Translation from the original in Russian

Closed joint-stock company Minsk Transit Bank

IFRS financial statements

Year ended 31 December 2016
together with the audit report of an independent audit firm

Contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
Closed joint-stock company "Minsk Transit Bank"

Opinion

We have audited the financial statements of Closed joint-stock company "Minsk Transit Bank" (the "Bank"), which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss, statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the 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 ("IFRS").

Other Matter

The financial statements of the Bank for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those statements on 11 March 2016.

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 Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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 auditors' 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 Bank'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 Bank'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 Bank 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Irina Vereschagina
Partner
Director of KPMG LLC

15 March 2017

Details of the audited entity
Name: Closed joint-stock company "Minsk Transit Bank"
Registration details: registered by the National Bank of the Republic of Belarus 14 March 1994,
Registration number in the Unified State Register of entities and individual entrepreneurs No. 100394906
Legal address: 10 Tolstogo St., Minsk, 220007, Republic of Belarus

Details of the audit company
Name: KPMG Limited Liability Company
Registration details: registered by the Minsk City Executive Committee on 10 February 2011
Registration number in the Unified State Register of entities and individual entrepreneurs No. 191434140
Legal address: 57 Dzerzhinsky Avenue, office 53-2, 220089 Minsk, Republic of Belarus

Statement of financial position

As of 31 December 2016

(in thousands of Belarusian roubles)

	Notes	*2016*	*2015*
Assets			
Cash and cash equivalents	5	113 314	120 286
Amounts due from credit institutions	6	8 841	8 660
Derivative financial assets	7	-	346
Loans to customers	8	514 725	431 779
Investment securities available for sale	9	93 610	24 572
Investment property	10	3 914	4 692
Property and equipment	11	14 742	11 659
Intangible assets	12	15 887	6 273
Current income tax assets		-	1 756
Other assets	15	7 769	16 888
Total assets		**772 802**	**626 911**
Liabilities			
Amounts due to credit institutions	16	20 296	35 212
Derivative financial liabilities	7	47	88
Amounts due to customers	17	530 409	406 716
Debt securities issued	18	15 609	31 314
Other borrowed funds	19	33 235	19 702
Current income tax liabilities		899	–
Deferred income tax liabilities	13	11 581	8 625
Provisions for guarantees and letters of credit	14	-	52
Other liabilities	15	6 871	5 965
Subordinated debt	20	34 741	23 912
Total liabilities		**653 688**	**531 586**
Equity			
Share capital	21	57 134	57 014
Retained earnings		61 980	38 466
Fair value reserve (investment securities available for sale)		-	(155)
Total equity		**119 114**	**95 325**
Total equity and liabilities		**772 802**	**626 911**

Signed and authorized for release on behalf of the Management Board of CJSC MTBank

A.K. Zhyshkevich — Chairman of the Management Board

D.P. Shidlovich — Finance Director

15 March 2017

The accompanying notes on pages 11 to 61 are an integral part of these financial statements.

Statement of profit or loss

For the year ended 31 December 2016

(in thousands of Belarusian roubles)

	Notes	*2016*	*2015*
Interest income			
Loans to customers		155 941	137 730
Investment securities available for sale		5 666	3 837
Amounts due from credit institutions		1 496	2 389
		163 103	**143 957**
Interest expense			
Amounts due to customers		(40 836)	(52 323)
Debt securities issued		(6 246)	(5 525)
Amounts due to credit institutions		(4 938)	(4 988)
Other borrowed funds		(3 755)	(2 858)
Subordinated debt		(1 698)	(1 118)
		(57 473)	**(66 811)**
Net interest income		**105 630**	**77 144**
Allowance for loan impairment	6,8	(19 461)	(38 723)
Net interest income after allowance for loan impairment		**86 169**	**38 421**
Fee and commission income	24	36 674	29 595
Fee and commission expense	24	(17 259)	(10 825)
Net gains from investment securities available for sale		229	1 024
Net gains from foreign currencies	23	16 895	19 676
Gains/(losses) from change in fair value of investment property	10	60	(1 406)
Gain on initial recognition of financial instruments at fair value	8, 16	329	–
Other income	25	10 764	6 798
Non-interest income		**47 692**	**44 862**
Personnel expenses	26	(32 268)	(29 347)
Depreciation and amortization	11, 12	(5 201)	(3 877)
Other operating expenses	26	(34 113)	(27 424)
Other impairment and provisions	14	(1 102)	(426)
Non-interest expense		**(72 684)**	**(61 075)**
Profit before income tax expense		**61 177**	**22 209**
Income tax expense	13	(14 763)	(4 303)
Profit for the year		**46 414**	**17 906**

Statement of comprehensive income

For the year ended 31 December 2016

(in thousands of Belarusian roubles)

	Notes	*2016*	*2015*
Profit for the year		**46 414**	**17 906**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Realized losses on investment securities available for sale reclassified to the statement of profit or loss		(229)	(1 024)
Unrealized gains on investment securities available for sale		165	1 088
Other net comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(64)**	**64**
Other comprehensive (loss)/income for the year		**(64)**	**64**
Total comprehensive income for the year		**46 350**	**17 970**

Statement of changes in equity

For the year ended 31 December 2016

(in thousands of Belarusian roubles)

	Share capital	*Retained earnings*	*Fair value reserve (investment securities available for sale)*	*Total*
At 31 December 2014	**57 014**	**23 784**	**(219)**	**80 579**
Comprehensive income for the year				
Profit for the year	–	17 906	–	**17 906**
Other comprehensive income				
Other comprehensive income for the year	–	–	64	**64**
Total comprehensive income for the year	**–**	**17 906**	**64**	**17 970**
Transactions with owners				
Dividends (Note 21)	–	(3 225)	–	**(3 225)**
Total transactions with owners	**–**	**(3 225)**	**–**	**(3 225)**
At 31 December 2015	**57 014**	**38 465**	**(155)**	**95 325**
Comprehensive income for the year				
Profit for the year	–	46 414	-	**46 414**
Other comprehensive income				
Other comprehensive loss for the year	-	(219)	155	**(64)**
Total comprehensive income for the year	**–**	**46 195**	**155**	**46 350**
Transactions with owners				
Appropriation of profits on replenishment of funds	120	(120)	–	–
Dividends (Note 21)	–	(22 561)	–	**(22 561)**
Total transactions with owners	**120**	**(22 681)**	**–**	**(22 561)**
At 31 December 2016	**57 134**	**61 980**	**–**	**119 114**

Statement of cash flows

For the year ended 31 December 2016

(in thousands of Belarusian roubles)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Interest received		168 759	167 322
Interest paid		(56 073)	(65 169)
Fees and commissions received		34 877	29 480
Fees and commissions paid		(17 263)	(10 826)
Realized gains less losses from dealing in foreign currencies		17 787	21 287
Other income received		13 200	5 546
Personnel expenses paid		(31 590)	(29 170)
Other operating expenses paid		(33 662)	(28 288)
Cash flows from operating activities before changes in operating assets and liabilities		**96 035**	**90 182**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(723)	880
Loans to customers		(101 214)	(103 763)
Other assets		1 714	(497)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(16 840)	(2 427)
Amounts due to customers		117 211	70 242
Other liabilities		(590)	(2 018)
Net cash flows from operating activities before income tax		**95 593**	**52 599**
Income tax paid		(9 548)	(3 287)
Net cash from operating activities		**86 045**	**49 312**
Cash flows from investing activities			
Purchase of investment securities		(1 188 064)	(517 949)
Proceeds from sale and redemption of investment securities		1 120 637	513 490
Purchase of investment property		-	(201)
Sale of investment property		838	1 351
Purchase of property and equipment and intangible assets	11, 12, 15	(16 204)	(11 103)
Proceeds from sale of property and equipment and intangible assets		28	259
Net cash used in investing activities		**(82 765)**	**(14 153)**
Cash flows from financing activities			
Proceeds from issue of debt securities		116 496	176 299
Redemption of debt securities issued		(133 584)	(176 604)
Proceeds from other borrowed funds		22 706	–
Repayment of other borrowed funds		(7 964)	(10 668)
Proceeds from subordinated loans		9 976	4 842
Dividends paid		(22 561)	(3 225)
Net cash used in financing activities		**(14 931)**	**(9 356)**
Effect of exchange rates changes on cash and cash equivalents		4 679	13 773
Net increase/(decrease) in cash and cash equivalents		**(6 972)**	**39 576**
Cash and cash equivalents, 1 January		120 286	80 710
Cash and cash equivalents, 31 December	5	**113 314**	**120 286**

During the year ended 31 December 2016, the Bank received equipment and motor vehicles through repossession of collateral pledged under the default loans in the amount of BYN 487 thousand, which represents non-cash transactions

Statement of cash flows

For the year ended 31 December 2016 (continued)

(in thousands of Belarusian roubles)

During the year ended 31 December 2015, the Bank received equipment and motor vehicles through repossession of collateral pledged under the default loans in the amount of BYN 299 thousand that was classified as investment property.

During the years ended 31 December 2016 and 2015, the Bank offset income tax liabilities against the prepayment for taxes other than income tax in the amount of BYN 396 thousand and BYN 70 thousand.

Also in 2016 a refund of the prepayment for property in the amount of BYN 5 271 thousand was made. In 2015 there were no refunds.

(in thousands of Belarusian roubles)

1. Principal activities

Closed joint-stock company “Minsk Transit Bank” (hereinafter − CJSC “MTBank” or the “Bank”) was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter − the “National Bank”) on 14 March 1994 as a closed joint stock commercial bank with foreign investment. The Bank’s activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on 22 December 2012. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until 29 July 2022 based on Decision No. 145 of 16 May 2012).

The Bank accepts deposits from the public and extends credits and transfers payments in the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its head office is in Minsk. The Bank‘s Head Office is in Minsk, Republic of Belarus. During the reporting period the Bank changed its legal address to Minsk, Tolstogo Street, 10. The legal address as of 31 December 2015 was Minsk, Partizansky Ave., 6a.

