprise:

- the statement of financial position as at 31 December 2016;
- the statement of profit and loss, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of CJSC "RRB Bank" as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our description of how each matter has been addressed during the audit is presented in the given context.

We have performed obligations, described in section *Auditor's Responsibility for the Audit of the Financial Statements* of our report, including related to those matters. Hence, our audit included procedures developed in response to our assessment of the risk of significant misstatements of the financial statements. Results of our audit procedures, including the ones performed during the review of key audit matters, provide a basis for our audit opinion on the reliability of the accompanying financial statements.

Key Audit Matters	Ответ Аудитора
1 Allowance for impairment of loans to customers	
Determination of the adequacy of allowance for impairment of loans to customers is the key area of judgment of the Bank's management. Identification of signs of impairment and measurement of recoverable value involve a significant use of professional judgment, assumptions, as well as analysis of various factors, including the financial state of the borrower, expected future cash flows, distribution cost of collateral. Use of difference models and assumptions influences the level of allowance for impairment of loans to customers. Due to the materiality of amounts of loans to customers, which make up 31% of the total amount of assets, and the high level of subjectivity of judgements, measuring allowance for impairment of loans to customers is one of the key audit matters. We have performed procedures in relation to information disclosed in Notes 9, 11, 12, 32 to the financial statements to determine the completeness and compliance of the disclosures to the IFRSs.	Our audit procedures included assessment of the calculation methods of allowance for impairment of loans to customers, testing of data carried forward, analysis of assumptions used by the Bank when calculating allowance for impairment. Apart from that, as for provisioning of significant individually assessed loans we analyzed expected future cash flows, including cost of collateral to be sold on the basis of analyzing assumptions used by the Bank's management when measuring collateral value and information on the market value from open sources of information. As for provisioning of collectively assessed loans our audit procedures included analysis of the allowance calculation models, and testing of data carried forward, used in these models. As part of our audit procedures, we analyzed succession and reliability of the management's judgements, used when assessing economic factors and statistics on the losses incurred and amounts recovered.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Director **Managing Partner** **BDO in Belarus**	**Alexander Shkodin**
Auditor-in-Charge	**Andrey Misiuk**

Minsk, Republic of Belarus
10.05.2017

INFORMATION ABOUT THE AUDITEE AND THE AUDITOR:

	Auditee	Auditor
Company:	CJSC "RRB Bank"	BDO, LLC
Location:	18 Krasnozvezdnaya str., Minsk, 220034, Republic of Belarus;	103 Pobediteley ave., office 807, Minsk, 220020, Republic of Belarus
Information on the state registration:	Registered by the National Bank of the Republic of Belarus dated 22.02.1994, registration number 37	Certificate on the state registration was issued by Minsk City Executive Committee dated 15.11.2013
Payer's identification number:	100361187	190241132

Management of CJSC Joint Stock Bank of Reconversion and Development (the "Bank") is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as of 31 December 2016, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2016, were authorized for issue on 10 May 2017 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
10 May 2017

STATEMENT OF FINANCIAL POSITION

In thousands of Belarusian Roubles

	Notes	31 December 2016	31 December 2015
Assets			
Cash and balances with the National Bank of the Republic of Belarus	7	9,803	17,086
Derivative financial assets	8	7	18
Due from other banks	9	11,550	4,887
Financial assets available-for-sale	10	-	1,491
Loans to customers	11	55,854	61,728
Current income tax receivable		106	572
Investments held to maturity	12	72,987	72,030
Investment property	13	10,818	10,128
Property and equipment, intangible assets	14	13,608	12,911
Other assets	15	3,500	3,989
Total assets		**178,233**	**184,840**
Liabilities			
Derivative financial liabilities	8	-	1
Due to the National Bank of the Republic of Belarus	16	-	12,780
Due to other banks	17	3,904	10,167
Customer accounts	18	119,454	105,696
Debt securities in issue	19	3,124	-
Provision for other risks and payments	15	-	427
Other liabilities	20	996	680
Deferred tax liability	30	772	1,016
Subordinated debts	21	6,396	14,172
Preference shares	22	1,673	1,437
Total liabilities		**136,319**	**146,376**
Equity			
Share capital	23	46,974	46,129
Additional capital contribution	21	3,548	3,548
Property and equipment reevaluation provision	14, 30	49	49
Accumulated loss		(8,657)	(11,262)
Total equity		**41,914**	**38,464**
Total liabilities and equity		**178,233**	**184,840**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
10 May 2017

The notes set out on pages 7 — 75 form an integral part of these financial statements.

INCOME STATEMENT

In thousands of Belarusian Roubles

	Notes	2016	2015
Interest income	24	23,874	21,475
Interest expense	24	(13,066)	(11,913)
Net interest income before initial recognition of financial instruments at fair value		**10,808**	**9,562**
Effect from initial recognition of financial instruments at fair value	12, 24	-	(2,481)
Net interest income		**10,808**	**7,081**
Fee and commission income	25	2,134	1,956
Fee and commission expense	25	(768)	(576)
Net fee and commission income		**1,366**	**1,380**
Net (loss)/gain on derivative financial instruments	26	(6)	31,110
Net gain/(loss) on foreign exchange operations	27	4,102	(24,595)
Net loss on securities	27	(41)	-
Gain on change in fair value of investment property	13	-	(304)
Other income	28	1,632	1,767
Total operating income		**17,861**	**16,439**
Operating expenses	29	(10,539)	(10,025)
Recovery of value of repossessed assets		-	(553)
Provision for impairment losses on interest bearing financial assets, net	9, 11	(4,035)	(3,423)
Provision for impairment losses on other financial assets, net	15	(195)	(95)
Provision/(charge) for other risks and payments	15	427	(427)
(Charge)/provision for loan commitments, net	32	(24)	9
Profit before income tax		**3,495**	**1,925**
Income tax expense	30	4	(181)
Net profit for the year		**3,499**	**1,744**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

АКЦЫЯНЕРНЫ БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ
РЭСПУБЛІКА БЕЛАРУСЬ
РРБ-БАНК
г. МІНСК

Minsk
10 May 2017

The notes set out on pages 7 — 75 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

In thousands of Belarusian Roubles

	Notes	2016	2015
Net profit for the year		3,499	1,744
Other comprehensive income			
Other comprehensive income not to be reclassified into profit or loss in subsequent periods:			
Revaluation of property and equipment	14	-	66
Income tax attributable to revaluation of property and equipment	30	-	(17)
Total other comprehensive income		-	49
Total comprehensive income for the year		3,499	1,793

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
10 May 2017

The notes set out on pages 7 — 75 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In thousands of Belarusian Roubles

	Notes	Share capital	Additional capital contribution	Reserve for revaluation of property and equipment	Accumulated loss	Total equity
Balance as at 1 January 2015		**44,864**	**3,548**	**-**	**(13,006)**	**35,406**
Net profit for the year		-	-	-	1,744	1,744
Other comprehensive income for the year						
Revaluation of property and equipment	*14*	-	-	66	-	66
Income tax attributable to revaluation of property and equipment	*30*	-	-	(17)	-	(17)
Comprehensive income for the year		**-**	**-**	**49**	**1,744**	**1,793**
Transactions with shareholders recorded directly in equity						
Increase of share capital	23	1,265	-	-	-	1,265
Balance as at 31 December 2015		**46,129**	**3,548**	**49**	**(11,262)**	**38,464**
Net profit for the year		-	-	-	3,499	3,499
Comprehensive income for the year		**-**	**-**	**-**	**3,499**	**3,499**
Transactions with shareholders recorded directly in equity						
Increase of nominal value of common shares	23	845	-	-	(845)	-
Increase of nominal value of preferred shares		-	-	-	(49)	(49)
Balance as at 31 December 2016		**46,974**	**3,548**	**49**	**(8,657)**	**41,914**

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
10 May 2017

The notes set out on pages 7 — 75 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (DIRECT METHOD)

In thousands of Belarusian Roubles

	Notes	2016	2015
Cash flows from operating activities			
Interest received		22,781	20,922
Interest paid		(12,901)	(11,670)
Fee and commission received		1,985	1,983
Fee and commission paid		(761)	(561)
Income received from operations with derivative financial instruments	35	4	75,971
Income/expenses paid from foreign currencies operations	27	3,472	(83)
Expenses paid on securities held to maturity		(41)	-
Other income received		1,399	1,355
Operating expenses paid		(9,902)	(8,926)
Income tax received/(paid)		227	(949)
Cash flows from operating activities before changes in operating assets and liabilities		**6,263**	**78,042**
Net (increase)/decrease in operating assets:			
Mandatory reserve deposits with the National Bank of the Republic of Belarus		324	443
Due from other banks		358	744
Financial assets available for sale		1,561	(1,485)
Loans to customers		6,009	5,355
Investments held to maturity		2,912	(72,613)
Other assets		1,084	661
Net increase/(decrease) in operating liabilities:			
Due to the National Bank of the Republic of Belarus		(12,781)	12,781
Due to other banks		(6,446)	6,693
Customer accounts		8,583	(26,956)
Other liabilities		328	(696)
Net cash (outflow)/inflow from operating activities		**8,195**	**2,969**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(1,869)	(922)
Proceeds from disposal of property and equipment		15	15
Acquisition of investment property	13	-	(4,331)
Proceeds from sale of available-for-sale assets		19	-
Proceeds from disposal of investment property		1,176	-
Net cash outflows from investing activities		**(659)**	**(5,238)**

STATEMENT OF CASH FLOWS (DIRECT METHOD) - CONTINUATION

In thousands of Belarusian Roubles

	Notes	2016	2015
Cash flows from financing activities			
Share issuance		-	163
Receipt of subordinated debts		-	9,045
Repayment of subordinated debts		(8,992)	(4,550)
Placement of debt securities issued		3,101	3,503
Repayment of debt securities issued		(23)	(5,657)
Repayment of debt from finance lease		(1,199)	(212)
Net cash (outflow)/inflow from financing activities		**(7,113)**	**2,292**
Effect of changes in foreign exchange rates on cash and cash equivalents		(703)	1,475
Effect of inflation on cash and cash equivalents		-	-
Net (decrease)/increase in cash and cash equivalents		**(280)**	**1,498**
Cash and cash equivalents at the beginning of the year	31	**20,864**	**19,366**
Cash and cash equivalents at the end of the year	31	**20,584**	**20,864**

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
10 May 2017

The notes set out on pages 7 — 75 form an integral part of these financial statements.

1. General information

CJSC Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking license No. 21 issued by the National Bank of the Republic of Belarus on 7 June 2013. The Bank also has a license for performing professional and stock-exchange activities with securities No. 02200/5200-1246-1126 issued by the Ministry of Finance of the Republic of Belarus dated 29 June 2012.

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

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

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

The average number of employees of the Bank was 257 in 2016 (2015 – 330).

Shareholders structure of the Bank as at 31 December 2016 and 2015 is presented below:

	31 December 2016 % of the total number of shares	31 December 2015 % of the total number of shares
LLC "Dikris"	84.50	60.98
European Bank of reconstruction and development (hereinafter - EBRD)	-	14.70
LLC "German society on investments and development" (DEG)	-	8.82
Tsybulin V.A.	7.53	7.53
LLC "Speedster-M"	7.25	7.25
Other	0.72	0.72
Total	**100.00**	**100.00**

Detailed information on the share capital of the Bank is presented in Note 23.

The ultimate controlling party of the Bank as at 31 December 2016 and 2015 was Valentin A. Tsybulin, the resident of the Republic of Belarus.

2. Basis of preparation of the financial statements

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

General basis of presentation of the financial statements

These financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future. The Management believes that going concern assumption is appropriate for the Bank due to it's sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

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

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

These financial statements are presented in thousands of Belarusian Roubles, unless otherwise stated.

In 2011 - 2014 the economy of Belarus was recognised as hyperinflationary since meeting of criteria, stipulated in IAS 29 "Financial Reporting in Hyperinflationary Economies". This standard requires that financial statements of the entity, whose functional currency is the currency of a hyperinflationary economy, shall be stated in prices, which present purchasing power as at the end of the reporting period. From 1 January 2015 the economy of Belarus has been no more considered as hyperinflationary. In addition, opening balances of non-cash assets, liabilities and capital of the Bank as at 1 January 2015 are presented in prices being effective as at 31 December 2014.

3. Adoption of new and revised standards and interpretations

In the reporting year the Bank adopted all new and amended standards and interpretations related to the Bank's operations and effective for the reporting period ended 31 December 2016. The bank did not adopt early standards, interpretations or amendments, which had been issued but did not come into effect.

IFRS 9 Financial instruments (effective for annual periods beginning on or after 1 January 2018, earlier application is permitted). This standard replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement, impairment and hedge accounting. Main differences of the standard are the following:

- Financial assets should be classified into two measurement categories: financial assets subsequently measured at fair value and financial assets subsequently measured at amortized cost. Valuation technique should be made during the initial recognition. The classification depends on the business model for managing financial instruments of the company and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument as well as if (i) the business model of the company is to hold the asset to collect the contractual cash flows, and simultaneously (ii) the contractual cash flows of this asset represent only payments of principal and interest (i.e., the financial instrument has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments should be subsequently measured at fair value. Equity instruments held for sale will be measured at fair value through profit or loss. For all other equity investments at initial recognition there can be made the final decision to recognize unrealized and realized gains and losses from remeasurement at fair value in other comprehensive income rather than in profit or loss. Gains and losses from revaluation should not be transferred to profit or loss. This decision can be made individually for each financial instrument. Dividends should be presented in profit or loss, as long as they represent the investment yield.

- Most of the requirements of IAS 39 regarding the classification and measurement of financial liabilities were transferred unchanged to IFRS 9. The main difference is the requirement to present the effects of changes in own credit risk of financial liabilities classified as at fair value through profit or loss in other comprehensive income.

- IFRS 9 changes the impairment accounting: impairment is recognized as for excepted losses and incurred losses. In this case the company should consider previous events and current conditions as well as reasonable forecast of future economic conditions as for the financial instruments. Impairment losses are recognized as for all financial assets carried at amortized cost and at fair value through other comprehensive income. This impairment accounting model is applied to certain commitments to extend credits and financial guarantees but is not applicable for equity financial instruments and financial instruments measured at fair value through profit or loss.

- The general principle of impairment assessment represents the application of one of two basis for assessment, the choice of which depends on whether there have been a significant decrease in credit risk of financial instrument as from its initial recognition. If the decrease in credit risk as from the initial recognition was not observed, the company recognizes the expected impairment loss within 12 months. Otherwise the expected impairment loss for the whole term of financial asset is recognized. If with the course of time the credit quality of the financial asset is improved, the standard provides for the possibility of reverse reclassification of the financial asset to the group with a basis of credit losses assessment within 12 months.

- In accordance with IFRS 9 hedge accounting is reproduced in line with approaches on risk management. This standard defines new requirements to the beginning, continuation and termination of hedge accounting as well as additional objects specified as hedged items; provides for alternative options to the application of hedge accounting, eliminates the quantitative assessment of hedge effectiveness by replacing it with qualitative characteristics as well as introduces additional requirements regarding disclosure of information on the company's risk management and hedging.

Adoption of IFRS 9 is mandatory from 1 January 2018, earlier application is permitted both simultaneously and from different dates for different regulatory requirements. The Bank's management believes that IFRS 9 will be applied in the Bank's financial statements for the year beginning from 1 January 2018 and its application of the new Standard will have a significant impact on the reported indicators of financial assets, not the classification and measurement of financial liabilities. At the same time, a reasonable estimate of this impact requires detailed analysis.

IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016). The Standard sets requirements to the financial statements for rating assets and liabilities which are called "regulatory deferral accounts balances" that arise in the companies which are subject to rate regulation. The Standard's scope of application is limited and is extended to the first-time adopters of IFRS who operate on regulated rates and recognise linked assets and (or) liabilities in accordance with current national accounting rules. IFRS 14 is not applicable to the Bank's operation.

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017, earlier application is permitted). This Standard replaces the following Standards and

Interpretations: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The Standard determines a five-stage model of revenue recognition which is applied to income received under the contracts with customers with very rare exceptions, regardless of income type or sector. The key principle of IFRS 15 is that the company should recognize revenue at the moment or upon transfer of goods or services to clients in the amount corresponding to the remuneration. According to the company's expectations, the company has a right to the remuneration in exchange for goods or services.

The Standard introduces enhanced guidelines for identification of a customer agreement and its obligations, determining the revenue recognition, accounting of variable remuneration and expenses associated with conclusion and implementation of an agreement as well as introducing new requirements to disclosure.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

Amendments to IAS 1 resulting from the Disclosure initiative (effective for annual periods beginning on or after 1 January 2016) define the necessity of applying of material principle to all items of the financial statements, even if certain standard require some disclosure, possibility of note sequence usage different from IAS 1, and also comments, clarifies that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. This amendment will not influence on financial statements of the Bank.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016) provide for guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business as defined in IFRS 3 Business Combinations. These amendments will not have an impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016). Amendments to IAS 16 prohibit using the depreciation method based on the revenue as for the items of property and equipment. Amendments to IAS 38 introduce a rebuttable presumption that revenue is not a valid basis for the calculation of amortization. This presumption can be rebutted only if an intangible asset is expressed as a measure of revenue or if revenue and consumption of economic benefits from the intangible asset are immediately interconnected.

The Bank uses a straight-line depreciation of fixed assets and intangible assets so these amendments will not have an impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016) require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16, instead of IAS 41. These amendments will not have an impact on the Bank's financial statements as the Bank does not have such assets.

Amendments to IAS 27 «Equity Method in Separate Financial Statements» (effective for annual periods beginning on or after 1 January 2016); the amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This amendment will not influence on financial statements of the Bank.

Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2016) clarify that upon sale or transfer of assets to the joint venture or associate, as well as when losing control over a subsidiary, when maintaining joint control or significant influence, gains or losses should be recognized depending on whether the assets or subsidiary is of businesses nature, as defined in IFRS 3. These amendments will not have an impact on the Bank's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: applying the consolidation exception» *(effective for annual periods beginning on or after 1 January 2016).* Amendments to IFRS 10 clarify that exception from the requirement on preparation of consolidated financial statements is applied to a parent company, which is a subsidiary of an investing company, if such investing company measures its subsidiaries at fair value. Moreover, amendments clarify that only the subsidiary which render supporting services to its parent company and which is not being an investing company has to be consolidated. Other subsidiaries of the investing company measured at fair value. Amendments to IAS 28 permit investor, applying equity method, keep measurement at fair value, applying by its associated or joint company, which is an investing entity, to its own subsidiaries. This amendment will not influence on financial statements of the Bank.

Improvements to IFRSs 2010-2012 (effective from 1 July 2014) introduce amendments to the following standards. Amendments to IFRS 2 make more specific the definition of "vesting conditions" and "market conditions", as well as introduce the definition of "condition of results achievement" and "condition of service life". Amendments to IFRS 3 clarify that contingent consideration classified as an asset or liability should be measured at fair value at each reporting date, regardless of whether they fall within the scope of IAS 39 or IFRS 9, or are non-financial asset or liability. Amendments to IFRS 8 require to disclose the management's judgments in applying criteria for aggregation of operating segments, and explain that the reconciliation of the aggregated reporting segments and assets of the company should be disclosed in the financial statements only if such information is regularly reviewed by the operating decision maker. Amendments to IFRS 13 (entered into force on the date of issue) clarify that the short-term receivables and payables with no set interest rates can be recorded without taking into account the discounting, if its effect is not significant. Amendments to IAS 16 and IAS 38 are applied retrospectively and eliminate contradictions in the accounting for accumulated depreciation and amortization when applying the revaluation model. The amended standards clarify that gross value should be restated in a manner consistent with the method of revaluating the carrying amount of the asset, and accumulated depreciation - the difference between the gross value and the book value of the asset, taking into account any accumulated impairment losses. Amendments to IAS 24 clarify that companies that render services on provision of key management personnel to the reporting entity, are related parties to such company.

These amendments will not have a significant impact on the Bank's financial statements.

Improvements to IFRSs 2011-2013 (effective for periods beginning on or after 1 July 2014) include amendments to the following standards. Amendments to IFRS 3 clarify that this Standard is not applicable to the accounting of formation of any joint operation in the financial statements of the joint operation. Amendments to IFRS 13 clarify that the portfolio exception, which allows measuring the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9 regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. Amendments to IAS 40 clarify that upon acquisition of an investment property item, IAS 40 and IFRS 3 should be applied simultaneously and not alternatively. Amendments to IFRS 1 clarify that an entity can apply an effective standard or a new one, not still mandatory and for which earlier application is permitted, provided that any of these standards is consistently applied for all periods of the first financial statements under IFRS.

These Amendments will not have a significant impact on the financial statements of the Bank.

Improvements to IFRSs 2012-2014 (effective for periods beginning on or after 1 January 2016) include amendments to a number of IFRSs. Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued clarify that the case when an asset (disposal group) is transferred from the category "held for sale" to the category "held for distribution" or vice versa is not a change in a plan to sell or distribute. IFRS 7 Financial Instruments: Disclosures includes amendments in the guidance for application, which allows determining whether there is a continued interest in a transferred financial asset under the terms of servicing contract, as well as in clarifications meaning that additional disclosure on offsetting is not mandatory for interim periods unless IFRS 7 requires otherwise. Amendments to IAS 19 Employee

Benefits clarify that when determining the discount rate on contributions upon retirement, the currency of liabilities should import and not the country when the liabilities arose. Amendments to IAS 34 Interim Financial Reporting clarify the meaning of disclosure of information "elsewhere in the interim financial report", and requires a cross reference to location of information to be included in interim financial report.

These Amendments will not have a significant impact on the financial statements of the Bank.
FRS 16 Leases (effective for annual periods beginning on or after 1 January 2019, early application permitted) The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 "Income Taxes" (effective from January 1, 2017). In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 "Cash Flow Statement" (effective from 1 January 2017). In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets which can be easily converted into certain amounts of cash and which are subject to an insignificant risk of changes in value with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with longer-term maturity exceeding 90 days cannot be considered as cash equivalents when their residual period to maturity reduces to 90 days. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

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

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

Financial instruments

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

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

Financial instruments are classified into the following categories.

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

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. Investments held-for-maturity, generally, include debt securities.

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

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

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

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

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

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

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

Initial recognition of financial instruments

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

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

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in principal (or more advantageous) market at the measurement date under current market terms. Principal (or more advantageous) market price used to measure fair value of assets or liabilities shall not be adjusted for transaction expenses, as they do not characterize asset or liability, but reflect transaction terms for asset or liability.

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

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

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

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

Derecognition of financial assets

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

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

Derivative financial instruments

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

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

Due from other banks

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

Loans to customers

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

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

Investments held to maturity

Investments held to maturity include debt securities. During initial recognition securited are posted at fair value and further measured at amortized cost by the method of effective interest rate. Amortized cost based on the fair value of securities, calculated with regard of market adjustments or interest rates for similar financial instruments available at the date of acquisition of securities. Difference between fair and nominal value of securities recognized in the income statement as effect from initial recognition of financial instruments at fair value. Securities held for maturity measured less allowance for impairment, if any.

Bank assess its intention and ability to held financial instrument to maturity at the moment of initial recognition and at each reporting date.

Financial assets available for sale

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

Financial assets impairment

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

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

- delinquency in any instalment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower's business;
- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower's financial difficulty that the lender would not otherwise consider.

The key criteria applied for determination of impairment of securities are an ability of issuer to fulfil its obligation to the Bank, and information about the ability to service its securities, market conditions and other information.

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

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

When there are objective indications of impairment of financial assets held for sale, the cumulative loss previously recognized in other comprehensive income is transferred from other comprehensive income and recognized in the profit and loss statement for the period. The reversal of an impairment loss that relates to events after impairment is recorded in the profit and loss statement for the period.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined. Loan debt to individuals is written off due to relevant reserves after its attribution to the debt with maximum credit risk.

Financial liabilities

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

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

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

Preference shares

Preference shares are classified as a financial liability as they provide mandatory fixed dividends payments. In this case dividends are recognised as interest expense in the income statement as accrued.

Derecognition of financial liabilities

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability(or its part) is replaced by another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original and new financial liability is recognized in the income statement.

Offset of financial assets and liabilities

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

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

- agreements are entered into at the same time and interrelated;
- agreements are concluded by the same counterparty;

- instruments are subject to the same risk;
- there is no apparent economic need or substantive business purpose for accounting the transactions separately that could not also have been accomplished in a single transaction.

Investment property

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

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

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

At the date of transfer from other types of assets to investment property, the object is recognized at fair value. During the transfer of property and equipment, the difference between the carrying amount and fair value is recognized as reevaluation of property and equipment at the date of the transfer. In case of disposal of such asset, the amount of reevaluation is posted to retained earnings. Whereas transfer to investment property from inventories, at the date of the transfer the difference between the carrying amount and fair value is recognized in profit or loss for the period. Proceeds from lease of investment property is recognized in the income statement in Other income.

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

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

Property and equipment

Property and equipment are recorded at initial cost (property and equipment, acquired before 1 January 2015 – at adjusted acquisition cost, in order to be presented in monetary units current as at 31 December 2014), less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. This is the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the income statement as other income. Repair and maintenance costs recognized in the income statement in operating expenses as incurred.

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

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

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

Intangible assets

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

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

Intangible assets include software, licences, rights to use land plots and other intangible assets.

Intangible assets which are separately acquired and recognised at acquisition cost (intangible assets, acquired before 1 January 2015– at adjusted acquisition cost in order to be presented in monetary units current as at 31 December 2014), less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised evenly during the useful life using the straight-line basis. Depending on the type of intangible assets useful lives are the following:

- software – 2,5 – 10 years;
- licenses – 10 years;
- rights to use land plots – 4-39 years;
- other – 2-10 years.