During 2016 the Bank opened 1 center for banking service and 5 outlets. As of 31 December 2016 the Bank had the following structure: the head office, 6 centers of banking services and 55 outlets located in Minsk, Brest, Gomel, Grodno, Vitebsk, Mogilev, Soligorsk, Svetlogorsk, Molodechno, Zhodino, Bobruisk, Baranovichi and Lida.

As of 31 December 2016 and 2015, the Bank had neither subsidiaries nor associates.
As of 31 December 2016 and 2015, the Bank’s outstanding share capital was owned by the following shareholders:

Shareholder	***2016***	***2015***
BELNEFTEGAZ ALC	50.999%	50.999%
MTB Investments Holdings Limited, Cyprus	47.969%	47.969%
Other	1.032%	1.032%
	100.000%	**100.000%**

As of 31 December 2016 and 2015, the Bank’s ultimate controlling owner was Alexei Ivanovich Oleksin.

2. Basis of preparation

General

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

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

The financial statements have been prepared under the historical cost convention except for the estimate of nonmonetary items recognized before the 31 December 2014, which were accounted for in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* inccordance with Note 2 and items, accounting for which is given in summary of accounting policies. For example, available-for-sale securities and derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Belarusian roubles (“BYN”), unless otherwise indicated, taking into account the official denomination of the currency held in the Republic of Belarus on July 1, 2016. Comparative information as of 31 December 2015 and for the year 2015 is presented taking into account the effect of the denomination (in the ratio of 10 000 Belarusian rubles in 2000-year banknotes to one Belarusian ruble in the currency of the 2009 year).

Inflation accounting

With effect from 1 January 2011, the Belarusian economy has been considered to be hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies (“IAS 29”)*. Accordingly, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian rouble.

(in thousands of Belarusian roubles)

2. Basis of preparation (continued)

Inflation accounting (continued)

Since 1 January 2015, the economy of the Republic of Belarus has not been considered to be hyperinflationary. The cost of non-monetary assets, liabilities and equity of the Bank, as stated in measuring units as of 31 December 2014, was used to form the beginning balances for 2015.

3. Summary of accounting policies

Changes in accounting policies

The standards that have been applied since 2016 didn't influence significantly the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments, such as available-for-sale securities and derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

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

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

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

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

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Date of recognition

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

Reclassification of financial assets

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

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

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

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

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Cash and cash equivalents

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

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments, including foreign currency forwards and swaps. Such financial instruments are held for trading and are initially recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains/(losses) from foreign currencies dealing.

Financial liabilities

Financial liabilities, including due to banks and customers, debt securities issued, other borrowings and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of financial liability and of allocating interest expenses over the relevant period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of original liabilities and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Leases

i. Finance − Bank as lessor

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

ii. Operating − Bank as lessee

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

Measurement of financial instruments at initial recognition

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

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

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

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Impairment of financial assets

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

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans together with the associated allowance are written off according to the decision of the Bank's Management Board when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

Available-for-sale financial investments

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss − measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss − is reclassified from other comprehensive income to the statement of profit or loss.

Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

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

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.
The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position.
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses a similar approach as in respect of the derecognition of financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is deemed impaired after this restructuring, the Bank recognizes the difference between the present values of the future cash flows discounted using the original effective interest rate and the carrying amount before the restructuring as an expense for impairment in the reporting period. In case loan is not impaired after restructuring the Bank recalculates the effective interest rate.

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Financial liabilities

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

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

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in “Other liabilities”, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required settling any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognized in the statement of profit or loss on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Belarus also has various operating taxes that are assessed on the Bank’s activities. These taxes are included as a component of other operating expenses.

Property and equipment

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

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

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

	Years
Buildings	8-100
Computers and office equipment	5-15
Vehicles	6-9
Furniture and fixtures	5-50

The asset’s residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses for software and activities that must be licensed.

Intangible assets acquired separately are measured on initial recognition at cost, as adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets have finite useful lives and are amortized over the periods of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Investment property

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

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Net gains/(losses) resulting from changes in the fair value of investment property are recorded in the statement of profit and loss as gains/(losses) from change in fair value of investment property. Earned rental income is recorded in the statement of profit or loss within other income.

Investment property (continued)

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.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Non-cash contributions are included into the share capital at the fair value of the contributed assets as of the contribution date.

Dividends

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

Contingencies

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

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

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

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the National Bank of the Republic of Belarus on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The official exchange rates applied in the preparation of the financial statements as of 31 December 2016 and 2015 are as follows:

	31 December 2016	***31 December 2015***
USD/BYN	1.9585	1.8569
EUR/BYN	2.0450	2.0300
RUR/BYN	0.03244	0.0255

As of the date of authorisation of these financial statements for issue, the official exchange rates were as follows: USD/BYN − 1.9143, EUR/BYN − 2.0371, RUR/BYN − 0.032463.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies

Standards issued but not yet effective

IFRS 9 Financial Instruments (2014)

This standard is effective for annual periods beginning on January 1, 2018 or after that date; it is applied retrospectively with certain exceptions. Restatement of the previous periods is not required, it is permitted only when there is information without the use of hindsight. Earlier application of standard is permitted.

The Bank is currently planning the initial adoption of IFRS 9 on January 1, 2018. The actual impact of the adoption of IFRS 9 on the financial statements of the Bank in 2018 is not known and can-not be reliably estimated because it will depend on the financial instruments that would belong to the Bank at the moment, and on future economic conditions, as well as on the selected accounting options and judgments made by the Bank in the future. The new standard will require the Bank to revise the accounting processes and elements of internal control related to the record of the financial instruments in the financial statements, and these changes have not yet been completed.

IFRS 9 includes a new approach to the classification and measurement of financial assets, reflecting the business model used for the management of these assets and characteristics of related cash flows.

IFRS 9 sets three main categories of financial assets: measured at amortized cost, measured at fair value through other comprehensive income, and measured at fair value through profit or loss. The standard thus replaces the categories of financial assets currently established in the IAS 39: held-to-maturity, loans and receivables, and available-for-sale.

According to Bank preliminary assessment, the application of the new requirements for the classification of financial assets as at 31 December 2016 would not have a significant impact on the accounting of loans, investments in debt securities and investments in equity securities that are managed on the basis of their fair value.

In terms of impairment, IFRS 9 introduces a new, future-oriented model of “expected credit losses”, which replaces the “incurred credit losses” model, established in IAS 39. Application of the new impairment model will require the Bank's significant professional judgments as to as changes in economic factors affect the expected credit losses, determined by weighing the probability of occurrence.

The new impairment model will be applied to financial assets measured at amortized cost or at fair value through other comprehensive income, except for investments in equity instruments, as well as the assets under the contract.

Under IFRS 9, estimated provisions for expected credit losses will be calculated using one of the following methods:

- On the basis of 12-month expected credit losses. These are the credit losses expected to arise due to defaults possible within 12 months after the reporting date.
- On the basis of expected credit losses for the entire period. These are the expected credit losses arising due to all possible cases of default throughout the entire expected maturity period of the financial instrument.

The method of calculation of expected credit losses for the entire maturity period applies if the credit risk for the financial asset as of the reporting date has increased significantly from the moment of initial recognition. Otherwise, the method of calculation of expected credit losses for 12 months after the reporting date is used. At that, the Bank is entitled to assume that the credit risk of the financial instrument has not changed significantly from the moment of initial recognition, provided that it has been determined that the financial instrument had a low credit risk level as of the reporting date.

In the Bank’s opinion, application of the new impairment model pursuant to IFRS 9 will most probably result in higher impairment losses and their increased volatility.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

In the Bank's opinion, increase in recognized the losses allowance will have negative affect to the capital adequacy of the Bank, however, the Bank does not expect impact that could lead to non-compliance with capital requirements. With an increase in recognized impairment losses, net profit for the period will decrease, while the amount of risk-weighted assets will also decrease.

IFRS 9 to a significant extent preserves the existing requirements of IAS 39 related to classification of financial liabilities.

At the same time, under IAS 39, all changes in fair value of financial liabilities classified as measured at fair value through profit or loss are recognized in profit or loss, while under IFRS 9 these changes are generally recognized as follows:

- the amount representing change in fair value of a financial liability resulting from the change in credit risk of such liability is recognized in other comprehensive income;
- the remaining amount of change in fair value of the liability is recognized in profit or loss.

The Bank does not classify at its own discretion any financial liabilities as measured at fair value through profit or loss, and currently it does not intend to do so. According to the Bank's preliminary assessment, the application of IFRS 9 requirements related to classification of financial liabilities as of 31 December 2016 would not have a significant impact on financial statements.

IFRS 9 required new detailed disclosures – in particular, on hedge accounting, credit risk, and expected credit losses. In course of its preliminary assessment, the Bank conducted analysis to identify missing information. The Bank plans to implement changes, which, in its opinion, will enable collecting the required data.

Changes to the accounting policy as a result of application of IFRS 9 will generally be applied retrospectively, except for the cases indicated below.

The Bank plans to use the exemption enabling it not to recalculate the comparative data for the previous periods as related to changes in classification and measurement (including impairment) of financial instruments. As a general rule, the differences between the previous carrying value of the instruments and their carrying value under IFRS 9 will be recognized in retained earnings and provisions as of 1 January 2018.

The new hedge accounting requirements must generally be applied on a prospective basis. However, the Bank may decide to apply changes to accounting of forward points retrospectively. The Bank has not yet made final decision on the issue.

The following assessments must be conducted on the basis of the facts and circumstances existing on the initial application date:

- determination of the business model serving as a rationale for holding the respective financial asset.
- classification, at the Bank's discretion, and cancellation of the previously performed classification of certain financial assets and financial liabilities into the category of instruments measured at fair value through profit or loss.
- classification, at the Bank's discretion, of certain equity investments not held for trading into the category of instruments measured at fair value through other comprehensive income.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is in the process of initial review of the potential impact of the adoption of IFRS 15 on its financial statements. This focused on a review of fees and commission income.

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

The Bank earns fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services (Note 24):

- Commission for operations with payment cards;
- Settlement and cash services;
- Currency exchange operations;
- Documentary operations;
- Securities;
- Other.

The initial review indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income. The Bank plans to apply IFRS 15 in its financial statements for the year ended 31 December 2018 and use retrospective approach. Thus, the Bank will apply all requirements of IFRS 15 to all of the comparative periods presented in the reporting, and will accordingly adjust its financial statements.

IFRS 16 Leases

IFRS 16 introduces a uniform model for accounting treatment of lease agreements by lessees, which implies they are recognized in the lessee's balance sheet. According to this model, the lessee must recognize the asset in the form of the right of use, which is the right to use the underlying asset, and the lease liability representing the obligation to conduct lease payments. There are optional simplifications in relation to short-term leases and leases of low-cost items. For lessors, accounting rules generally remain the same as before - they will continue to classify leases into financial and operating types.

IFRS 16 replaces the existing guidance for leases, including IAS 17 Leases, interpretation IFRIC 4 Determining Whether an Arrangement Contains a Lease, interpretation SIC 15 Operating Leases – Incentives and interpretation SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15 Revenue from contracts with customers at the date of initial application of IFRS 16 or before.

The Bank started the primary assessment of the possible impact of the adoption of IFRS 16 on its financial statements. To date, the most significant impact is revealed in the need of recognition of Bank's assets and liabilities from operating leases of premises. In addition, the nature of expenses recognized in respect of these contracts will change, since, in accordance with IFRS 16, instead of lease expenses being evenly recognized during the term of the agreement, the Bank will have to reflect the cost of depreciation of assets in the form of the right of use and interest expenses related to the liabilities under the lease. The Bank has not yet made a decision whether it will use optional simplifications. With respect to finance lease contracts, the Bank does not expect any significant impact on the financial statements.

As a lessee the Bank may apply the standard, using one of the following transition options:

- retrospective approach; or
- modified retrospective approach with optional practical simplifications.

The lessee must apply the selected option consistently to all of its lease contracts where it acts as a lessee. The Bank is currently planning the initial adoption of IFRS 16 on January 1, 2019. The Bank has not yet determined which transition option to apply.

As a lessor, the Bank is not obliged to the transition to IFRS 16 to carry out any adjustments to lease contracts, except in cases when the Bank is an intermediate lessor in sublease.

The Bank has not yet conducted a quantitative assessment of the impact of application of IFRS 16 on its assets and liabilities. The quantitative effect will depend, in particular, on the selected method for transition to the new standard, on the extent to which the Bank will rely on practical simplifications and exemptions from accounting recognition, and also on the nature of new lease contracts concluded by the Bank. The Bank plans to disclose the information about its chosen transition option and the quantitative data prior to commencement of application of the standard.

(in thousands of Belarusian roubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 7 Disclosure initiative

Amendments require disclosure of information that enables users of financial statements to evaluate changes in the obligations resulting from financial activities, including the changes both related and not related to changes in cash flows.

The amendments are effective for annual periods beginning on 1 January 2017 or after this date. Early application is permitted.

To meet the new requirements for disclosure of information, the Bank intends to present a reconciliation of the balance of obligations at the beginning and at the end of the reporting period, with the disclosure of information about the changes resulting from financial activities.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify the accounting for deferred tax assets in respect of unrealized losses incurred on debt instruments measured at fair value.

The amendments will be effective for annual periods beginning on or after 1 January 2017. Early application is permitted.

The Bank is in the process of assessing the possible impact of the amendments on its financial statements. Currently, the Bank does not expect any material impact.

Other changes

The following new standards and amendments to standards are not expected to have a significant impact on the Bank's financial statements:

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture.

4. Significant accounting judgments and estimates

To apply the Bank's accounting policies, management used its judgments and made estimates with respect to the determination of amounts recognized in the financial statements. Estimates and underlying assumptions are based on past experience and other factors that are considered relevant in the particular circumstances. Actual results may differ from these estimates. Estimates and associated assumptions are regularly reviewed. Changes in estimates are reflected in the period in which the estimate was revised, if the change affects only this period, or in the period to which the change relates, and in future periods, if the change affects both current and future periods. Below are the most significant cases of using judgments and estimates:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models.

The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. More details are presented in Note 28.

(in thousands of Belarusian roubles)

4. Significant accounting judgments and estimates (continued)

Fair value of investmet property

As of 31 December 2016 and 2015, assessment of the fair value of investment property was carried out using the income and comparative methods. The income approach provides a value figure by converting the future cash flows to a single value of the current capital value. The market approach is an estimation method that uses prices and other relevant information based on the results of market transactions related to identical or comparable (i.e. similar) assets.

The results obtained from the use of this valuation method, however, may not always correspond to the prices of current transactions in the real estate market.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers.

Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(in thousands of Belarusian roubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	*2015*
Cash on hand	35 696	32 009
Current accounts with the National Bank of the Republic of Belarus	47 144	28 217
Current accounts with other credit institutions	20 680	34 719
Term deposits with credit institutions up to 90 days	9 794	25 341
Cash and cash equivalents	**113 314**	**120 286**

As of 31 December 2016, current accounts with credit institutions include BYN 12 013 thousand (2015: BYN 20 183 thousand) placed with 8 banks (2015: 5 banks) in the member countries of the Organization for Economic Co-operation and Development (hereinafter − “OECD”). In 2016 the Republic of Latvia became a member of the OECD.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2016	*2015*
Term deposits placed for more than 90 days	5 308	5 363
Obligatory reserves with the National Bank of the Republic of Belarus	3 563	3 298
Less allowance for impairment	(30)	-
Amounts due from credit institutions	**8 841**	**8 660**

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

As of 31 December 2015, the amounts due from credit institutions included BYN 5 278 thousand placed as collateral for obligations under settlements using plastic cards and international payment systems (2015: BYN 4 093 thousand).

The movements in the provision for impairment are as follows:

	2016	*2015*
On the 1st of January	-	-
Charge/(reversal)	1 321	-
Amount written off	(1 883)	-
Translation differences	592	-
As of December 31	**30**	**-**

7. Derivative financial instruments

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

	2016			*2015*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps − domestic with Belarusian banks	−	−	−	5 075	87	(75)
Forwards - foreign contracts	−	−	−	13 338	−	(13)
Forwards - domestic contracts	3 902	−	(47)	15 529	338	−
Total derivative assets/liabilities	3 902	−	(47)	**33 942**	**346**	**(88)**

(in thousands of Belarusian roubles)

7. Derivative financial instruments (continued)

In the table above, foreign contracts mean contracts concluded with non-residents of the Republic of Belarus, whereas domestic contracts mean contracts concluded with residents of the Republic of Belarus.

As of 31 December 2016 and 31 December 2015, the Bank has positions in the following types of derivatives:

Swaps

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

Forwards

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

8. Loans to customers

Loans to customers comprise:

	2016	***2015***
Loans to legal entities	272 749	232 640
Loans to individuals	247 532	210 005
Finance leases	9 435	8 487
Total loans to customers	**529 716**	**451 133**
Less − allowance for impairment	(14 991)	(19 354)
Loans to customers	**514 725**	**431 779**

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

	Corporate banking 2016	***Retail banking 2016***	***Total 2016***
At 1 January 2016	**9 348**	**10 006**	**19 354**
Amounts written-off	(10 356)	(12 608)	**(22 964)**
Translation differences	461	-	**461**
Charge for the year	7 155	10 985	**18 140**
At 31 December 2016	**6 608**	**8 383**	**14 991**
Individual impairment	3 172	-	**3 172**
Collective impairment	3 436	8 383	**11 819**
	6 608	**8 383**	**14 991**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**21 433**	**-**	**21 433**
Gross amount of loans, collectively determined to be impaired, before deducting any individually assessed impairment allowance	**260 751**	**247 532**	**508 283**

(in thousands of Belarusian roubles)

8. Loans to customers (continued)

	Corporate banking 2015	*Retail banking 2015*	*Total 2015*
At 1 January 2015	**4 327**	**29 534**	**33 861**
Amounts written-off	(10 298)	(44 790)	**(55 088)**
Translation differences	1 517	341	**1 858**
Charge for the year	13 802	24 921	**38 723**
At 31 December 2015	**9 348**	**10 006**	**19 354**
Individual impairment	5 513	–	**5 513**
Collective impairment	3 835	10 006	**13 841**
	9 348	**10 006**	**19 354**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**39 892**	**–**	**39 892**
Gross amount of loans, collectively determined to be impaired, before deducting any individually assessed impairment allowance	**201 236**	**210 005**	**411 241**

Individually impaired loans

Interest income accrued on loans individually determined to be impaired for the year ended 31 December 2016 comprised BYN 2 134 thousand (2015: BYN 3 987 thousand).

According to the requirements of the legislation of the Republic of Belarus, loans to legal entities and individuals are written off not later than 270 days after the loan has become overdue, and in some cases they are written off by a respective court decision.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For car lending, pledge of financed car.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

The information about the collateral as of 31 December is as follows:

	2016	*2015*
Real estate	141 904	107 480
Cash deposites	48 466	45 998
Fixed assets	45 115	43 967
Inventory	39 628	37 761
Accounts receivable	2 090	2 681
Other	-	569
Unsecured	252 513	212 677
Loans to customers	**529 716**	**451 133**

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

(in thousands of Belarusian roubles)

8. Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2016, the Bank had a concentration of loans represented by BYN 130 163 thousand due from the ten largest third party entities or 25% of gross loan portfolio. An allowance of BYN 2 363 thousand was charged for the loans.The amount due from the largest of these borrowers is BYN 30 077 thousand is fully covered by the guarantee deposit in cash (Note 17).

As of 31 December 2015, the Bank had a concentration of loans represented by BYN 92 123 thousand due from the ten largest third party entities or 20% of gross loan portfolio. An allowance of BYN 3 764 thousand was charged for the loans.