Useful lives and method of amortization of intangible assets with defined useful life, as well as there is an indication that the intangible asset may be impaired are reviewed at least annually at the end of the reporting period.

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

Impairment of non-financial assets

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

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

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

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

Assets available for sale

The Bank classify an assets as available for sale whereas it is purchased with the intent of selling rather than further usage. In that case, the asset should be available for immediate sale in current conditions and under typical terms of sale of similar assets, wherein the sale should be highly probable, which is confirmed by the solution of the management to sale an asset, plan of sale, active supply of the asset in the market and search for buyers. Planning period of sale should not excess one year from the moment of classification of an asset.

Assets available for sale measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss, that arises during initial classification to assets is recognized in profit or loss for the reporting period.

During the measurement of fair value the Bank is guided by actual market prices for identical assets, if there is no similar assets – the Bank takes prices for similar assets adjusted to differences between assets; also the Bank takes into acount recent prices by the similar assets adjusted to any changes after the date of transaction and before the reporting date. Moreover, the Bank regards forecasts of discounted cash flows.

Depreciation is not charged for assets available for sale.

In case of reclassification from assets available for sale to assets for use, the asset is measured at the lower of carrying amount before it has been classified into available for sale adjusted to depreciation and losses from impairment which would not be recognized if the asset were classified as available for sale and its recoverable amount at the date of refusal from sale.

Repossessed assets

In the normal course of business, the Bank occasionally takes possession of non-financial assets that originally were pledged as collateral for loans. When the Bank acquires (i.e. gains a complete ownership) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of cost (for assets, acquired before 1 January 2015 - cost restated in order to be presented in monetary units current as at 31 December 2014) and net realisable value. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

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

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

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

Operating lease - Bank as a lessee

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

Operating lease - Bank as a lessor

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

Finance lease – Bank as a lessee

The lease of property classified as finance lease when all risks and benefits, connected with ownership, are transferred to the lessee.

In case of finance lease when the Bank acts as a lessee, leased assets are recognized similar to its own at the beginning date of lease and at the lower of the following values: discounted amount of minimum lease payments or fair value of leased property. During the calculation of current value of minimum lease payments, the interest rate on the lease contract, if any, is applied as discounting rate. In other cases the Bank's borrowing rate is applied. Depreciation policy for such assets complies with policy for other assets of the Bank. Depreciation is charged for the shortest of periods: expected useful life or term of lease, if there is no reasonable assurance that the Bank will get the property right for the asset before the end of lease's term.

Lease payables less the future lease expenses are recognized in other financial liabilities of the Bank, financial lease expenses are posted in interest expenses. Lease payments are partially attributable to repayment of liability and partially to interest expenses in order to maintain a constant interest rate on the outstanding balances under finance leases.

Share capital

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

Share capital is accounted for at historical cost (contributions in authorized capital before 1 January 2015– at historical cost restated in order to be presented in monetary units current as at 31 December 2014).

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

Loan commitments

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

Loan commitments are initially recognised at fair value confirmed by the amount of commissions received. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised (commission received) or the amount recognized as a provision. In case when commissions are accrued periodically in respect of unfulfilled liability they are recognised as revenue during the term of the respective liability.

Provisions, contingent liabilities and assets

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

Provisions are recognized in the amount representing optimal current assessment of expenses including time value of money and, if necessary, risks inherent to this liability. Provisions are reevaluated at each reporting date in order to determine the most beneficial amount of liabilities, due to changes in value or terms of outflow of respective resources, or changes in discounting rate. In case of discounting increase in provision over time is recognized as interest expenses.

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

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

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

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

Short-term employee benefits

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

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries. The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

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

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

As some types of expense are tax exempt and due to tax incentives permanent taxable differences arise. In 2016 and 2015 the Bank applied the following tax incentives provided by law:

- tax exemption for operations with state securities, bonds of the National Bank and bonds of other legal entities;

- investment deduction as for reacquired fixed assets, investments in their reconstruction and modernization;

- an exemption on profit discharged of taxation directed to support state sports clubs.

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

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

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

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

Taxes other than income tax are accounted in operating expenses.

Income and expense recognition

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

Once a financial asset or a group of similar financial assets has been written down (partially or fully) as a result of an impairment loss, interest income is recognised using interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss. Significant payments on debts that were written off in the reporting period using the funds of created allowances are recorded as impairment allowance recovery of relevant financial assets.

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

Other income is recognized in the income statement when the related transactions are completed.

Fines (interest, penalties) which the Bank received for non-fulfillment or improper fulfillment of agreements (including credit contracts) by counterparties are classified as other income as this type of income has an accidental irregular character and represents the liability of contractual parties the payment of which is under the law and does not depend on whether it is determined by the relevant agreement.

Foreign currency transactions

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

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

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

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

The exchange rates of the Belarusian Rouble to the main Bank`s operational foreign currencies are presented below (as at 31 December 2015 adjusted for the denomination):

Reporting date	US Dollar ("USD")/ Belarusian Rouble ("BYN")	Euro ("EUR")/ Belarusian Rouble ("BYN")	100 Russian Rouble ("RUB")/ Belarusian Rouble ("BYN")
31 December 2016	1.9585	2.0450	3.2440
31 December 2015	1.8569	2.0300	2.5533

Determination and presentation of operating segments

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

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

Business activities which are not allocated to a certain component are combined and disclosed in the category "Other/not distributed" in the purposes of consistent presentation of segments activities with Bank's activities in financial statements of the Bank.

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

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

5. Critical accounting estimates and assumptions in applying accounting policies

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

The allowance for impairment of loans to customers

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

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

During the collective assessment of impairment of loans to customers and based on the historical information about fulfillment of obligations by borrowers, terms of repayment and losses incurred, the Bank does not take into account pledges.

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

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

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of BYN 3,917 thousands in 2016 and BYN 4,665 thousands in 2015.

Fair value of investment property

In 2016 and 2015 fair value of the property classified as investment property was estimated by the Bank itself based on the prices for similar property from public sources and adjusted to differences; on recent prices for similar real estate at less active markets and adjusted to differences after transaction date, but before the reporting date. In 2014 the estimate was made by the professional independent appraisers using a comparative method.

More information about the assumptions used to determine the fair value of investment property is set out in Note 35. Management believes that the actual proceeds from the sale or use of the investment property items may differ from the amounts reported in the statement of financial position.

Deferred income tax asset recognition

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

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions.The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. All transactions with related parties were performed on the same terms as transactions with independent parties. Terms and conditions of related party balances are disclosed in Note 37.

6. Operating environment

During 2016 the National Bank of the Republic of Belarus (hereinafter – the National Bank or NB RB) continued its policy on the financial market stabilization. To increase refinancing rate efficiency as instrument of monetary policy, since January 2016 NB RB has been gradually reducing rates on instruments regulating liquidity from 25% to 18% at the year-end .

In August 2016 the NBRB Board decided to reduce mandatory standard sale of foreign exchange earnings from 30% to 20%.

The NBRB Board decided to change from 1 November 2016 the weights of currencies in the basket of foreign currencies, and to set the following rates: the Russian rouble - 50%, the US dollar - 30%, euro - 20%. This decision was made as part of a strategy on the gradual convergence of the Russian rouble share in the basket of foreign currencies and the Russian Federation share in a foreign trade turnover of the Republic of Belarus, which is about 50 percent

Measures accepted by the NBRB have had a positive impact on the stability of the Belarusian rouble. At the end of 2016 the final devaluation of the national currency amounted to 5.5%, 0.7% and 27.1% against the US dollar, euro and the Russian rouble, respectively. The overall decline in GDP for 2016 was 2.6% compared to a decrease of 3.8% for 2015.

Inflation processes in the economy also slowed down, inflation was 10.6% in 2016 (12% in 2015).

In July 2016 the official denomination of currency - Belarusian rouble at a ratio of 10,000 to 1 – took place in the Republic of Belarus. Current bank notes of 2000-year issue are being replaced by the bank notes and coins of 2009-year-issue.

During 2016 the Republic of Belarus continued to increase the national debt. The external state debt as of 1 January 2017 amounted to 13.6 billion US dollars, by increasing from the beginning of the year by 1,198.8 million US dollars, or by 9.6%

On 25 March 2016 Council of Eurasian Stabilization and Development Fund approved a stabilization loan of 2 billion US dollars for the Republic of Belarus. The loan is allocated to support the economic policy measures, as well as on structural reforms of the Government of the Republic of Belarus and the National Bank of the Republic of Belarus in a period from 2016 to 2018. Funds will be provided in seven tranches (each for a 10-year term, including a five-year grace period) for 2016-2018. The first tranche of 500 million US dollars has been received on 30 March 2016. The second tranche in the amount of 300 million US dollars - in June 2016.

The remaining increase in the external state debt is mainly related to a net raising of funds by the Government and the banks of the Russian Federation and the banks of the People's Republic of China.
In June 2016, the Moody's Agency confirmed the sovereign rating of the Republic of Belarus at the level of Caa1 having revised the rating from "negative" to "stable", based on the improvement of the foreign liquidity position of Belarus.

Although, in the opinion of the Bank's management, the management takes adequate actions to maintain the sustainable development of business in the current circumstances, unexpected further deterioration in the described spheres may have a negative impact on results of the financial performance and financial position of the Bank and its counterparties. Determination of the degree of such impact on the consolidated financial statements is currently not possible.

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

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Cash balances with the National Bank of the Republic of Belarus	4,646	12,928
Cash in hand	5,157	4,158
Total cash and balances with the National Bank of the Republic of Belarus	**9,803**	**17,086**

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

Information on cash and cash equivalents is disclosed in Note 31.

8. Derivative financial instruments

As at 31 December 2016 derivative financial instruments are presented as follows:

In thousands of Belarusian Roubles	**Nominal amount**		**Fair value**	
	Currency acquired	**Amount of currency acquired**	**Assets**	**Liabilities**
Foreign currency swap contracts				
RUB/USD	RUB	16,220	7	-
USD/EUR	USD	2,461	-	-
Total derivative financial instruments		**18,681**	**7**	-

As at 31 December 2015 derivative financial instruments are presented as follows:

In thousands of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	**Amount of currency acquired**	**Assets**	**Liabilities**
Foreign currency swap contracts				
RUB/USD	RUB	2,553	18	-
EUR /USD	EUR	11,774	-	1
Total derivative financial instruments		**14,327**	**18**	**1**

The presence of these derivatives leads to the Bank credit risk. The maximum credit risk of the asset which appeared as a result from the fair value of derivative financial instrument equals to its carrying amount in the statement of financial position.

As at 31 December 2016 derivative financial assets are presented by transactions with Joint-Stock Commercial Bank «NOVIKOMBANK», assigned «B» rating by the international rating agency Fitch Ratings

As at 31 December 2015 derivative financial assets are presented by transactions with banks, which do not have ratings, assigned by the international rating agency Fitch Ratings.

9. Due from other banks

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Nostro accounts	11,152	4,476
Deposits placed with other banks as fulfilment of obligations	398	414
Total due from other banks	**11,550**	**4,890**
Allowance for impairment	-	(3)
Total due from other banks net of allowance for impairment	**11,550**	**4,887**

As at 31 December 2016 and 2015 deposits placed with other banks as fulfilment of obligations were presented by guarantee deposits placed with other banks for plastic cards transactions.

(a) Credit quality of amounts due from other banks

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2016, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In thousands of Belarusian Roubles	Nostro accounts	Deposits placed with other banks as fulfilment of obligations	Total
Neither past due nor impaired			
BB+	50	-	50
B	1,823	-	1,823
B-	937	398	1,335
Not rated	8,342	-	8,342
Total neither past due nor impaired	**11,152**	**398**	**11,550**
Individually assessed for impairment (current)	-	-	-
Total due from other banks	**11,152**	**398**	**11,550**
Allowance for impairment	-	-	-
Total due from other banks net of allowance for impairment	**11,152**	**398**	**11,550**

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2015:

In thousands of Belarusian Roubles	Nostro accounts	Deposits placed with other banks as fulfilment of obligations	Total
Neither past due nor impaired			
BBB	3,374	-	3 374
BB+	125	-	125
B	10	-	10
B-	423	414	837
Not rated	515	-	515
Total neither past due nor impaired	**4,447**	**414**	**4,861**
Individually assessed for impairment (current)	29	-	29
Total due from other banks	**4,476**	**414**	**4,890**
Allowance for impairment	(3)	-	(3)
Total due from other banks net of allowance for impairment	**4,473**	**414**	**4,887**

As at 31 December 2016 and 2015 amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks with good reputation.

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

Movement in the impairment allowance for due from other banks in the year 2016 is presented below:

In thousands of Belarusian Roubles	Nostro accounts	Deposits placed with other banks as fulfilment of obligations	Total
Allowance for impairment as at 1 January 2016	**3**	**-**	**3**
Reversal for the year	(3)	-	(3)
Allowance for impairment as at 31 December 2016	**-**	**-**	**-**

Movement in the impairment allowance for due from other banks in the year 2015 is presented below:

In thousands of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Allowance for impairment as at 1 January 2015	**4**	**-**	**4**
Reversal for the year	(1)	-	(1)
Allowance for impairment as at 31 December 2015	**3**	**-**	**3**

(c) Concentration of due from other banks

As at 31 December 2016 and 2015 the Bank had no significant concentration of due from other banks.