Loans have been extended to the following types of customers:

	2016	*2015*
Private companies	274 500	233 316
Individuals	247 532	210 005
State organizations	7 684	7 812
	529 716	**451 133**

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

	2016	*2015*
Individuals	247 532	210 005
Wholesale and retail trade	130 117	140 871
Manufacturing	70 263	33 464
Real estate	25 958	16 949
Transport	13 798	11 056
Construction	10 810	8 062
Food industry	5 193	8 631
Other	26 045	22 095
	529 716	**451 133**

Losses on initial recognition of loans

In 2016, the Bank financed start-up companies in the framework of a joint program with Development Bank of the Republic of Belarus JSC. The interest rate on loans issued under this program as of 31 December 2016 was 13.5%. Losses on initial recognition of financial instruments at fair value for 2016 are BYN 560 thousand.

Interest income for these loans in the amount of BYN 264 thousand was received by the Bank during 2016 year.

In 2015, financing was not provided. Gain on initial recognition at the effective interest rate of funds raised from the Development Bank of the Republic of Belarus JSC are disclosed in Note 16.

Finance lease receivables

The analysis of finance lease receivables as of 31 December 2016 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total 2016*
Gross investments in finance leases	7 183	5 139	12 322
Unearned future finance income on finance leases	(1 336)	(1 551)	(2 887)
Net investments in finance leases	**5 847**	**3 588**	**9 435**

(in thousands of Belarusian roubles)

8. Loans to customers (continued)

The analysis of finance lease receivables as of 31 December 2015 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Total 2015*
Gross investments in finance leases	6 525	3 382	**9 907**
Unearned future finance income on finance leases	(858)	(561)	**(419)**
Net investments in finance leases	**5 667**	**2 821**	**8 488**

The information about the allowance for impairment as of 31 December is as follows:

	2016	*2015*
Allowance for individual impairment	114	143
Allowance for group impairment	209	129
Total allowance for impairment	**323**	**272**

9. Investment securities available for sale

Available-for-sale securities comprise:

	2016	*2015*
Bonds issued by the National Bank	71 000	–
Bonds issued by republican governmental bodies	11 760	15 272
Bonds issued by Belarusian banks	10 334	9 267
Investments in equity instruments	516	33
Securities available for sale	**93 610**	**24 572**

In 2016, the Bank purchased bonds of the National Bank of the Republic of Belarus in BYN and USD.

As of 31 December 2016 there are the following financial assets placed as a collateral: government long-term bonds of the Ministry of Finance of the Republic of Belarus of 122 issue in quantity of 100 items amounting to BYN 2 040 thousand; government long-term bonds of the Ministry of Finance of the Republic of Belarus of 103 issue in quantity of 52 iterms amounting to BYN 5 127 thousand. As of 31 December 2015 government long-term bonds of the Ministry of Finance of the Republic of Belarus of 103 issue in quantity of 56 items amounting to BYN 5 261 thousand were pledged as collateral.

10. Investment property

The movements in investment property were as follows:

	2016	*2015*
At 1 January	**4 692**	**7 225**
Additions	–	201
Disposals	(838)	(1 328)
Change in fair value	60	(1 406)
At 31 December	**3 914**	**4 693**

As of 31 December 2016, losses from change in fair value of investment property are unrealized. These losses are reflected in the statement of profit or loss as gains/(losses) from change in fair value of investment property.

The measurement of fair value as of 31 December 2016 and 2015 was performed by professional external valuers based on the income and the market methods. The income method is based on future discounted cash flows from the use of investment property. The market method uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets.

(in thousands of Belarusian roubles)

10. Investment property (continued)

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

	2016	*2015*
Rental income derived from investment property (Note 25)	455	467
Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income	(104)	(138)
	351	**329**

The Bank has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop other investment properties or for repairs, maintenance or enhancements.

As of 31 December 2016, the Bank has the following investment property: Minsk, Alibegova St, 15, with an area of 2 788,90 m^2, the fair value of which is BYN 3 521 thousand (as of 31 December 2015 – BYN 3 449 thousand)

11. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
At 1 January 2016	**4 633**	**9 018**	**812**	**6 487**	**87**	**21 037**
Additions	303	3 916	163	1 474	-	**5 856**
Disposals	(81)	(25)	(205)	(163)	-	**(474)**
Reclassification between groups	-	-	-	46	(46)	**-**
At 31 December 2016	**4 855**	**12 909**	**770**	**7 844**	**41**	**26 419**
Accumulated depreciation						
At 1 January 2016	(892)	(5 328)	(494)	(2 664)	-	**(9 378)**
Depreciation charge	(238)	(1 645)	(92)	(734)	-	**(2 709)**
Disposals	74	25	166	145	-	**410**
At 31 December 2016	**(1 056)**	**(6 948)**	**(420)**	**(3 253)**	**-**	**(11 677)**
Net book value						
At 1 January 2016	**3 741**	**3 690**	**318**	**3 823**	**87**	**11 659**
At 31 December 2016	**3 799**	**5 961**	**350**	**4 591**	**41**	**14 742**

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Assets under construction*	*Total*
Cost						
At 1 January 2015	**4 618**	**8 365**	**707**	**5 814**	**38**	**19 542**
Additions	44	994	140	735	49	**1 962**
Disposals	(29)	(341)	(35)	(62)	–	**(467)**
At 31 December 2015	**4 633**	**9 018**	**812**	**6 487**	**87**	**21 037**
Accumulated depreciation						
At 1 January 2015	**(727)**	**(4 283)**	**(447)**	**(2 080)**	**–**	**(7 537)**
Depreciation charge	(192)	(1 364)	(82)	(630)	–	**(2 268)**
Disposals	27	319	35	46	–	**427**
At 31 December 2015	**(892)**	**(5 328)**	**(494)**	**(2 664)**	**–**	**(9 378)**
Net book value						
At 1 January 2015	**3 891**	**4 082**	**260**	**3 734**	**38**	**12 005**
At 31 December 2015	**3 741**	**3 690**	**318**	**3 823**	**87**	**11 659**

As of 31 December 2016 and 2015, the value of fully depreciated fixed assets was BYN 3,442 thousand and BYN 2 481 thousand, respectively. As of 31 December 2016 and 2015, the Bank has no impairment of property and equipment.

(in thousands of Belarusian roubles)

12. Intangible assets

The movements in intangible assets were as follows:	*2016*	*2015*
Cost		
At 1 January	**11 298**	**8 251**
Additions	12 108	3 054
Disposals	(16)	(6)
At 31 December	**23 390**	**11 298**
Accumulated amortization		
At 1 January	**(5 025)**	**(3 422)**
Amortization charge	(2 492)	(1 609)
Disposals	14	6
At 31 December	**(7 503)**	**(5 025)**
Net book value		
At 1 January	**6 273**	**4 828**
At 31 December	**15 887**	**6 273**

As of 31 December 2016 and 2015, the value of fully amortized intangible assets amounted to BYN 1 244 thousand and BYN 219 thousand, respectively.

The Bank's intangible assets are primary represented by software used in banking (accounting systems, software for processing systems and business lines), and licensing agreements for its use.

As of 31 December 2016 there were 2 significant intangible assets, the book and carrying value of which was BYN 6 627 thousand and BYN 5 087 thousand respectively, as of 31 December 2015 – BYN 1 848 thousand and BYN 1 362 thousand.

13. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current income tax charge	11 807	467
Deferred tax charge − origination and reversal of temporary differences	2 956	3 836
Income tax expense	**14 763**	**4 303**

Belarusian legal entities must account for and pay taxes by themselves. The profit tax rate for banks is set at 25% from 1 January 2015, excluding income from transactions with securities that are not taken into when determining gross profit in accordance with the Tax Code of the Republic of Belarus.

The Bank calculates deferred tax assets and liabilities as of 31 December 2016 and 2015 using 25% tax rate.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:	*2016*	*2015*
Profit before tax	**61 177**	**22 209**
Statutory tax rate	25%	25%
Theoretical income tax expense at statutory rate	**15 294**	**5 552**
Securities tax credits	(1 211)	(1 244)
Capital investment tax credits	(194)	(101)
Non-deductible expenditures:		
- salaries and other benefits	291	43
- other	512	420
Income recognized for tax purposes only	71	67
Additional (taxable income)/deductible expenses in the tax records for tax purposes	−	(137)
Reversal of property revaluation for tax purposes	−	(297)
Income tax expense	**14 763**	**4 303**

(in thousands of Belarusian roubles)

13. Taxation (continued)

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

	2014	*Origination and reversal of temporary differences in the statement of profit or loss*	*2015*	*Origination and reversal of temporary differences in the statement of profit or loss*	*2016*
Tax effect of deductible temporary differences					
Derivative financial assets	–	146	(131)	15	–
Derivative financial liabilities	–	–	–	3	**3**
Investment property	–	169	169	128	**297**
Property and equipment	–	78	78	(16)	**62**
Amounts due to customers	76	348	424	(424)	**-**
Other assets	158	(158)	–	903	**903**
Other liabilities	12	24	36	51	**87**
Gross deferred tax asset	**246**	**607**	**853**	**514**	**1 367**
Tax effect of taxable temporary differences					
Amounts due from credit institutions	(85)	40	(45)	(113)	**(158)**
Derivative financial assets	(103)	103	–	-	**-**
Loans to customers	(3 318)	(4 954)	(8 272)	(1 733)	**(10 005)**
Investment securities available for sale	(21)	(40)	(61)	(176)	**(237)**
Investment property	(336)	336	–	-	**-**
Property and equipment	(292)	292	–	-	**-**
Intangible assets	(194)	80	(114)	32	**(82)**
Other assets	–	(128)	(128)	128	**-**
Amounts due to credit institutions	–	–	–	(85)	**(85)**
Amounts due customers	–	–	–	(46)	**(46)**
Derivative financial liabilities	(2)	2	–	–	**--**
Debt securities issued	(39)	(62)	(101)	100	**(1)**
Other borrowed funds	–	(35)	(35)	(7)	**(42)**
Provisions	(497)	(82)	(579)	(1 575)	**(2 154)**
Other liabilities	–	–	–	-	-
Subordinated debt	(148)	5	(143)	5	**(138)**
Deferred tax liability	**(5 035)**	**(4 443)**	**(9 478)**	**(3 470)**	**(12 948)**
Deferred tax assets/ (liabilities), net	**(4 789)**	**(3 836)**	**(8 625)**	**(2 956)**	**(11 581)**

(in thousands of Belarusian roubles)

14. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Total*
At 31 December 2014	**283**	**163**	**446**
Charge/(reversal)	586	(160)	426
Monetary effect	-	49	49
Translation differences	(42)	-	(42)
At 31 December 2015	**827**	**52**	**879**
Charge/(reversal)	1 158	(56)	1 102
Translation differences	-	4	4
Amount written off	(23)	-	(23)
At 31 December 2016	**1 962**	**-**	**1 962**

The allowance for impairment of assets is deducted from the carrying amounts of the related assets. Provisions for guarantees and letters of credit are recorded in liabilities.

15. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Trade receivable	3 093	4 358
Accrued commission income	2 386	575
Trade receivable for banking operations	616	2 933
Total financial assets	**6 095**	**7 866**
Prepayment and other debtors	1 234	7 498
Prepaid expenses	1 175	1 425
Prepaid taxes other than income tax	471	469
Inventory	675	457
Total non-financial assets	**3 555**	**9 849**
Less − allowance for impairment of other assets (Note 14)	(1 881)	(827)
Other assets	**7 769**	**16 888**

In 2016, the impairment of inventory in the amount of BYN 81 thousand was recognized. In 2015 no impairment was recognized.

As of 31 December 2016, prepayments and other debtors included the amount of prepayment for property and equipment in the amount of 723 thousand. (2015 – 6 757 thousand).

Other liabilities comprise:

	2016	*2015*
Trade payable to suppliers (contractors)	609	681
Trade payable on banking operations	565	838
Accrued commission expenses	1	9
Other	1 571	582
Total financial liabilities	**2 746**	**2 110**
Commitments to staff	2 591	2 348
Taxes payable, other than income tax	1 103	1 123
Accounts payable to the Deposit Insurance Agency	376	238
Deferred income	55	147
Total non-financial liabilities	4 125	3 855
Other liabilities	**6 871**	**5 965**

(in thousands of Belarusian roubles)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2016	*2015*
Term deposits and loans of local banks	19 289	25 703
Term deposits and loans of foreign banks	–	1 704
Term deposits and loans of the National Bank	489	–
Current accounts	518	7 805
Amounts due to credit institutions	**20 296**	**35 212**

As of 31 December 2016, amounts due to credit institutions of BYN 16 620 thousand (82%) were due to three banks.

As of 31 December 2015, amounts due to credit institutions of BYN 25 430 thousand (72%) were due to three banks.

Gain on initial recognition of loans

In 2016 the Bank financed start-up companies as part of a joint program with Development Bank of the Republic of Belarus JSC (Note 8). As of 31 December 2016, funds under this program were BYN 3 246 thousand. Gain on initial recognition of financial instruments at fair value for 2016 was BYN 889 thousand.

17. Amounts due to customers

Amounts due to customers comprise:

	2016	*2015*
Term deposits	327 271	230 511
Current accounts	203 138	176 205
Amounts due to customers	**530 409**	**406 716**
Cash held as security against letters of credit	**1 481**	**1 170**

Included in term deposits are deposits held by the Bank as security against irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

As of 31 December 2016, amounts due to customers of BYN 113 210 thousand (21%) were due to the ten largest customers (2015: BYN 111 445 thousand (27%). As of 31 December 2016, the amount of debt on the guarantee deposit of the largest of these clients was BYN 33 674 thousand and represented collateral for the loan (Note 8).

Term deposits include deposits of individuals in the amount of BYN 184 384 thousand (2015: BYN 82 313 thousand). In November 2015, the bank deposits classification changed. According to this change, the newly concluded term and conditional bank deposits are classified as irrevocable and revocable. The irrevocable contracts do not have the option of an early repayment by the depositor's initiative. Repayment of the deposit prior to the expiration of the contract is only possible with the consent of the Bank. Revocable contracts oblige the Bank to repay the amount of an individual's deposit within 5 days at the request of the depositor in accordance with the Banking Code of the Republic of Belarus. In case a term deposit is repaid upon request of the depositor before the expiry date, interest is paid at a rate corresponding to the rate of interest paid by the Bank on demand deposits unless a different interest rate is stipulated by the contract.

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

	2016	*2015*
Private companies	250 913	211 782
Individuals	270 349	183 812
State organizations	9 147	11 122
Amounts due to customers	**530 409**	**406 716**

(in thousands of Belarusian roubles)

17. Amounts due to customers (continued)

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

	2016	*2015*
Individuals	270 349	183 812
Trade	58 391	97 712
Manufacturing	49 460	14 943
Transport	42 158	40 199
Real estate	23 416	4 650
Software development and information technologies	20 560	15 864
Individual entrepreneurs	10 205	7 478
Insurance	7 197	5 936
Construction	5 221	6 789
Education	4 343	4 082
Financial services	3 639	555
Entertainment services	1 303	1 854
Telecommunications	1 282	2 015
Non-for-profit organizations	491	1 723
Publishing activities	48	1 375
Government bodies	-	–
Other	32 346	17 729
Amounts due to customers	**530 409**	**406 716**

18. Debt securities issued

Debt securities issued are primarily placed through non-public sales and comprised the following:

	2016	*Maturity*	*Effective interest rate*	*2015*	*Maturity*	*Effective interest rate*
Interest-bearing bonds in BYN	12 635	2017	18%-27%	23 296	2016	24%-34%
Interest-bearing bonds in USD	2 807	2017	5%-7%	5 790	2016	5%-7%
Interest-bearing bonds in EUR	167	2017	6%	2 228	2016	5%-7%
Debt securities issued	**15 609**			**31 314**		

In 2015 and 2016, the Bank timely and fully discharged its liabilities under the issued securities.

19. Other borrowed funds

Other borrowed funds comprised the following:

	Currency	*Type of rate*	*Initial year*	*Maturity year*	*2016.*	*2015*
European Bank for Reconstruction and Development	USD	floating	2013	2017-2018	6 177	9 142
European Bank for Reconstruction and Development	BYN	floating	2014	2017	2 211	4 390
Nordic Environment Finance Corporation	EUR	floating	2014	2019	6 210	6 170
Incofin	EUR	fixed	2016	2017-2018	14 677	–
FINETHIC S.C.A., SICAV-SIF (Symbiotics)	USD	fixed	2016	2018	1 990	–
DUAL RETURN VISION MICROFINANCE FUN (Symbiotics)	USD	fixed	2016	2018	1 990	–
Прочие заемные средства					**33 235**	**19 702**

In 2015 and 2016, the Bank timely and fully discharged its obligations under borrowed funds and did not allow violations of the established financial covenants.

(in thousands of Belarusian roubles)

20. Subordinated debt

Subordinated debt comprises the following:

	Initial date	*Maturity*	*Interest rate*	*2016*	*2015*
Subordinated loan 1 in USD	8 April 2010	8 April 2023	6%	9 009	8 711
Subordinated loan 2 in USD	29 April 2010	29 April 2023	6%	9 352	9 095
Subordinated loan 3 in BYN	23 July 2014	23 July 2023	5%	153	135
Subordinated loan 4 in BYN	17 October 2014	27 October 2023	5%	363	312
Subordinated loan 5 in USD	19 June 2015	19 June 2025	6%	3 917	3 802
Subordinated loan 6 in USD	30 September 2015	30 September 2025	6%	1 959	1 857
Subordinated loan 7 in USD	15 September 2016	30 September 2026	5%	9 988	-
Subordinated debt				**34 741**	**23 912**

In 2015 and 2016, the Bank discharged by the due date and fully its subordinated debt obligations.

21. Equity

As of 31 December 2016 and 31 December 2015, the authorized, issued and fully paid share capital of the Bank comprised 141 448 ordinary shares with a nominal value as of 31 December 2016 of BYN 87 each, as of 31 December 2015 of BYN 86.15 each. All shares have the same nominal value and carry one vote.

There were no movements in shares outstanding, issued and fully paid during 2016 and 2015. The table below shows the equity structure:

	Number of ordinary shares	*Nominal amount of ordinary shares*	*Inflation adjustment*	*Total*
At 31 December 2016	141 448	12 306	44 828	**57 134**
At 31 December 2015	141 448	12 186	44 828	**57 014**

At the Shareholders' Meeting on 13 May 2015, the Bank declared dividends by advance payment in respect of the year ended 31 December 2015, totaling BYN 3 225 thousand on ordinary shares (BYN 22.8 per share).

At the Shareholders' Meeting on 20 April 2016, the Bank declared dividends totaling BYN 10 114 thousand on ordinary shares (BYN 71.5 per share).

At the Shareholders' Meeting on 27 June 2016, the Bank declared totaling BYN 12 447 thousand on ordinary shares (BYN 88 per share).

In accordance with Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the legislation of the Republic of Belarus. The Bank had BYN 42 967 thousand as of 31 December 2016 of undistributed and unreserved earnings in accordance with the legislation of the Republic of Belarus (2015: BYN 43 088 thousand).

In 2016 the share capital was increased on BYN 120 thousand according to the General Meeting of Shareholders dated April 20, 2016 and the letter of the National Bank of the Republic of Belarus No. 29-12/303 dated 14 June 2016, due to the retained earnings of the previous years.

The nature and purpose of other funds

Fair value reserve (investment securities available for sale)

This reserve reflects changes in the fair value of available-for-sale investments.

(in thousands of Belarusian roubles)

22. Commitments and contingencies

Operating environment

During the year 2016 the National Bank of the Republic of Belarus (“NBRB” or “National Bank”) continued to follow a policy of stabilizing the financial market. During the year, the refinancing rate was reduced from 25% to 18%.

On July 1, 2016, a denomination of the Belarusian ruble was carried out in the ratio of 10 000 Belarusian rubles in 2000 dollar currency notes to one Belarusian ruble in the currency of the 2009 year.

Since April 1, 2016 in Belarus the income tax has been levied on short-term deposits, which, as the National Bank expected, led to the reformatting of the deposit system of Belarus.