(d) Maximum exposure to credit risk

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

10. Financial assets available-for-sale

As at 31 December 2015, financial assets available for sale composed of bonds of the National Bank denominated in USD with maturity date in December 2016 and with yearly interest rate 8.3%.

Maximum credit risk of financial assets available for sale equals to their carrying amounts as reported in the statement of financial position.

As at 31 December 2016, there are no financial assets available for sale.

11. Loans to customers

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Commercial loans	35,122	28,983
Loans to individuals	23,666	34,925
Total loans to customers	**58,788**	**63,908**
Allowance for impairment	(2,934)	(2,180)
Total loans to customers net of allowance for impairment	**55,854**	**61,728**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loan portfolio as at 31 December 2016:

In thousands of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Undue and not individually impaired loans			
New loans granted	3,345	1,208	4,553
Standard	4,503	19,247	23,750
Watch	5,697	614	6,311
Substandard	7,056	422	7,478
Doubtful	539	450	989
Loss	-	643	643
Total undue and not individually impaired loans	**21,140**	**22,584**	**43,724**
Individually impaired loans			
Current	13,919	1,030	14,949
Overdue less than 1 month	-	25	25
Overdue from 1 to 3 months	-	13	13
Overdue from 3 to 6 months	-	14	14
Overdue more than 1 year	63	-	63
Total loans individually impaired	**13,982**	**1,082**	**15,064**
Total loans to customers	**35,122**	**23,666**	**58,788**
Allowance for impairment	(1,696)	(1,238)	(2,934)
Total loans to customers net of allowance for impairment	**33,426**	**22,428**	**55,854**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2015:

In thousands of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Undue and not individually impaired loans			
New loans granted	600	1,860	2,460
Standard	1,838	29,448	31,286
Watch	3,307	738	4,045
Substandard	5,433	649	6,082
Doubtful	3,160	484	3,644
Loss	1,026	564	1,590
Total undue and not individually impaired loans	**15,364**	**33,743**	**49,107**
Overdue but not impaired loans			
Overdue less than 1 month	225	-	225
Total overdue but not impaired loans	**225**	**-**	**225**
Individually impaired loans			
Current	13,106	1,156	14,262
Overdue less than 1 month	-	19	19
Overdue from 1 to 3 months	267	2	269
Overdue from 3 to 6 months	-	5	5
Overdue more than 1 year	21	-	21
Total loans individually impaired	**13,394**	**1,182**	**14,576**
Total loans to customers	**28,983**	**34,925**	**63,908**
Allowance for impairment	(998)	(1,182)	(2,180)
Total loans to customers net of allowance for impairment	**27,985**	**33,743**	**61,728**

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

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

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

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2016 are as follows:

In thousands of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2016	**998**	**1,182**	**2,180**
Charge for the year	2,780	1,259	4,039
Write-off	(2,551)	(2,064)	(4,615)
Restoration of past years	469	861	1,330
Allowance for impairment as at 31 December 2016	**1,696**	**1,238**	**2,934**

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2015 are as follows:

In thousands of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2015	**890**	**1,110**	**2,000**
Charge for the year	1,746	1,677	3,423
Write-off	(1,638)	(1,605)	(3,243)
Allowance for impairment as at 31 December 2015	**998**	**1,182**	**2,180**

(c) Financial effect of collateral for loans to customers

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

The loans to customers by types of collateral as at 31 December 2016 are presented below:

In thousands of Belarusian Roubles	Gross loans	Impairment allowance	Impairment allowance without collateral effect
Commercial loans			
Real estate	21,101	1,410	7,301
Other collateral	4,832	160	839
Guarantees	8,828	126	1,560
Cash security deposit	361	-	18
Unsecured loans	-	-	-
Total commercial loans	**35,122**	**1,696**	**9,718**
Loans to individuals			
Guarantees	4,288	125	125
Other collateral	1,210	33	43
Unsecured loans	18,168	1,080	1,080
Total loans to individuals	**23,666**	**1,238**	**1,248**
Total loans to customers	**58,788**	**2,934**	**10,966**

The loans to customers by types of collateral as at 31 December 2015 are presented below:

In thousands of Belarusian Roubles	Gross loans	Impairment allowance	Impairment allowance without collateral effect
Commercial loans			
Real estate	18,412	832	4,782
Other collateral	4,871	107	1,897
Guarantees	4,687	31	1,431
Cash security deposit	628	-	83
Unsecured loans	385	28	28
Total commercial loans	**28,983**	**998**	**8,221**
Loans to individuals			
Guarantees	6,872	86	86
Other collateral	308	21	22
Unsecured loans	27,745	1,075	1,075
Total loans to individuals	**34,925**	**1,182**	**1,183**
Total loans to customers	**63,908**	**2,180**	**9,404**

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

(d) Loans to customers by industry sectors

Analysis of loans to customers by industry sectors for the years ended 31 December 2016 and 2015 is as follows:

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Individuals	23,666	34,925
Trade	11,209	8,975
Leasing	6,599	6,991
Manufacturing and other material production	9,287	5,471
Real estate transactions	5,653	5,148
Other	2,374	2,398
Total loans to customers	**58,788**	**63,908**
Allowance for impairment	(2,934)	(2,180)
Total loans to customers less allowance for impairment	**55,854**	**61,728**

(e) Significant credit exposure

As at 31 December 2016 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2016 comprised BYN 4924 thousands.

As at 31 December 2015 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2015 comprised BYN 4438 thousands.

(f) Maximum exposure to credit risk

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

12. Investments held to maturity

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Bonds of the National Bank of the Republic of Belarus	72,987	72,030
Total investments held to maturity	**72,987**	**72,030**

As at 31 December 2016 investments held-to-maturity represented by bonds of the National Bank denominated in USD, Euro, BYN.

As at 31 December 2015 investments held-to-maturity represented by bonds of the National Bank denominated in USD with maturity of 365 days. Bonds in the amount of BYN 16,904 thousands were acquired at interest rate of 6.5% per annum. Bonds in the amount of BYN 55,126 thousands were acquired at interest rate of 2.2% per annum and initially were recognized at fair value based on the discounted cash flows model using a market interest rate for identical instruments (6.5%). Difference between fair and minimum value of the bonds at their initial recognition were posted in the income statement. (Note 24).

The maximum exposure to credit risk of financial assets available for sale equals their amounts reported in the statement of financial position.

13. Investment property

In thousands of Belarusian Roubles	2016	2015
Balance as at 1 January	**10,128**	**2,688**
Acquisition	1,341	7,485
Transfer from property and equipment	330	259
Sales	(981)	-
Gain/(loss) from fair value changes	-	(304)
Balance as at 31 December	**10,818**	**10,128**

In 2016 the investment property comprised property items used for rent in the amount of BYN 330 thousand. Premises intended for rent were purchased at the Bank's own expense in the amount of BYN 1,341 thousand. Investment property was initially carried at the acquisition cost. In 2015 the Bank obtained property items as debt repayment in the amount of BYN 3,155 thousand. The Bank decided to use this property for rent. The Bank also acquired at its own expense administrative buildings for rent in the amount of BYN 4,330 thousand. Investment property was initially recorded at the acquisition cost. Bank's approaches to assessment of fair value of investment property are disclosed in Note 35.

As at 31 December 2016 and 2015 profit from changes in fair value of investment property is unrealized.

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

In thousands of Belarusian Roubles	2016	2015
Rental income arising from investment property	712	542
Direct operating expenses (including repair and maintenance) arising from investment property generating rental income	(402)	(134)
Net income arising from investment property	**310**	**408**

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Not later than 1 year	58	68
Total payments receivable under operating leases	**58**	**68**

The majority of rent agreements are concluded on standard terms according to which the lessee has a right to terminate an agreement ahead of schedule with notification to the Bank not later than 30 days before termination. Payment receipts for non-cancellable operating lease of investment property are calculated in accordance with the terms of rent agreements. The Bank believes that anticipatory termination of the contract is unlikely. The Bank has no restrictions on the disposal of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.

14. Property and equipment and intangible assets

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2016:

In thousands of Belarusian Roubles	Buildings	Vehicles	Office and computer equipment, other property and equipment	Intangible assets	Capital expenditures and investments in intangible assets	Total
Net book value as at 1 January 2016	**10,947**	**213**	**1,428**	**319**	**4**	**12,911**
Cost						
Balance as at 1 January 2016	11,581	427	3,381	589	4	15,982
Additions	-	-	-	(45)	1,793	1,748
Transfers	120	-	151	509	(780)	-
Revalution over transfer to investment property	-	-	-	-	-	-
Transfer to investment property	(333)	-	-	-	-	(333)
Transfer to assets available-for-sale	-	-	(23)	-	-	(23)
Disposals	(57)	-	(222)	(7)	-	(286)
Balance as at 31 December 2016	**11,311**	**427**	**3,287**	**1,046**	**1,017**	**17,088**
Accumulated depreciation						
Balance as at 1 January 2015	634	214	1,953	270	-	3,071
Charge for the year	197	49	309	90	-	645
Revalution of accumulated depreciation over transfer to investment property	15	-	(15)	-	-	-
Disposal of accumulated depreciation over transfer to investment property	(3)	-	-	-	-	(3)
Disposal of accumulated depreciation over transfer to assets available-for-sale	-	-	(2)	-	-	(2)
Accumulated depreciation on disposals	(48)	-	(176)	(7)	-	(231)
Balance as at 31 December 2016	**795**	**263**	**2,069**	**353**	**-**	**3,480**
Net book value as at 31 December 2016	**10,516**	**164**	**1,218**	**693**	**1,017**	**13,608**

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2015:

In thousands of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Intangible assets**	**Capital expenditures and investments in intangible assets**	**Total**
Net book value as at 1 January 2015	**9,073**	**233**	**1,351**	**367**	**174**	**11,198**
Cost						
Balance as at 1 January 2015	9,570	411	3,240	577	174	13,972
Additions	1,587	-	-	-	1,104	2,691
Transfers	704	33	497	34	(1,268)	-
Revalution over transfer to investment property	150	-	-	-	-	150
Transfer to investment property	(344)	-	-	-	-	(344)
Transfer to assets available-for-sale	-	(17)	-	-	-	(17)
Disposals	(85)	(1)	(356)	(21)	(6)	(469)
Balance as at 31 December 2015	**11,582**	**426**	**3,381**	**590**	**4**	**15,983**
Accumulated depreciation						
Balance as at 1 January 2015	497	178	1,889	210	-	2,774
Charge for the year	196	51	383	79	-	709
Revalution of accumulated depreciation over transfer to investment property	84	-	-	-	-	84
Disposal of accumulated depreciation over transfer to investment property	(84)	-	-	-	-	(84)
Disposal of accumulated depreciation over transfer to assets available-for-sale	-	(15)	-	-	-	(15)
Accumulated depreciation on disposals	(58)	(1)	(319)	(18)	-	(396)
Balance as at 31 December 2015	**635**	**213**	**1,953**	**271**	**-**	**3,072**
Net book value as at 31 December 2015	**10,947**	**213**	**1,428**	**319**	**4**	**12,911**

In 2015 the Bank made a decision to lease temporary unused property, which was acquired in the primary activities purposes in 2014. Respectively, the Bank decided to transfer this property into investment property. The difference between the carrying amount and fair value at the moment of transfer amounted to BYN 66 thousands were recognized as reevaluation of property and equipment in the statement of other comprehensive income. (Notes 13, 30).

In 2014-2015 LLC "Dikris" made a contribution in authorized capital in office buildings: in the amount of BYN 1,102 thousands in 2015 and in the amount of BYN 8,464 thousands in 2014. The cost of contributions in authorized capital was approved by the independent professional appraiser. (Note 23).

In 2015 the Bank acquired the building under the finance lease agreement for 3 years in the amount of BYN 484 thousands for accommodation of regional office in Vitebsk. The building was acquired by the leasing company at public auction for its further transfer to the Bank. The building was recognized at the statement of financial position at discounted amount of minimum lease payments amounted to its fair value at the moment of recognition. As at 31 December 2015 the net book value of the asset amounted to BYN 484 thousands. Information on the balances outstanding under finance lease agreement is presented in the Note 20.

As at 31 December 2016 the bank used fully amortized property and equipment in the amount of BYN 1,057 thousands (as at 31 December 2015 - BYN 902 thousands), intangible assets in the amount of BYN 84 thousands (as at 31 December 2015 - BYN 35 thousands). The value of the property is gross, i.e. the acquisition cost adjusted to present in terms of the measuring unit current as of 31 December 2014 before depreciation.