From November 1, 2016, the National Bank changed the structure of the basket of currencies. The share of the Russian ruble in it has been raised to 50%, the US dollar share has remained at 30%, the share of the euro has dropped to 20%. In November-December there were no critical fluctuations in the foreign exchange market, so the first effect of changing the structure of the basket was invisible.

In August 2016, the Fitch Ratings agency confirmed the long-term sovereign credit rating of Belarus at the level of "B-" and the short-term rating at the level "B" with the forecasts "stable".
In June 2016, Moody's changed the rating outlook for Belarus from "negative" to "stable"

Although, in the opinion of the Bank's management, they are taking adequate measures to maintain sustainable development of the activities in the current circumstances, in the future, there may be an unforeseen deterioration of the situation, which may have a negative impact on the results of operations and financial position of the Bank, as well as its counterparties. It is not possible for the Bank to determine the extent of this impact on the financial statements at the moment.

Legal

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

Taxation

Belarusian tax, currency and customs legislation is subject to various interpretations and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period.

As of 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Commitments and contingencies

As of 31 December, the Bank’s commitments and contingencies comprised the following:

	2016	***2015***
Credit related commitments		
Undrawn loan commitments	504 900	318 974
Guarantees	33 390	20 284
Letters of credit	1 375	1 424
	539 665	**340 682**
Less − provisions (Note 14)	-	(52)
Commitments and contingencies (before deducting collateral)	**539 665**	**340 630**
Less − cash held as security against letters of credit (Note 17)	(1 481)	(1 170)
Commitments and contingencies	**538 184**	**339 460**

(in thousands of Belarusian roubles)

22. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Under the terms of the loan agreements, the Bank reserves the right to withdraw from the loan commitments unilaterally.

The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2016 and 2015.

The Bank had no significant capital expenditure commitments as of 31 December 2016 and 2015.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in the Republic of Belarus at present.

23. Net gains from foreign currencies

	2016	*2015*
Dealing	17 672	20 759
Gains from derivative financial instruments	(190)	442
Translation differences	(587)	(1 525)
Net gains from foreign currencies	**16 895**	**19 676**

In 2015, trade transactions included a fee for the purchase of currency by individuals in the amount of BYN 247 thousand.

24. Net fee and commission income

	2016	*2015*
Commissions on transactions with payment cards	22 099	16 972
Settlements and cash transactions	12 387	9 559
Foreign exchange transactions	817	1 781
Documentary operations	997	1 096
Securities	337	133
Other	37	52
Fee and commission income	**36 674**	**29 595**
Commissions on transactions with payment cards	(11 367)	(6 807)
Transactions with banks	(4 760)	(2 188)
Documentary operations	(253)	(387)
Foreign exchange transactions	(205)	(150)
Securities	(187)	(147)
Other	(487)	(1 145)
Fee and commission expense	**(17 259)**	**(10 825)**
Net fee and commission income	**19 415**	**18 770**

25. Other income

	2016	*2015*
Revenue from debts previously written off	8 407	4 311
Fines and penalties received	1 449	1 629
Rental income	455	467
Net (loss)/income from sale of property, intangible assets and investment property	(38)	243
Other	491	148
Total other income	**10 764**	**6 798**

(in thousands of Belarusian roubles)

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	(24 590)	(22 039)
Social security costs	(6 805)	(6 365)
Other personnel expenses	(540)	(506)
Remuneration to members of the Supervisory Board	(333)	(437)
Personnel expenses	**(32 268)**	**(29 347)**
Marketing and advertising	(9 258)	(4 950)
Rent payments	(7 367)	(7 048)
Communications	(2 237)	(1 522)
Expenses on maintenance of banking software	(2 163)	(2 315)
Utilities	(2 149)	(1 876)
Repair and maintenance of property and equipment	(1 537)	(1 234)
Payments to the Deposit Insurance Agency	(1 279)	(1 490)
Postal and courier services	(1 113)	(982)
Professional services	(769)	(491)
Repair and maintenance of vehicles and fuel expenses	(597)	(476)
Stationery and other office expenses	(579)	(795)
Security expenses	(505)	(446)
Entertainment expenses	(473)	(457)
Taxes, other than income tax	(330)	(327)
Insurance	(173)	(290)
Charity and sponsorship expenses	(39)	(17)
Other expenses	(3 545)	(2 708)
Other operating expenses	**(34 113)**	**(27 424)**

27. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The risk management system has a three level organisational structure, which includes collegial level, analytical divisions, and business divisions.

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

Supervisory Board

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

Management Board

The Management Board is responsible for annual budget planning, review and revision of the Bank's strategy, and considering main risks. The Management Board has the responsibility to monitor the overall risk process within the Bank, and to develop risk management structure.

(in thousands of Belarusian roubles)

27. Risk management (continued)

Introduction (continued)

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Credit Committee

The Credit Committee is responsible for making decisions relating to those active transactions of the Bank, which are subject to credit risk, except for those under the authority of structural divisions. The Credit Committee decides on the possibility and on the basic terms of the transactions specified above.

Risk Management

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process. The Risk Management Unit participates in development of the overall risk strategy, carries out risk assessment of major banking transactions, monitors risks, and informs management of changes in major business areas.

Budgeting, Management Reporting and Control Department ("BCD")

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

Management of internal audit and Audit Committee

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

Other organizational units

Organisational units of the Bank should comply with planned indicators and established limits, make operating decisions, and organise internal control and monitoring.

Risk measurement and reporting system

The Bank exercises a systematic approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks based on recommendations of the National Bank of the Republic of Belarus and Basel Committee on Banking Supervision. In accordance with the above mentioned standards, the Bank has developed and duly implemented risk management procedures for the main types of risks inherent in the Bank's operations.

The system of risk identification includes procedures, which allow to:

- ► Identify risks for new operations;
- ► Identify risks for typical operations;
- ► Identify significant changes in the level and character of risks accompanying the Bank's activities.

The Bank's risks are measured using a method, which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(in thousands of Belarusian roubles)

27. Risk management (continued)

Introduction (continued)

Monitoring and controlling risks is primarily performed based on:

- Limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities;
- Reservation − creation of special provisions for expected losses;
- Diversification − dispersion of risk among various industries, risk objects and financial instruments to reduce the overall level of risk;
- Collateralisation − acceptance of average and above risks only if there is a legal right to recover expected losses by realization of respective collateral.

For the Bank's Management Board specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of established limits and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

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

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

In 2016, the Bank continued to follow a prudent and balanced credit policy in line with the following strategic priorities: maintaining a sufficiently high level of liquid assets and focusing on the provision of loans to individuals and small businesses.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

The credit risk management process includes the following: analyzing the borrower's financial soundness based on review of its financial statements, information available in mass media, credit history, quality and value of the loan collateral; monitoring credit risk by borrower, debt service, availability and integrity of the collateral; estimating and making adequate provisions for potential losses.

Results of credit worthiness analysis are regularly reviewed by the Credit Committee in the process of decision taking on the possibility of loan granting.

(in thousands of Belarusian roubles)

27. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank to make payments on their behalf. Such payments are collected from customers based on the terms of the guarantee given. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies. The probability of credit losses on credit-related commitments is considered to be lower as compared with that on financial instruments recognized in the statement of financial position, since the Bank may terminate its undrawn loan commitments.

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

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

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank according to the classification of financial assets established by instructions of the National Bank. This credit rating system is based on 5 groups of credit risk. The criteria for assigning financial assets into particular risk groups include financial performance, debt service and the value and sufficiency of collateral.

The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Bank's credit rating system.

In the table below loans to banks and customers of standard grade (the first risk group according to regulations of the National Bank) are those having a minimal level of credit risk and are well collateralized. Other borrowers with less good financial position and less good debt service, but not individually impaired, are included in the sub-standard grade.

		Neither past due nor individually impaired		***Past due but not individually impaired 2016***	***Individually impaired 2016***	***Total 2016***
	Notes	***Standard grade 2016***	***Sub-standard grade 2016***			
Cash and cash equivalents, except for cash on hand	5	77 618	–	–	–	**77 618**
Amounts due from credit institutions	6	8 871	–	–	–	**8 871**
Loans to customers	8					
Loans to legal entities		188 941	61 113	10 697	21 433	**282 184**
Loans to individuals		223 862	275	23 395	-	**247 532**
		412 803	**61 388**	**34 092**	**21 433**	**529 716**
Investment securities available for sale	9	93 094				**93 094**
Total		**592 386**	**61 388**	**34 092**	**21 433**	**709 299**

(in thousands of Belarusian roubles)

27. Risk management (continued)

Credit risk (continued)

	Notes	*Neither past due nor individually impaired* Standard grade 2015	*Neither past due nor individually impaired* Sub-standard grade 2015	*Past due but not individually impaired 2015*	*Individually impaired 2015*	*Total 2015*
Cash and cash equivalents, except for cash on hand	5	88 277	–	–	–	**88 277**
Amounts due from credit institutions	6	8 660	–	–	–	**8 660**
Loans to customers	8					
Loans to legal entities		161 959	32 924	6 353	39 892	**241 128**
Loans to individuals		178 760	2 232	29 013	–	**210 005**
		340 719	**35 156**	**35 366**	**39 892**	**451 133**
Investment securities available for sale	9	24 539	–	–	–	**24 539**
Total		**462 195**	**35 156**	**35 366**	**39 892**	**572 609**

An analysis of past due but not individually impaired loans by age is provided below.