15. Other assets

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Other non-financial assets		
Assets transferred to the Bank as repayment of debts	1,891	2,262
Prepayments for taxes (other than income tax)	336	678
Advance payments	161	196
Prepayments on capital investments	155	30
Other	20	8
Total non-financial assets	**2,563**	**3,174**
Other financial assets		
Accrued commission income and penalties	887	582
Receivables on reimbursement of state fees	199	186
Settlements with customers	184	184
Other receivables	147	147
Total other financial assets	**1,417**	**1,099**
Allowance for impairment	(480)	(284)
Total other financial assets less allowance for impairment	**937**	**815**
Total other assets	**3,500**	**3,989**

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

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Residential real estate under construction	1,891	2,259
Other assets	-	3
Total assets transferred to the Bank as repayment of debts	**1,891**	**2,262**

As at 31 December 2016 the assets transferred to the Bank to repay the debt were recorded at cost adjusted for the purpose of recording in monetary units effective as at 31 December 2015 in the amount of BYN 1,891 thousand.

As at 31 December 2015, the assets transferred to the Bank to repay the debt were recorded at the net realizable value, equal to the present value of the estimated future cash flows from the sale of this property, in the amount of BYN 368 thousand, at cost adjusted for the purpose of recording in monetary units effective as at 31 December 2015, in the amount of BYN 1.894 thousand.

As of 31 December 2015, the Bank was involved in litigation related to challenging the Bank's right for property received in repayment of a loan debt. The Bank created allowance in the amount of BYN 427 thousand based on the most likely outcome of the trial and the best estimate of the amount of expected costs at the reporting date. The allowance is recorded at the discount value of the Bank's expected costs for the refinancing rate of the National Bank (25%).

The proceeding was completed in 2016, the contract of title transfer was recognized as null and void. Invalid transaction is recognized as such on the date of the transaction, repayment of the loan debt, recorded in 2010, and reversed by writing off the property transferred to repay the debt. The created allowance was reversed.

(b) Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2016:

In thousands of Belarusian Roubles	Accrued commission income and penalties	Receivables on reimbursement of state fees	Settlements with customers	Other receivables	Total
Undue and not individually impaired other financial assets	**613**	**94**	**-**	**60**	**767**
Overdue but not impaired other financial assets					
Overdue less than 1 month	10	11	-	13	34
Overdue from 1 to 3 months	10	17	-	9	36
Overdue from 3 to 6 months	7	8	-	8	23
Overdue from 6 months to 1 year	245	19	-	15	279
Overdue more than 1 year	1	-	-	4	5
Total overdue but not impaired other financial assets	**273**	**55**	**-**	**49**	**377**
Individually impaired other financial assets					
Overdue from 6 months to 1 year	-	-	184	-	184
Overdue more than 1 year	1	50	-	38	89
Total individually impaired other financial assets	**1**	**50**	**184**	**38**	**273**
Total other financial assets	**887**	**199**	**184**	**147**	**1,417**
Allowance for impairment	(241)	(106)	(92)	(41)	(480)
Total other financial assets less allowance for impairment	**646**	**93**	**92**	**106**	**937**

The following table provides information on the credit quality of other financial assets as at 31 December 2015:

In thousands of Belarusian Roubles	Accrued commission income and penalties	Receivables on reimbursement of state fees	Settlements with customers	Other receivables	Total
Undue and not individually impaired other financial assets	**284**	**80**	**184**	**64**	**612**
Overdue but not impaired other financial assets					
Overdue less than 1 month	27	4	-	27	58
Overdue from 1 to 3 months	32	6	-	9	47
Overdue from 3 to 6 months	102	13	-	7	122
Overdue from 6 months to 1 year	132	27	-	1	160
Total overdue but not impaired other financial assets	**293**	**50**	**-**	**44**	**387**
Individually impaired other financial assets					
Overdue from 6 months to 1 year	-	1	-	34	35
Overdue more than 1 year	5	55	-	5	65
Total individually impaired other financial assets	**5**	**56**	**-**	**39**	**100**
Total other financial assets	**582**	**186**	**184**	**147**	**1,099**
Allowance for impairment	(150)	(95)	-	(39)	(284)
Total other financial assets less allowance for impairment	**432**	**91**	**184**	**108**	**815**

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

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

As at 31 December 2016 other financial assets included the debt of the buyer of capital structures (poultry houses) overdue since March 2016. There is a court decision dated September 2016, which has come into force, to charge the debt repayment from the debtor in favor of the Bank under the contract of purchase and sale of capital structures in the amount of BYN 232 thousand. In turn, the financial position of the buyer does not allow the buyer to pay the remaining amount, and a trial is underway to declae transaction void.
Allowance for impairment in the amount of 50% of the debt was created for the asset. The allowance is based on the best estimates made by management with respect to the current value of the cash flows expected by the Bank (Note 38).

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

The movement in allowance for impairment of other financial assets for the year ended 31 December 2016 is presented below:

In thousands of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimburse-ment of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2016	**150**	**96**	**-**	**38**	**284**
Charge for the year	91	10	92	3	196
Allowance for impairment as at 31 December 2016	**241**	**106**	**92**	**41**	**480**

The movement in allowance for impairment of other financial assets for the year ended 31 December 2015 is presented below:

In thousands of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimburse-ment of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2015	**117**	**69**	**-**	**3**	**189**
Charge for the year	33	27	-	35	95
Allowance for impairment as at 31 December 2015	**150**	**96**	**-**	**38**	**284**

16. Due to the National Bank of the Republic of Belarus

As at 31 December 2015, the amounts due to the National Bank are presented by short-term credit lines for the period until 1 year. Credit lines were granted at refinancing rate of the National Bank. As at 31 December 2016, there are no amounts due to the National Bank.

17. Due to other banks

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Loans and deposits from other banks	3,900	8,307
Correspondent accounts of other banks	4	1,860
Total due to other banks	**3,904**	**10,167**

As at 31 December 2016 the Bank had no balances of counterparty banks representing significant concentrations.

As at 31 December 2015 the Bank had balances exceeding 10% of the Bank's equity from two agency banks. The total amount of these balances as at 31 December 2015 amounted to BYN 10,166 thousand.

18. Customer accounts

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Corporate customers		
Term deposits	72,379	62,627
Current accounts	17,708	14,032
Total corporate customers' accounts	**90,087**	**76,659**
Individuals		
Term deposits	26,879	25,813
Current accounts /on-demand accounts	2,488	3,224
Total individuals' accounts	**29,367**	**29,037**
Total customer accounts	**119,454**	**105,696**

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Individuals	29,367	29,037
Industry and other material production	56,944	43,970
Trade	12,174	13,032
Real estate	10,327	4,243
Insurance	2,271	169
Information	1,153	1,514
Construction	1,149	4,931
Leasing	1,117	908
Non-commercial organizations	926	1,424
Transport	658	760
Consultation services	587	221
Advertising	363	616
Publishing	264	385
Communication and telecommunication	221	1,568
Education and scientific activities	212	223
Car service	129	389
Other	1,592	2,306
Total customer accounts	**119,454**	**105,696**

As at 31 December 2016 and 2015 the Bank had two and one customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2016 and 2015 amounted to BYN 52,616 thousand and BYN 38,552 thousand, respectively.

19. Debt securities issued

As at 31 December 2016 the Bank issued debt securities represented by USD bonds of the third issue at a fixed rate of 6.5% with maturity date in 2017. Bondholders are legal entities.

20. Other liabilities

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Other non-financial liabilities		
Deferred income	183	58
Contributions to the guarantee fund of protection of individual funds	44	44
Charges on taxes, other than income tax	40	43
Total other non-financial liabilities	**267**	**145**
Other financial liabilities		
Finance lease payables	414	272
Provision for vacations not paid and other obligations under employee benefit	78	104
Payables to suppliers	44	48
Provision for credit related commitments	84	36
Other	109	75
Total other financial liabilities	**729**	**535**
Total other liabilities	**996**	**680**

Finance lease liabilities is presented below::

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Minimum lease payments		
Less than 1 year	369	198
From 1 to 5 years	149	257
Total minimum lease payments	**518**	**455**
Deferred expenses on finance lease	(104)	(182)
Net finance lease payables	**414**	**273**
Net finance lease payables		
Less than 1 year	287	95
From 1 to 5 years	127	178
Net finance lease payables	**414**	**273**

Movements in the allowance for credit related commitments are disclosed in Note 32.

21. Subordinated debt

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Subordinated debt from Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	-	8,143
Subordinated debt from Dikris LLC	5,913	5,604
Subordinated debt from European Bank for Reconstruction and Development ("EBRD")	483	425
Total subordinated debt	**6,396**	**14,172**

The subordinated debt from EBRD was received in 2008 in the amount of USD 4,009 thousand with a maturity in 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as contribution to capital contributions in the amount of BYN 3,548 thousand.

In January 2017, the EBRD ceded the right to demand to the resident Speedster-M LLC. Under the subordinated loan agreement the amount remained unchanged, the interest rate was set floating based on the LIBOR rate for 12 months plus 6 percentage points. The maturity period was reduced to 2028.

In 2010 the Bank received the subordinated debt from DEG of EUR 4 000 thousand which has a maturity in 2016 and a floating interest rate of 12 months EUR LIBOR+6%. The subordinated debt was repayed in 2016.

In 2015 the Bank received the subordinated debt from Dikris LLC of USD 3,000 thousand which has a floating interest rate of 12 months USD LIBOR+6%.

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

22. Preference shares

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Number of preference shares	6,886,084	6,886,084
Nominal value of 1 share, BYN	0,160	0,153
Nominal value of preference shares	1,102	1,054
Accrued dividends on preference shares	571	383
Total preference shares	**1,673**	**1,437**

Preference shares give a right to participate in net assets. Annual minimum fixed dividend income on each preference share amounts to USD 0.01394 per share.

In 2017 and 2016 the General Shareholder Meeting decided not to pay out fixed dividends on preference shares as at the end of 2016 and 2015, respectively.

23. Share capital

As at 31 December 2016 and 2015 the share capital was represented as follows:

In thousands of Belarusian Roubles	**31 December 2016**	**31 December 2015**
Number of ordinary shares	120,791,295	120,791,295
Nominal value of 1 share, BYN	0,160	0,153
Nominal value of ordinary shares	19,326	18,481
Inflation effect	27,648	27,648
Total share capital	**46,974**	**46,129**

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

In December 2016, the shareholder of Bank Dikris LLC acquired shares from the European Bank for Reconstruction and Development and Deutsche Society for Investment and Development (DEG) under a sale and purchase agreement.

In June 2016, for the purpose of preparation for the denomination of the official currency of the Republic of Belarus, the Bank increased the nominal value of shares from BYN 0.153 to BYN 0.160 at the expense of retained earnings.

In 2015 the Bank additionally issued ordinary shares in the total amount of BYN 1,265 thousand. Dikris LLC acquired a total issue by making monetary contribution to the share capital in the amount of BYN 163 thousand and non-monetary contribution in the amount of BYN 1,102 thousand. Office premises, which had previously been leased by the Bank under operating lease, were transferred as a non-monetary contribution.

In accordance with the requirements of the legislation the value of non-monetary contribution to the share capital for the year 2015, was confirmed by a professional independent appraiser. The real estate is recognized as the Bank's property, plant and equipment at the value of non-monetary contribution to the share capital including relevant expenditures on registration in accordance with legislation (Note 14).

24. Interest income and expense

In thousands of Belarusian Roubles	2016	2015
Interest income		
Loans to customers	16,596	20,833
Investments held to maturity	6,213	286
Due from other banks	818	330
Due from the National Bank of Republic of Belarus	242	26
Financial assets available for sale	5	-
Total interest income	**23,874**	**21,475**
Interest expense		
Customer accounts	(8,012)	(9,498)
Due to the National Bank of Republic of Belarus	(2,281)	(190)
Due to other banks	(1,392)	(1,205)
Subordinated debt	(730)	(731)
Finance lease	(287)	(23)
Preference shares	(188)	(178)
Debt securities issued	(61)	(85)
Other	(115)	(3)
Total interest expense	**(13,066)**	**(11,913)**
Net interest income before the effect from the initial recognition of finance instruments at fair value	**10,808**	**9,562**
Effect from initial recognition of financial instruments (investments held-to-maturity) at fair value	-	(2,481)
Net interest income	**10,808**	**7,081**

Interest income includes interest income on impaired loans to customers totalling BYN 10,777 thousand in 2016 and BYN 15,169 thousand in 2015.

25. Fee and commission income and expense

In thousands of Belarusian Roubles	2016	2015
Fee and commission income		
Settlement and cash transactions fees	1,881	1,571
Foreign exchange fees	39	242
Other	214	143
Total fee and commission income	**2,134**	**1,956**
Fee and commission expense		
Settlement transactions and plastic cards transactions fees	(621)	(470)
Foreign exchange fees	(33)	(15)
Other	(114)	(91)
Total fee and commission expenses	**(768)**	**(576)**
Net fee and commission income	**1,366**	**1,380**

26. Net gain on transactions with derivative financial instruments

In thousands of Belarusian Roubles	2016	2015
Gains on swap transactions with the National Bank of the Republic of Belarus	-	23,265
Gains on forward contracts with the National Bank of the Republic of Belarus	-	7,765
(Expenses)/income on swap transactions with other banks	(6)	80
Total net (loss)/gain on transactions with derivative financial instruments	**(6)**	**31,110**

27. Net loss on foreign exchange operations and securities

Net loss on foreign exchange operations

In thousands of Belarusian Roubles	2016	2015
Net gain/ (loss) from revaluation of assets and liabilities	630	(24,512)
Net gain / (loss) on foreign exchange operations	3,472	(83)
Net gain/ (loss) on foreign exchange operations	**4,102**	**(24,595)**

In 2016 the devaluation of Belarusian Rouble against US dollar, Euro comprised 5.5% and 0.7%, respectively (2015: 56.7% and 41.2% respectively). In 2016 Belarusian Rouble decreased against Russian Rouble by 27.1% (2015: strengthened by 19.0 %).

Net loss on operations with securities

In thousands of Belarusian Roubles	2016	2015
Loss on operations with securities	(48)	-
Gain on operations with securities	7	-
Net loss on operations with securities	**(41)**	**-**

28. Other income

In thousands of Belarusian Roubles	2016	2015
Repayment of loans earlier written off	-	574
Rental income from operating lease	712	542
Penalties and fines received	616	539
Gain on sale of property	257	76
Other	47	36
Total other income	**1,632**	**1,767**

29. Operating expenses

In thousands of Belarusian Roubles	2016	2015
Staff costs	(3,359)	(3,460)
Contributions to the Social Security Fund	(1,053)	(1,146)
Software expenses	(861)	(654)
Taxes other than income tax	(693)	(509)
Depreciation and amortisation	(646)	(710)
Rental expenses	(554)	(728)
Administrative expenses	(501)	(435)
Communication and information services	(445)	(365)
Repairs and maintenance	(351)	(295)
Professional services (consulting, audit, legal, etc.)	(308)	(227)
Advertising and marketing	(252)	(212)
Sponsor support	(242)	(137)
Office expenses	(203)	(209)
Payments to the Individuals' Deposits Security Fund	(168)	(245)
Security expenses	(140)	(183)
Delivery and encashment services	(114)	(126)
Other	(649)	(384)
Total operating expenses	**(10,539)**	**(10,025)**

30. Income tax

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

For the years ended 31 December 2016 and 2015 the income tax rate for Belarusian banks was 25%. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 25%.

Income tax expense is presented as follows:

In thousands of Belarusian Roubles	2016	2015
Current income tax expense	(240)	(81)
Deferred income tax expense	244	(100)
Income tax expense	**4**	**(181)**

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

Information on each type of temporary differences on deferred tax assets and liabilities recognized in the statement of financial position and on amounts of deferred tax income and expense recognized in profit and loss, as well is in other comprehensive income is presented below:

In thousands of Belarusian Roubles	1 January 2015	Recognised in profit/ loss in 2015	Recognised in other compre-hensive income in 2015	31 December 2015	Recognised in profit/ loss in 2016	31 December 2016
Deductible temporary differences:						
Derivative financial instruments	490	(490)	-	-	-	-
Loans to customer	-	-	-	-	518	518
Investments held to maturity	-	616	-	616	(603)	13
Property and equipment and intangible assets	131	480	(17)	594	241	835
Other assets and liabilities	-	46	-	46	89	135
Provision for other risks and payments	-	106	-	106	(106)	-
Total deferred tax asset	**621**	**758**	**(17)**	**1,362**	**139**	**1,501**
Taxable temporary differences:						
Loans to banks and customers	(89)	(248)	-	(337)	336	(1)
Investment property	(184)	(153)	-	(337)	(97)	(434)
Property, equipment and intangible assets	-	-	-	-	-	-
Accrued income	(87)	(9)	-	(96)	(33)	(129)
Other assets and liabilities	(212)	212	-	-	-	-
Subordinated debt	(948)	(660)	-	(1,608)	(101)	(1,709)
Total deferred tax liability	**(1,520)**	**(858)**	**-**	**(2,378)**	**105**	**(2,273)**
Total net deferred tax liability	**(899)**	**(100)**	**(17)**	**(1,016)**	**244**	**(772)**

Comparison of actual tax expense and the theoretical tax expense for the years ended 31 December 2016 and 2015 are explained as follows:

In thousands of Belarusian Roubles	2016	2015
Profit before income tax	3,495	1,925
Income tax at the statutory rate	**874**	**481**
Tax effect of permanent differences:		
Tax incentives	(939)	(106)
Tax effect of non-taxable expenses	227	60
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(166)	(254)
Income tax expense	**(4)**	**181**

31. Cash and cash equivalents

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Cash and balances with the National Bank of the Republic of Belarus	9,803	17,086
Nostro accounts	11,152	4,473
Less mandatory reserve deposits with the National Bank of the Republic of Belarus	(371)	(695)
Total cash and cash equivalents	**20,584**	**20,864**

32. Contingencies

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

The management of the Bank believes that as at 31 December 2016 and 2015 they have accrued all tax amounts due and that tax positions and interpretations of the Bank may be proved. However, there is a possibility of resources outflow due to payments if the tax positions and interpretations will be disputed by the tax authorities. The effect of such disputable situations cannot be measured reliably; however it may be material for the financial position and/or activity of the Bank.

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Less than 1 year	100	277
From 1 to 5 years	82	276
Total operating lease commitments	**182**	**553**

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Unused credit lines	7,272	5,181
Guarantees issued	4,543	9
Letters of credit	-	2,495
Total loan commitments	**11,815**	**7,685**
Allowance on loan commitments	(84)	(36)
Total loan commitments less allowance	**11,731**	**7,649**

Movement in allowance on loan commitments for the years ended 31 December 2016 and 2015 was as follows:

In thousands of Belarusian Roubles	2016	2015
Loan commitment allowance		
Balance as at 1 January	36	45
Charge/(reversal) for the year	24	(9)
Commission reclassification	24	-
Inflation effect	-	-
Balance as at 31 December	**84**	**36**

33. Capital management

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

According to the requirement of the National Bank of Belarus the minimum size of regulatory capital, calculated on the basis of accounting records prepared in accordance with Belarusian legislation, for banks shall be maintained at a minimum level of BYN 45 million with a quarterly adjustment for the consumer price index. Since 1 January 2017 the value of minimum size of regulatory capital has been changed to BYN 50.19 million. As at 1 January 2017 the regulatory capital of the Bank was BYN 50.56 million in accordance with Belarussian legislation.

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

As at 31 December 2016 and 2015, reserve fund were recognized in the amount of BYN 981 thousand and BYN 975 thousand according to National accounting principles. Reserve fund is reserve set up in accordance with legislature of the Republic of Belarus for compensation of losses from Bank's transactions. This fund is not distributed among shareholders.

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

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Basic capital	28,012	27,997
Additional capital	23,158	19,134
Total capital	**51,170**	**47,131**
Total risk weighted assets	115,356	120,641
Statutory capital ratio (%)	**44.358**	**39.067**

The following table analyses regulatory capital of the Bank for capital adequacy purposes in accordance with the Basel agreement:

In thousands of Belarusian Roubles	31 December 2016	31 December 2015
Tier 1 capital		
Share capital	46,974	46,129
Accumulated loss	(8,657)	(11,262)
Intangible assets	(1,707)	(319)
Total tier 1 capital	**36,610**	**34,548**
Tier 2 capital		
Subordinated debt	6,396	6,593
Additional capital contribution	3,548	3,548
Preference shares	1,673	1,437
Provision for revaluation of property and equipment	49	49
Total tier 2 capital	**11,666**	**11,627**
Total capital	**48,276**	**46,175**
Total risk weighted assets	166,768	162,426
Statutory capital ratio (%)	**28.9**	**28.4**

As at 31 December 2016 and 2015 the Bank included in the calculation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 21). In the last 5 years remaining to maturity the subordinated debt is included into capital calculation with the cost recorded in the statement of financial position less 20% for each full calendar year. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors. Moreover, as at 31 Deccember 2016 and 2015 the Bank included in the calculation of total capital preference shares (Note 22), with undefined maturity and fixed dividends. Default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation. During the calculation of capital adequacy the Bank excluded from the capital of the first level the value of non-tangible assets (Note 14) in accordance with requirements of Basel Accord.

34. Risk management

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

The Strategy For Banking Risk Management and the General Risk Policy are the main documents regulating the system and approaches to risk management in the Bank.

The Risk Management Strategy is based on compliance with the break-even activities principle, aimed at ensuring a balance between profitability and the risk level assumed by the Bank and defines the main objectives and key aspects of risk management.

The General Risk Policy includes the following strategic objectives of risk management:

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

- development of the effective risk management framework for the further successful development of the Bank.

To ensure efficient risk management, the Bank has developed authority systems that allow to allocate responsibilities for each major type of risk between governing bodies, departments and employees of the Bank. Regardless of the type of a bank risk, the authority system necessarily includes the Board of Directors of the Bank, the Risk Committee, the Management Board, the Officer in charge of risk management, Credit and Financial Committees, Risk Management, including risk managers, the Internal Audit Department, and the Internal Control Service, Bank's Structural Divisions.

The Board of Directors ensures the organization of banking risk management system, monitors the adequacy of its functioning and the overall risk level, approves the General Risk Policy.

The Risk Committee established by the Board of Directors, monitors and controls the implementation of risk management strategies; evaluates the effectiveness of the risk management system; monitors the timeliness and quality of reporting on risks, as well as the completeness and adequacy of measures taken by the Management Board in order to minimize risks.

The Management Board ensures the functioning of the risk management system in order to meet the goals and objectives established by the Board of Directors in risk management; approves the General Risk Policy, local regulations regulating the methods and procedures for managing certain types of risks, as well as decision-making procedures, the interaction between departments, distribution and delegation of authority in the risk management process; ensures their effective implementation in practice; makes management decisions aimed at limiting the risk appetite of the departments generating risks, maintaining the risk profile of the bank which is adequate to the nature and scope of activities.

The Officer in charge of risk management coordinates the activities of all participants in the process of risk management, provides information exchange between them in order to take the necessary management decisions; on a regular basis reports to the Board on the degree of individual bank risks, compliance with risk appetite of the departments generating risks, compliance with established risk tolerance and maintaining risk profile of the Bank; on a regular basis (at least once a year) provides reports to the Risk Committee on functioning of the risk management system and the degree of individual banking risks; provides disclosure of the risk management system in accordance with the procedures of the Bank.

The Finance Committee and the Credit Committee monitor and analyze the risk level.

The Risk Management is responsible for the organization of an effective risk management system, monitoring the timely detection, identification, measurement, monitoring, control and limitation of bank risks. This department monitors compliance with procedures for managing each type of risk. To control and manage critical situations, which may have undesirable consequences for the Bank, a risk manager of the Bank performs stress testing and assessment of the impact of changes in external and internal factors of the risk involved in the sustainability of the Bank.

The Internal Audit Department is responsible for the regular audit of individual elements of the risk management system and make evaluation of the effectiveness of risk management, as well as controlling compliance of activities and operations carried out by the management and employees of the Bank with the requirements of current legislation. The results of inspections and the estimation of efficiency are reported to the Board of Directors.

The Internal Control Service shall verify compliance with the order of controlling each type of risk by authorized bodies and employees of the Bank, as well as verification of compliance with local regulations of the Bank providing for the strategy, policy, methods and procedures of risk management.

Other departments of the Bank carried out the current management of banking risks within its competence.

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

Credit risk regulation is performed by using the following procedures:

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

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

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

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

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

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

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 11 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 9, Note 11 and Note 12);
- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount resented in the statement of financial position (Note 8);
- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on (Note 32);
- issuing an uncancellable loan commitment or loan commitment cancellable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 32.

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

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

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

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2016 is presented as follows:

In thousands of Belarusian Roubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with the National Bank of the Republic of Belarus	9,803	-	-	9,803
Derivative financial assets	-	-	7	7
Due from other banks	1,461	6,978	3,111	11,550
Loans to customers	55,854	-	-	55,854
Investments held to maturity	72,987	-	-	72,987
Other financial assets	937	-	-	937
Total financial assets	**141,042**	**6,978**	**3,118**	**151,138**
Liabilities				
Due to other banks	3,904	-	-	3,904
Customer accounts	117,477	483	1,494	119,454
Debt securities issued	3,124	-	-	3,124
Other financial liabilities	729	-	-	729
Subordinated debt	5,913	483	-	6,396
Preference shares	1,673	-	-	1,673
Total financial liabilities	**132,820**	**966**	**1,494**	**135,280**
Net position	**8,222**	**6,012**	**1,624**	

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2015 is presented as follows:

In thousands of Belarusian Roubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with the National Bank of the Republic of Belarus	17,086	-	-	17,086
Derivative financial assets	18	-	-	18
Due from other banks	894	3,403	590	4,887
Financial assets available for sale	1,491	-	-	1,491
Loans to customers	61,728	-	-	61,728
Investments held to maturity	72,030	-	-	72,030
Other financial assets	815	-	-	815
Total financial assets	**154,062**	**3,403**	**590**	**158,055**
Liabilities				
Derivative financial liabilities	-	-	1	1
Due to the National Bank of the Republic of Belarus	12,780	-	-	12,780
Due to other banks	10,167	-	-	10,167
Customer accounts	103,302	61	2,333	105,696
Other financial liabilities	535	-	-	535
Subordinated debt	5,604	8,568	-	14,172
Preference shares	1,437	-	-	1,437
Total financial liabilities	**133,825**	**8,629**	**2,334**	**144,788**
Net position	**20,237**	**(5,226)**	**(1,744)**	

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

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

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

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

- *Quick liquidity ratio* is calculated as the ratio of demand assets to demand liabilities and overdue liabilities (minimum 20%). As at 31 December 2016, the ratio amounted to 267%, as at 31 December 2015 – 288.4%.
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%). As at 31 December 2016, the ratio amounted to 129.9%, as at 31 December 2015 – 98.3%.
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1 year to liabilities with the maturities of less than 1 year (minimum 1). As at 31 December 2016 the ratio amounted to 1.6, as at 31 December 2015 – 1.0.
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%). As at 31 December 2016 the ratio amounted to 52.4%, as at 31 December 2015 – 52.8%.