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

Ageing analysis of past due but not individually impaired loans per class of financial assets

	Less than 30 days 2016	*31 to 60 days 2016*	*61 to 90 days 2016*	*More than 90 days 2016*	*Total 2016*
Loans to customers					
Loans to legal entities	2 278	2 348	2 841	3 230	10 697
Loans to individuals	9 192	3 394	2 167	8 642	23 395
Total	**11 470**	**5 742**	**5 008**	**11 872**	**34 092**

	Less than 30 days 2015	*31 to 60 days 2015*	*61 to 90 days 2015*	*More than 90 days 2015*	*Total 2015*
Loans to customers					
Loans to legal entities	1 696	854	1 624	2 179	**6 353**
Loans to individuals	11 616	4 727	3 121	9 549	**29 013**
Total	**13 312**	**5 581**	**4 745**	**11 728**	**35 366**

Impairment assessment

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

(in thousands of Belarusian roubles)

27. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

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

Collectively assessed allowances

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

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

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

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

	2016				*2015*			
	Belarus	*OECD*	*CIS and other countries*	*Total*	*Belarus*	*OECD*	*CIS and other countries*	*Total*
Assets								
Cash and cash equivalents	98 531	11 953	2 830	**113 314**	96 063	20 183	4 040	**120 286**
Amounts due from credit institutions	3 754	5 087	–	**8 841**	3 298	4 093	1 269	**8 660**
Derivative financial assets	–	–	–	**–**	346	–	–	**346**
Loans to customers	514 725	–	–	**514 725**	431 779	–	–	**431 779**
Investment securities available for sale	93 610	–	–	**93 610**	24 572	–	–	**24 572**
Other financial assets	4 214	–	–	**4 214**	7 039	–	–	**7 039**
	714 834	**17 040**	**2 830**	**734 704**	**563 097**	**24 276**	**5 309**	**592 682**
Liabilities								
Amounts due to credit institutions	19 781	513	2	**20 296**	33 523	1 688	1	**35 212**
Derivative financial liabilities	47	–	–	**47**	75	–	13	**88**
Amounts due to customers	511 571	4 778	14 060	**530 409**	397 549	4 102	5 065	**406 716**
Debt securities issued	15 609	–	–	**15 609**	31 314	–	–	**31 314**
Other borrowed funds	–	33 235	–	**33 235**	–	19 702	–	**19 702**
Other financial liabilities	2 746	–	–	**2 746**	2 110	–	–	**2110**
Subordinated debt	11 947		22 794	**34 741**	1 857	–	22 055	**23 912**
	561 701	**38 526**	**36 856**	**637 083**	**466 428**	**25 492**	**27 134**	**519 054**
Net assets/(liabilities)	**153 133**	**(21 486)**	**(34 026)**	**97 621**	**96 669**	**(1 216)**	**(21 825)**	**73 628**

(in thousands of Belarusian roubles)

27. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources. It also manages assets, taking into account the maturities and amounts of assets and liabilities, by monitoring the future repayments associated with the Bank's assets and liabilities on a daily basis.

The Bank's liquidity management strategy provides for classifying liquid assets into those of first or second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, can be quickly transformed into cash to provide additional liquidity. Effectively, they represent a liquidity cushion.

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

The Bank's liquidity position is also assessed in terms of the liquidity ratios established by the National Bank of the Republic of Belarus. As of 31 December, these ratios, calculated on the basis of the financial statements of the Bank prepared in accordance with the requirements of the legislation of the Republic of Belarus, were as follows:

	Ratio	*2016*	*2015*
"Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand and overdue	Min. 20%	199%	392%
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	Min. 70%	167%	142%
"Short-Term Liquidity Ratio" (assets receivable or realizable within one year/liabilities repayable within one year)	Min. 1	2,9	1,7

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As of 31 December 2016					
Amounts due to credit institutions	10 238	2 483	12 223	–	24 944
Customer accounts	385 469	146 827	10 465	3 869	546 630
Debt securities issued	6 201	11 392	–	–	17 593
Other borrowed funds	8 866	9 182	17 794	–	35 842
Other liabilities	2 746	-	-	-	2 746
Subordinated debt	488	1 465	7 814	39 301	49 068
Total undiscounted financial liabilities	**414 008**	**171 349**	**48 296**	**43 170**	**676 823**
Derivative financial instruments redeemed by the delivery of a base asset					
- Amounts payable under agreements	3 902	–	–	–	3 902
- Amounts receivable under contracts	(3 917)	–	–	–	(3 917)
Total cash flows from derivative financial liabilities	**(15)**	–	–	–	**(15)**

(in thousands of Belarusian roubles)

27. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As of 31 December 2015					
Amounts due to credit institutions	25 552	4 115	11 753	–	**41 420**
Customer accounts	277 606	86 667	63 932	100	**428 305**
Debt securities issued	11 294	24 189	–	–	**35 483**
Other borrowed funds	2 108	5 357	15 806	–	**23 271**
Other liabilities	2 110	–	–	–	**2 110**
Subordinated debt	716	1 034	5 515	27 056	**34 321**
Total undiscounted financial liabilities	**319 386**	**121 362**	**97 006**	**27 156**	**537 754**
Derivative financial instruments redeemed by the delivery of a base asset					
- Amounts payable under agreements	33 116	–	–	–	33 116
- Amounts receivable under contracts	(33 965)	–	–	–	(33 965)
Total cash flows from derivative financial liabilities	**(849)**	**-**	**-**	**-**	**(849)**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
As of 31 December 2016	539 665	–	–	–	**539 665**
As of 31 December 2015	340 630	–	–	–	**340 630**

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

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above. Amounts due to customers included term deposits of individuals. Individuals' deposits are repaid in accordance with the approaches described in Note 17.

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's the statement of profit or loss.

(in thousands of Belarusian roubles)

27. Risk management (continued)

Market risk (continued)

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held as of 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
BYN	1 500	(1 366)	(1 024)
EUR	25	(31)	(23)
USD	50	(106)	(79)

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of equity 2015*
BYN	1500	12 491	9 368
EUR	25	(16)	(12)
USD	50	(53)	(40)

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
BYN	500	455	321
EUR	25	31	23
USD	12	25	19

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*	*Sensitivity of equity 2015*
BYN	500	(4 163)	(3 122)
EUR	25	16	12
USD	12	13	10

Currency risk

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

(in thousands of Belarusian roubles)

27. Risk management (continued)

Market risk (continued)

The Bank’s exposure to foreign currency exchange rate risk is presented in the table below:

	BYN	*USD*	*EUR*	*RUR*	*Other currencies*	*Total*
Financial assets as of 31 December 2016						
Cash and cash equivalents	60 789	29 032	13 862	8 780	851	113 314
Amounts due from credit institutions	3 562	5 092	187	-	-	8 841
Loans to customers	317 638	136 412	54 414	5 784	477	514 725
Investment securities available for sale	55 922	37 688	-	-	-	93 610
Other financial assets	3 855	119	211	29	-	4 214
Total financial assets	**441 766**	**208 343**	**68 674**	**14 593**	**1 328**	**734 704**
Financial liabilities as of 31 December 2016						
Amounts due to credit institutions	(17 338)	(2 469)	-	-	(489)	(20 296)
Amounts due to customers	(316 390)	(159 725)	(37 134)	(16 572)	(588)	(530 409)
Debt securities issued	(12 635)	(2 807)	(167)	-	-	(15 609)
Other borrowed funds	(2 211)	(10 157)	(20 888)	-	-	(33 256)
Other financial liabilities	(2 524)	(169)	(18)	(35)	-	(2 746)
Subordinated debt	(516)	(34 225)	-	-	-	(34 741)
Total financial liabilities	**(351 614)**	**(209 531)**	**(58 207)**	**(16 607)**	**(1 077)**	**(637 036)**
Claims on derivative financial instruments	3 902	10 152	2 127	3 535	-	19 716
Obligations on derivative financial instruments	-	(6 052)	(12 168)	(1 469)	-	(19 689)
Total currency position as of 31 December 2016	**94 054**	**2 912**	**426**	**52**	**251**	**97 695**

(in thousands of Belarusian roubles)

27. Risk management (continued)

Currency risk (continued)

	BYN	*USD*	*EUR*	*RUR*	*Other currencies*	*Total*
Financial assets as of 31 December 2015						
Cash and cash equivalents	48 971	50 108	16 069	4 784	354	**120 286**
Amounts due from credit institutions	3 298	4 093	1 269	-	-	**8 660**
Loans to customers	256 375	139 089	31 602	4 713	-	**431 779**
Investment securities available for sale	33	24 539	-	-	-	**24 572**
Other financial assets	5 127	1 293	145	43	431	**7 039**
Total financial assets	**313 804**	**219 122**	**49 085**	**9 540**	**785**	**592 336**
Financial liabilities as of 31 December 2015						
Amounts due to credit institutions	(23 679)	(9 265)	(225)	(2 043)	-	**(35 212)**
Amounts due to customers	(199 628)	(155 248)	(45 986)	(5 632)	(222)	**(406 716)**
Debt securities issued	(23 296)	(5 790)	(2 228)	-	-	**(31 314)**
Other borrowed funds	(4 390)	(9 142)	(6 170)	-	-	**(19 702)**
Other financial liabilities	(1 622)	(96)	(135)	(257)	-	**(2 110)**
Subordinated debt	(447)	(23 465)	-	-	-	**(23 912)**
Total financial liabilities	**(253 062)**	**(203 006)**	**(54 744)**	**(7 932)**	**(222)**	**(518 966)**
Claims on derivative financial instruments	14 079	5 809	12 789	-	1 264	33 941
Obligations on derivative financial instruments	(1 447)	(19 911)	(8 222)	(2 249)	(1 264)	(33 093)
Total currency position as of 31 December 2015	**73 374**	**2 014**	**(1 092)**	**(641)**	**563**	**74 218**

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

Currency	*Reasonable high possible change in currency rate 2016*	*Effect on profit before tax 2016*	*Effect on profit after tax 2016*
USD	40%	1 165	874
EUR	40%	170	128
RUR	40%	21	16

Currency	*Reasonable low possible change in currency rate 2016*	*Effect on profit before tax 2016*	*Effect on profit after tax 2016*
USD	20%	582	437
EUR	20%	85	64
RUR	20%	10	8

(in thousands of Belarusian roubles)

27. Risk management (continued)

Currency risk (continued)

Currency	***Reasonable high possible change in currency rate 2015***	***Effect on profit before tax 2015***	***Effect on profit after tax 2015***
USD	40%	806	605
EUR	40%	(437)	(328)
RUR	40%	(256)	(192)

Currency	***Reasonable low possible change in currency rate 2015***	***Effect on profit before tax 2015***	***Effect on profit after tax 2015***
USD	20%	403	302
EUR	20%	(218)	(164)
RUR	20%	(128)	(96)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate loans when interest rates fall.