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

The table below represents analysis of financial liabilities by maturities as at 31 December 2016:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Non-derivative financial liabilities								
Due to other banks	1,935	2,013	-	-	-	-	-	3,948
Customer accounts	31,069	49,597	13,688	12,141	16,235	-	-	122,730
Other financial liabilities	308	145	73	133	175	-	-	834
Debt securities issued	3,175	-	-	-	-	-	-	3,175
Subordinated debt	39	74	114	231	1,833	16,314	-	18,605
Preference shares	-	-	-	-	1,323	-	1,102	2,425
Loan commitments	7,247	257	3,925	159	142	-	-	11,730
Total expected future cash outflows from non-derivative financial liabilities	**43,773**	**52,086**	**17,800**	**12,664**	**19,708**	**16,314**	**1,102**	**163,447**
Derivative financial liabilities gross settled								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total expected future cash outflows from financial liabilities	**43,773**	**52,086**	**17,800**	**12,664**	**19,708**	**16,314**	**1,102**	**163,447**

The table below represents analysis of financial liabilities by maturities as at 31 December 2015:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Non-derivative financial liabilities								
Due to the National Bank of the Republic of Belarus	271	525	797	14,079	-	-	-	15,672
Due to other banks	8,409	1,831	-	-	-	-	-	10,240
Customer accounts	25,008	16,496	18,139	46,570	2,892	-	-	109,105
Other financial liabilities	228	39	55	103	292	-	-	717
Subordinated debt	34	67	8,373	204	1,623	15,021	-	25,322
Preference shares	-	-	-	-	1,096	-	1,054	2,150
Loan commitments	5,145	-	-	-	9	-	-	5,154
Total expected future cash outflows from non-derivative financial liabilities	**39,095**	**18,958**	**27,364**	**60,956**	**5,912**	**15,021**	**1,054**	**168,360**
Derivative financial liabilities gross settled								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total expected future cash outflows from financial liabilities	**39,095**	**18,958**	**27,364**	**60,956**	**5,912**	**15,021**	**1,054**	**168,360**

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

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

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

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

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Over-due	No maturity	Total as at 31 December 2016
Assets									
Cash and balances with the National Bank of the Republic of Belarus	9,432	-	-	-	-	-	-	371	9,803
Derivative financial assets	7	-	-	-	-	-	-	-	7
Due from other banks	11,152	-	-	-	-	-	-	398	11,550
Loans to customers	4,438	10,939	9,988	8,802	20,892	68	727	-	55,854
Investments held to maturity	12,793	60	40,944	19,190	-	-	-	-	72,987
Other financial assets	201	-	-	-	-	-	736	-	937
Total financial assets	**38,023**	**10,999**	**50,932**	**27,992**	**20,892**	**68**	**1,463**	**769**	**151,138**
Liabilities									
Due to other banks	1,904	2,000	-	-	-	-	-	-	3,904
Customer accounts	30,397	48,742	13,094	11,413	15,808	-	-	-	119,454
Other financial liabilities	295	126	52	103	153	-	-	-	729
Debt securities issued	3,124	-	-	-	-	-	-	-	3,124
Subordinated debt	38	-	-	-	-	6,358	-	-	6,396
Preference shares	-	-	-	-	571	-	-	1,102	1,673
Total financial liabilities	**35,758**	**50,868**	**13,146**	**11,516**	**16,532**	**6,358**	**-**	**1,102**	**135,280**
Liquidity gap	2,265	(39,869)	37,786	16,476	4,360	(6,290)			
Cumulative expected liquidity gap	**2,265**	**(37,604)**	**182**	**16,658**	**21,018**	**14,728**			

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Over-due	No maturity	Total as at 31 December 2015
Assets									
Cash and balances with the National Bank of the Republic of Belarus	16,391	-	-	-	-	-	-	695	17,086
Derivative financial assets	18	-	-	-	-	-	-	-	18
Due from other banks	4,473	-	-	-	-	-	-	414	4,887
Financial assets available for sale	1,491	-	-	-	-	-	-	-	1,491
Loans to customers	4,309	8,194	7,681	9,965	30,379	108	1,092	-	61,728
Investments held to maturity	186	76	-	71,768	-	-	-	-	72,030
Other financial assets	70	184	-	-	-	-	561	-	815
Total financial assets	**26,938**	**8,454**	**7,681**	**81,733**	**30,379**	**108**	**1,653**	**1,109**	**158,055**
Liabilities									
Derivative financial liabilities	1	-	-	-	-	-	-	-	1
Due to the National Bank of the Republic of Belarus	-	-	-	12,780	-	-	-	-	12,780
Due to other banks	8,347	1,820	-	-	-	-	-	-	10,167
Customer accounts	24,326	15,761	17,259	45,699	2,651	-	-	-	105,696
Other financial liabilities	218	19	28	56	214	-	-	-	535
Subordinated debt	33	-	8,143	-	-	5,996	-	-	14,172
Preference shares	-	-	-	-	383	-	-	1,054	1,437
Total financial liabilities	**32,925**	**17,600**	**25,430**	**58,535**	**3,248**	**5,996**	**-**	**1,054**	**144,788**
Liquidity gap	(5,987)	(9,146)	(17,749)	23,198	27,131	(5,888)			
Cumulative expected liquidity gap	**(5,987)**	**(15,133)**	**(32,882)**	**(9,684)**	**17,447**	**11,559**			

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

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

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

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

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

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

Currency risk management is carried out using the following methods:

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

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

The analysis of Bank's exposure to currency risk as at 31 December 2016 is presented in the table below:

In thousands of Belarusian Roubles	BYN	USD	EUR	RUB	Total
Assets					
Cash and balances with the National Bank of the Republic of Belarus	5,429	1,707	904	1,763	9,803
Derivative financial assets	7	-	-	-	7
Due from other banks	-	7,159	1,563	2,828	11,550
Loans to customers	31,069	21,907	2,563	315	55,854
Investments held to maturity	12,157	54,320	6,510	-	72,987
Other financial assets	911	13	9	4	937
Total financial assets	**49,573**	**85,106**	**11,549**	**4,910**	**151,138**
Liabilities					
Due to other banks	3,900	4	-	-	3,904
Customer accounts	36,641	52,156	9,240	21,417	119,454
Other financial liabilities	715	7	5	2	729
Debt securities issued	-	3,124	-	-	3,124
Subordinated debt	-	6,396	-	-	6,396
Preference shares	1,673	-	-	-	1,673
Total financial liabilities	**42,929**	**61,687**	**9,245**	**21,419**	**135,280**
Net open currency position	**6,644**	**23,419**	**2,304**	**(16,509)**	**15,858**
Claims on derivative contracts	-	2,461	-	16,220	18,681
Obligations on derivative contracts	-	(16,213)	(2,454)	-	(18,667)
Net position on derivatives financial instruments	-	**(13,752)**	**(2,454)**	**16,220**	**14**
Total net open currency position	**6,644**	**9,667**	**(150)**	**(289)**	

The analysis of Bank's exposure to currency risk as at 31 December 2015 is presented in the table below:

In thousands of Belarusian Roubles	BYN	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and balances with the National Bank of the Republic of Belarus	14,125	946	1,494	521	-	17,086
Derivative financial assets	18	-	-	-	-	18
Due from other banks	-	3,761	760	365	1	4,887
Financial assets available for sale	-	1,491	-	-	-	1,491
Loans to customers	36,178	20,910	4,111	529	-	61,728
Investments held to maturity	-	72,030	-	-	-	72,030
Other financial assets	791	16	8	-	-	815
Total financial assets	**51,112**	**99,154**	**6,373**	**1,415**	**1**	**158,055**
Liabilities						
Derivative financial liabilities	1	-	-	-	-	1
Due to the National Bank of the Republic of Belarus	12,780	-	-	-	-	12,780
Due to other banks	3,570	6,596	-	1	-	10,167
Customer accounts	27,201	64,576	9,910	4,009	-	105,696
Other financial liabilities	524	5	5	1	-	535
Subordinated debt	-	6,029	8,143	-	-	14,172
Preference shares	1,437	-	-	-	-	1,437
Total financial liabilities	**45,513**	**77,206**	**18,058**	**4,011**	**-**	**144,788**
Net open currency position	**5,599**	**21,948**	**(11,685)**	**(2,596)**	**1**	**13,267**
Claims on derivative contracts	-	-	11,774	2,553	-	14,327
Obligations on derivative contracts	-	(14,311)	-	-	-	(14,311)
Net position on derivatives financial instruments	**-**	**(14,311)**	**11,774**	**2,553**	**-**	**16**
Total net open currency position	**5,599**	**7,637**	**89**	**(43)**	**1**	

As at 31 December 2016 and 2015 the Bank had net long currency position in US dollars, the significant influence on which was made by initial recognition of subordinated debt from EBRD at fair value (Note 21). The Bank calculates the ratio of open currency position and regulates it based on the nominal value of financial instruments according to the requirements of the National Bank.

The Bank granted 44.4 % (41.4% in 2015) of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

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

	31 December 2016	
In thousands of Belarusian Roubles	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**
Strengthening of US Dollar by 20%	1,933	1,450
Weakening of US Dollar by 10%	(967)	(725)
Strengthening of Euro by 20%	(30)	(23)
Weakening of Euro by 10%	15	11
Strengthening of RUB by 20%	(58)	(44)
Weakening of RUB by 10%	29	22

	31 December 2015	
In thousands of Belarusian Roubles	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**
Strengthening of US Dollar by 30%	2,291	1,718
Weakening of US Dollar by 5%	(382)	(287)
Strengthening of Euro by 30%	27	20
Weakening of Euro by 5%	(4)	(3)
Strengthening of RUB by 30%	(13)	(10)
Weakening of RUB by 10%	4	3

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

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

Interest rate risk management is performed using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of interest rate risk;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate;
- implementation of adequate interest policy relevant for the Bank;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate, analysis of structure and dynamics of resources base and active deposits;
- implementation of stress-testing system;
- creation of quick and adequate reaction system designed to minimize interest rate risk, development of Bank's action plan for unexpected changes in interest rate.

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

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

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

In thousands of Belarusian Roubles	**On demand and up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
31 December 2016							
Total financial interest-bearing assets	21,785	10,999	50,932	27,992	20,892	68	132,668
Total financial interest-bearing liabilities	33,762	50,847	13,137	11,499	16,506	6,358	132,109
Interest rate gap as at 31 December 2016	**(11,977)**	**(39,848)**	**37,795**	**16,493**	**4,386**	**(6,290)**	**559**
31 December 2015							
Total financial interest-bearing assets	6,659	8,269	7,681	81,733	30,379	108	134,829
Total financial interest-bearing liabilities	30,485	17,597	25,426	58,528	3,212	5,995	141,243
Interest rate gap as at 31 December 2015	**(23,826)**	**(9,328)**	**(17,745)**	**23,205**	**27,167**	**(5,887)**	**(6,414)**

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

As at 31 December 2016 and 2015 the balances of financial instruments with floating rates were as follows:

	31 December 2016		**31 December 2015**	
In thousands of Belarusian Roubles	**BYN**	**USD/EUR/ RUB**	**BYN**	**USD/EUR /RUB**
Assets				
Due from banks	-	1,434	-	361
Loans to customers	510	-	43	-
Total assets with floating rates	**510**	**1,434**	**43**	**361**
Liabilities				
Customer accounts	-	-	289	-
Subordinated debt	-	5,913	-	13,747
Total liabilities with floating rates	**-**	**5,913**	**289**	**13,747**

The Bank is not exposed to risk of change in fair value of fixed-rate financial instruments as the Bank has the contractual right to change interest rates on such instruments.

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

	31 December 2016		31 December 2015	
In thousands of Belarusian Roubles	Effect on profit before taxation	Effect on equity (included 25% income tax rate)	Effect on profit before taxation	Effect on equity (included 25% income tax rate)
Increase of interest rates on financial instruments nominated in BYN by 1000 basis points	51	38	(25)	(19)
Decrease of interest rates on financial instruments nominated in BYN by 1000 basis points	(51)	(38)	25	19
Increase of interest rates on financial instruments nominated in other currencies by 100 basis points	(45)	(34)	(134)	(101)
Decrease of interest rates on financial instruments nominated in other currencies by 100 basis points	45	34	134	101

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

35. Fair value measurement

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

- Level 1: inputs used to measure fair value are uncorrected quoted prices in active markets for identical assets and liabilities that the Bank can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Any adjustment of Level 1 inputs results in fair value of lower level.

- Level 2: inputs used to measure fair value are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives), include instruments measured using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques using inputs that are directly or indirectly observable in markets. If Level 2 significant inputs are adjusted using significant unobservable inputs, fair value measured will relate to Level 3.

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

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

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

In thousands of Belarusian Roubles

31 December 2016	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	-	7	-	**7**
Investment property	13	-	-	10,818	**10,818**
31 December 2015	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	8	-	18	-	**18**
Financial assets available for sale	-	1,491	-	-	**1,491**
Investment property	13	-	-	10,128	**10,128**
Derivative financial liabilities	8	-	1	-	**1**

For the years ended 31 December 2016 and 2015 the Bank did not transfer between fair value hierarchy levels.

(a) Fair value of financial instruments

The comparison of the values stated in the statement of financial position and fair value of financial instruments of the Bank as at 31 December 2016 and 2015 is presented in the table below:

	31 December 2016		31 December 2015	
In thousands of Belarusian Roubles	Value recorded in statement of financial position	Fair value	Value recorded in statement of financial position	Fair value
Assets				
Cash and balances with the National Bank of the Republic of Belarus	9,803	9,803	17,086	17,086
Derivative financial assets	7	7	18	18
Due from banks	11,550	11,550	4,887	4,887
Financial assets available for sale	-	-	1,491	1,491
Loans to customers	55,854	55,854	61,728	61,728
Investments held to maturity	72,987	71,648	72,030	70,371
Other financial assets	937	937	815	815
Total financial assets	**151,138**	**149,799**	**158,055**	**156,396**
Liabilities				
Derivative financial liabilities	-	-	1	1
Due to the National Bank of the Republic of Belarus	-	-	12,780	12,780
Due to banks	3,904	3,904	10,167	10,167
Customer accounts	119,454	119,454	105,696	105,696
Debt securities issued	3,124	3,124	-	-
Other financial liabilities	729	729	535	535
Subordinated debt	6,396	3,769	14,172	12,127
Preference shares	1,673	1,673	1,437	1,437
Total financial liabilities	**135,280**	**132,653**	**144,788**	**142,743**

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

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

As at 31 December 2016 and as at 31 December 2015 the fair value of Financial assets available for sale and derivative financial instruments is measured using discounted cash flows model, in which the most significant inputs are observable in market for identical or similar financial instruments (level 2). The fair value of short-term foreign currency swaps with other banks with maturities up to 10 days was assessed to be nil.
The reconciliation of balances recorded in the statement of financial position as at 31 December 2016 and 2015 for derivative financial instruments of level 3 of the hierarchy of fair value is presented below:

In thousands of Belarusian Roubles	2016	2015
Fair value as at 1 January	-	**44,879**
Profits from transactions with derivative financial instruments	-	31,119
Settlement at the end of transaction	-	(75,998)
Inflation effect	-	-
Fair value as at 31 December	-	-

As at 31 December 2015 the profits from transactions with derivative financial instruments of level are realized.

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

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

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

Fair value assessment of financial instruments not recognized at fair value in the statement of financial position refers to level 2 of the hierarchy of inputs, except for cash and balances with the National Bank of the Republic of Belarus that refer to level 1.

(b) Fair value of investment property

The fair value of investment property was measured using a comparative assessment method by the Bank independently in 2016 and 2015 and with the involvement of a professional appraiser in 2014.

The comparative method is based on quoted market prices for similar objects (except when the sale of assets to repay debt), adjusted for the differences.

The market prices of equal items adjusted for elements of comparison (location, technical condition, etc.) form the basis for measuring fair value as at 31 December 2016 and 2015. The range of prices under consideration was 597 – 1.460 US dollars per square meter as at 31 December 2016 and 550 – 1550 US dollars per square meter as at 2015. Increase (decrease) in market prices of real estate by 10%, without taking into account the interaction with other factors will lead to an increase (decrease) in value of investment property by BYN 1.082 thousand as at 31 December 2016 and BYN 1.013 thousand as at 31 December 2015. Strengthening by 20% (weakening by 10%) of the US dollar against the Belarusian rouble in 2016, without taking into account the interaction with other factors, will lead to an increase in the value of investment property by BYN 3.245 thousand (a decrease by BYN 1.082 thousand).Strengthening by 30% (weakening by 10%) of the US dollar against the Belarusian rouble in 2015, without taking into account the interaction with other factors, will lead to an increase in the value of investment property by BYN 3.039 thousand (a decrease by BYN 1.013 thousand).

Reconciliation of balances of investment property fair value recorded in the statement of financial position as at 31 December 2016 and 2015 is presented in Note 13.

36. Operating segments

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

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

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

The information on operating segments for 2016 is presented below:

In thousands of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Treasury transactions**	**Other/Not distributed**	**Total**
Interest income	11,875	4,624	7,278	97	23,874
Interest expense	(1,412)	(6,680)	(3,673)	(1,301)	(13,066)
Net interest income	10,463	(2,056)	3,605	(1,204)	10,808
Fee and commission income	698	1,252	40	144	2,134
Fee and commission expense	(99)	(9)	(111)	(549)	(768)
Net fee and commission income	599	1,243	(71)	(405)	1,366
Net gain on derivative financial instruments	-	-	(6)	-	(6)
Net loss on foreign exchange operations	-	-	3,472	630	4,102
Net expenses on securities held to maturity	-	-	(41)	-	(41)
Other income	630	13	-	989	1,632
Operating income	11,692	(800)	6,959	10	17,861
Operating expenses	(194)	(2)	-	(10,343)	(10,539)
Allowance for impairment losses on interest bearing financial assets, net	(1,258)	(2,780)	3	-	(4,035)
Allowance for impairment losses on other financial assets, net	(104)	-	-	(91)	(195)
Allowance for loan commitments and other risks and payments, net	(1)	(23)	-	427	403
Financial result of segment before income tax expense	10,135	(3,605)	6,962	(9,997)	3,495
Profit before income tax					3,495
Income tax expense					4
Net profit for the year					3,499
Segment assets	23,057	33,538	93,976	27,662	178,233
Segment liabilities	29,452	90,341	7,028	9,498	136,319
Other segment information					
Cash and balances with the National Bank of the Republic of Belarus	-	-	9,432	-	9,432
Derivative financial assets	-	-	7	-	7
Due from banks	-	-	11,550	-	11,550
Loans to customers	22,428	33,426	-	-	55,854
Investments held to maturity	-	-	72,987	-	72,987
Other assets	629	112	-	-	741
Debt securities issued	-	-	3,124	-	3,124
Due to other banks	-	-	3,904	-	3,904
Customer accounts	29,367	90,087	-	-	119,454
Other liabilities	85	254	-	-	339

The information on operating segments for 2015 is presented below:

In thousands of Belarusian Roubles	Services to individuals	Services to legal entities	Treasury transactions	Other/Not distributed	Total
Interest income	16,132	4,701	642	-	21,475
Interest expense	(1,609)	(7,976)	(1,395)	(933)	(11,913)
Net interest income before the effect of initial recognition of financial instruments at fair value	14,523	(3,275)	(753)	(933)	9,562
Effect from initial recognition of financial instruments at fair value	-	-	(2,481)	-	(2,481)
Net interest income	14,523	(3,275)	(3,234)	(933)	7,081
Fee and commission income	637	962	242	115	1,956
Fee and commission expense	(64)	(16)	(78)	(418)	(576)
Net fee and commission income	573	946	164	(303)	1,380
Net gain on derivative financial instruments	-	-	31,110	-	31,110
Net loss on foreign exchange operations	-	-	(83)	(24,512)	(24,595)
Expense on change in fair value of investment property	-	-	-	(304)	(304)
Other income	1,163	67	-	537	1,767
Operating income	16,259	(2,262)	27,957	(25,515)	16,439
Operating expenses	(246)	-	-	(9,779)	(10,025)
Recovery of value of repossessed assets	-	-	-	(553)	(553)
Allowance for impairment losses on interest bearing financial assets, net	(1,678)	(1,746)	1	-	(3,423)
Allowance for impairment losses on other financial assets, net	(66)	(27)	-	(2)	(95)
Allowance for loan commitments, net	3	104	(98)	-	9
Allowance for other risks and payments	-	-	-	(427)	(427)
Financial result of segment before income tax expense	14,272	(3,931)	27,860	(36,276)	1,925
Profit before income tax					1,925
Income tax expense					(181)
Net profit for the year					1,744
Segment assets	34,235	28,017	94,817	27,771	184,840
Segment liabilities	29,129	76,704	22,948	17,595	146,376
Other segment information					
Cash and balances with the National Bank of the Republic of Belarus	-	-	16,391	-	16,391
Derivative financial assets	-	-	18	-	18
Due from banks	-	-	4,887	-	4,887
Financial assets available for sale	-	-	1,491	-	1,491
Loans to customers	33,743	27,985	-	-	61,728
Investments held to maturity	-	-	72,030	-	72,030
Other assets	492	32	-	-	524
Derivative financial liabilities	-	-	1	-	1
Due to the National Bank of the Republic of Belarus	-	-	12,780	-	12,780
Due to other banks	-	-	10,167	-	10,167
Customer accounts	29,038	76,658	-	-	105,696
Other liabilities	91	46	-	-	137

Information on structure of interest and fee and commission income and expenses of the Bank by types of activities is presented in Notes 24, 25. The geographical structure analysis of financial assets and liabilities of the Bank is presented in Note 34.

37. Related parties transactions

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting, attraction of resources and other transactions. Based on the Bank's policy all transactions with related parties shall be performed on the same terms as transactions with independent parties, except for subordinated loan received under favourable terms from EBRD (Note 21). As at 31 December 2016 average interest rates on loans in Belarusian roubles to related parties were 27% per annum, on foreign currency loans – 11% per annum; average rates on borrowings in Belarusian roubles were 9% per annum and in foreign currency were 3.5%.

Balances of transactions with related parties as at 31 December 2016 are presented below:

In thousands of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers	-	5,484	23
Allowance for impairment	-	(419)	-
Loans to customers less allowance for impairment	-	5,065	23
Subordinated loans	5,913	-	-
Customer accounts	116	90	236

Balances of transactions with related parties as at 31 December 2015 are presented below:

In thousands of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers	-	607	67
Allowance for impairment	-	-	-
Loans to customers less allowance for impairment	-	607	67
Subordinated loans	14,172	-	-
Customer accounts	17	25	550

Credit related commitments on transactions with related parties as at 31 December 2016 and 2015 are presented below:

In thousands of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Untapped lines of credit as at 31 December 2016	-	-	77
Untapped lines of credit as at 31 December 2015	-	-	16

The income and expenses on transactions with related parties for 2016 are presented below:

In thousands of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	-	33	10
Interest expenses	(738)	(1)	(15)
Fee and commission income	7	10	-
Income from operations with securities	5	-	-
Expenses on operating lease	(77)	(201)	-

The income and expenses on transactions with related parties for 2015 are presented below:

In thousands of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	-	48	6
Interest expenses	(704)	(5)	(7)
Fee and commission income	3	4	1
Expenses on operating lease	(87)	(164)	-

The information on payments to key management personnel and members of the Board of Directors for 2016 and 2015 is presented below:

In thousands of Belarusian Roubles	**2016**	**2015**
Salary and other short-term personnel expenses	896	518
Remuneration to the members of Board of Directors	487	435

38. Subsequent events

After the reporting date, the Bank received a claim from the buyer, an individual, about the termination of the contract of purchase and sale of capital structures (poultry houses), concluded in 2015. On 1 March 2017, the court decided to reject a suit on contract termination. As at the issue date of these financial statements, the decision of the judicial authority has not entered into legal force, since the plaintiff filed a cassation appeal to the superior court. In the event of contract termination, the capital structures in the amount of BYN 255 thousand will be returned to the Bank. The item will be posted on accounts as property held for sale. In turn, under the lawsuit of the Bank the court issued a decision dated September 2016, which has entered into legal force, to charge from the debtor in favor of the Bank the debt under the contract of purchase and sale of capital buildings in the amount of BYN 232 thousand.

Since the beginning of 2017, the refinancing rate has been gradually decreasing from 18%, effective at the beginning of 2017, to 14% since 19 April 2017. As at 1 May 2017 the Belarusian rouble increased against a basket of currencies by 0.9% compared to 31 December 2016.

In March 2017 the General meeting of shareholders made a decision to allocate earnings for 2016 to the reserve fund and reserve payroll fund of the Bank in accordance with the requirements of the legislation of the Republic of Belarus.

As at 01 May 2017 the amount of regulatory capital of the Bank was BYN 51,99 million.