The Bank assesses prepayment risk to be insignificant as of 31 December 2016 and 2015 and does not project significant fall in interest rates in the following 12 months.

Operational risk

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

28. Fair value determination

Fair value measurement procedures

The Bank's Management determines the policies and procedures for both recurring fair value measurement, such as unquoted trading and available-for-sale securities, unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

External valuers are involved for valuation of significant assets, such as investment property. Involvement of external valuers is decided upon annually by the Bank's Management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years. The Bank's Management decides, after discussions with the Bank's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Management analyzes the movements in the values of assets which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, together with the Bank's external valuers, also compares each change in the fair value of each asset with relevant external sources to determine whether the change is reasonable. On an interim basis, the Management and the Bank's external valuers present the valuation results to the audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in the valuations.

(in thousands of Belarusian roubles)

28. Fair value determination (continued)

Fair value hierarchy

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

	Fair value measurement using			
At 31 December 2016	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value	-	-	-	–
Investment securities available for sale	-	93 610	-	**93 610**
Investment property	-	3 914	-	**3 914**
	-	**97 524**	**-**	**97 524**
Assets for which fair values are disclosed				
Cash and cash equivalents	113 314	-	-	**113 314**
Amounts due from credit institutions	-	8 841	-	**8 841**
Loans to customers	-	-	546 673	**546 673**
Other financial assets	-	-	4 214	**4 214**
	113 314	**8 841**	**550 887**	**673 042**
Financial liabilities				
Derivative financial instruments	-	-	47	**47**
	-	**-**	**47**	**47**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	20 296	-	**20 296**
Amounts due to customers	-	535 350	-	**535 350**
Debt securities issued	-	16 432	-	**16 432**
Other borrowed funds	-	33 235	-	**33 235**
Other financial liabilities	-	2 746	-	**2 746**
Subordinated debt	-	36 213	-	**36 213**
	-	**644 272**	**-**	**644 272**

(in thousands of Belarusian roubles)

28. Fair value determination (continued)

Fair value hierarchy (continued)

At 31 December 2015	*Fair value measurement using* *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Derivative financial instruments	–	–	346	**346**
Investment securities available for sale	–	24 572	–	**24 572**
Investment property	–	4 693	–	**4 693**
	–	**29 265**	**346**	**29 611**
Assets for which fair values are disclosed				
Cash and cash equivalents	120 286	–	–	**120 286**
Amounts due from credit institutions	–	8 660	–	**8 660**
Loans to customers	–	–	428 547	**428 547**
Other financial assets	–	–	7 039	**7 039**
	120 286	**8 660**	**435 586**	**564 532**
Financial liabilities				
Derivative financial instruments	–	–	88	**88**
	–	**–**	**88**	**88**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	35 212	–	**35 212**
Amounts due to customers	–	407 855	–	**407 855**
Debt securities issued	–	31 172	–	**31 172**
Other borrowed funds	–	19 702	–	**19 702**
Other financial liabilities	–	2 110	–	**2 110**
Subordinated debt	–	23 824	–	**23 824**
	–	**519 875**	**–**	**519 875**

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2016	*Gains recognized in the statement of profit or losst*	*Repayments*	*At 31 December 2016*
Financial assets				
Derivative financial instruments	346	(532)	186	-
Financial liabilities				
Derivative financial instruments	(88)	(15)	150	(47)
Total Level 3 financial assets/liabilities, net	**258**	**(547)**	**336**	

	At 1 January 2015	*Gains recognized in the statement of profit or losst*	*Repayments*	*At 31 December 2015*
Financial assets				
Derivative financial instruments	413	183	(250)	346
Financial liabilities				
Derivative financial instruments	(69)	(19)	–	(88)
Total Level 3 financial assets/liabilities, net	**344**	**164**	**(250)**	**258**

(in thousands of Belarusian roubles)

28. Fair value determination (continued)

Movements in Level 3 financial instruments measured at fair value

Gains on Level 3 financial instruments included in the statement of profit or loss are recorded in net gains from foreign currencies. Gains and losses on financial instruments for the reporting periods are disclosed in Note 23.

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

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

	2016		***2015***	
	Carrying value	***Effect of possible alternative assumptions***	***Carrying value***	***Effect of possible alternative assumptions***
Derivative financial instruments	(47)	(1)	346	107

In order to determine reasonably possible alternative assumptions, the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash flows in Belarusian roubles. The adjustment decreased the interest rate by 500 basis points.

As of 31 December 2016, in order to measure the fair value of derivative financial instruments, the Bank calculates BYN-denominated discounted cash flows using the refinancing rate as of 31 Decenber 2016 equal to 11.00%. The Bank calculates foreign currency-denominated discounted cash flows using Libor, Euribor, and Mosprime rates.

The Bank uses discounted cash flow method (“DCF”) for valuation of its investment property. Under the DCF method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset’s life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest.

To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Fair value of property is based on the valuation performed by professional external valuers.

(in thousands of Belarusian roubles)

28. Fair value determination (continued)

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

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

	Carrying value 2016	*Fair value 2016*	*Unrecognized gain/ (loss) 2016*	*Carrying value 2015*	*Fair value 2015*	*Unrecognized gain/ (loss) 2015*
Financial assets						
Cash and cash equivalents	113 314	113 314	-	120 286	120 286	–
Amounts due from credit institutions	8 841	8 841	-	8 660	8 660	–
Loans to customers	514 725	546 673	31 948	431 778	428 547	(3 231)
Other financial assets	4 214	4 214	-	7 039	7 039	–
Financial liabilities						
Amounts due to credit institutions	20 913	20 913	-	35 212	35 212	–
Amounts due to customers	530 409	535 350	(4 941)	406 716	407 855	(1 139)
Debt securities issued	15 609	16 432	(823)	31 314	31 172	142
Other borrowed funds	33 235	33 235	-	19 702	19 702	–
Other financial liabilities	2 746	2 746	-	2 110	2 110	–
Subordinated debt	34 741	36 213	(1 472)	23 912	23 824	88
Total unrecognized change in unrealized fair value			**24 712**			**(4 140)**

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

(in thousands of Belarusian roubles)

29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2016			*2015*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	113 314	-	**113 314**	120 286	–	**120 286**
Amounts due from credit institutions	–	8 841	**8 841**	1 269	7 391	**8 660**
Derivative financial assets	–	–	**–**	346	–	**346**
Loans to customers	325 073	189 652	**514 725**	284 913	146 866	**431 779**
Investment securities available for sale	93 094	516	**93 610**	18 902	5 670	**24 572**
Investment property	–	3 914	**3 914**	–	4 692	**4 692**
Property and equipment	–	14 742	**14 742**	–	11 659	**11 659**
Intangible assets	–	15 887	**15 887**	–	6 273	**6 273**
Current income tax assets	–	–	**–**	1 756	–	**1 756**
Other assets	2 463	5 306	**7 769**	6 663	10 225	**16 888**
Total	**533 944**	**238 858**	**772 802**	**434 135**	**192 776**	**626 911**
Amounts due to credit institutions	(10 067)	(10 229)	**(20 296)**	(27 600)	(7 612)	**(35 212)**
Derivative financial liabilities	(47)	-	**(47)**	(88)	–	**(88)**
Amounts due to customers	(361 684)	(168 725)	**(530 409)**	(185 466)	(221 250)	**(406 716)**
Debt securities issued	(15 609)	-	**(15 609)**	(31 314)	–	**(31 314)**
Other borrowed funds	(16 644)	(16 591)	**(33 235)**	(5 871)	(13 831)	**(19 702)**
Current income tax liabilities	(899)	–	**(899)**	–	–	**–**
Deferred income tax liabilities	–	(11 581)	**(11 581)**	–	(8 625)	**(8 625)**
Provisions	-	-	**-**	–	(52)	**(52)**
Other liabilities	(6 815)	(56)	**(6 871)**	(5 926)	(39)	**(5 965)**
Subordinated debt	(31)	(34 710)	**(34 741)**	(494)	(23 418)	**(23 912)**
Total	**(411 796)**	**(241 892)**	**(653 688)**	**(256 759)**	**(274 827)**	**(531 586)**
Net position	**122 148**	**(3 034)**	**119 114**	**177 376**	**(82 051)**	**95 325**

Amounts due to customers with a maturity more than one year include semi-constant balances in the amount of BYN 157 327 thousand (2015: BYN 160 502 thousand).

30. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, the Bank treats parties as related when the parties are able to control or significantly influence to the Bank's operating and financial decisions (shareholders, entities under common control, key management personnel). When the Bank made decision whether the parties are related, the content of the relationship between the parties, and not only their legal form.

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

The Bank enters into banking transactions with related entities including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

(in thousands of Belarusian roubles)

30. Related party disclosures (continued)

The outstanding balances of related party transactions are as follows:

	2016			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers at 1 January	**4**	**1 558**	**68**	**16**
Issued during the year	87 268	7 402	342	195
Repaid during the year	(57 158)	(5 698)	(315)	(194)
Translation differences and other movements	(35)	(63)	(15)	90
Loans to customers at 31 December	**30 079**	**3 199**	**80**	**107**
Allowance for impairment	-	17	-	3
Loans to customers net of allowance for impairment	**30 079**	**3 182**	**80**	**104**
Term deposits at 1 January	**498**	**1 284**	**1 212**	**239**
Attracted during the year	731 632	9 648	2 163	271
Repaid during the year	(698 290)	(9 610)	(1 650)	(221)
Translation differences and other movements	283	(1 192)	56	30
Term deposits at 1 January	**34 123**	**130**	**1 781**	**319**
Current accounts of customers at 31 December	**827**	**7**	**1 612**	**924**

(in thousands of Belarusian roubles)

30. Related party disclosures (continued)

	2015			
	Shareholders	Entities under common control	Key management personnel	Other related parties
Loans to customers at 1 January	–	4 559	80	13
Issued during the year	–	5 233	34	9
Repaid during the year	–	(6 007)	(60)	(8)
Translation differences and other movements	–	1 221	-	3
Loans to customers at the date of the change of the ultimate controlling party	–	5 006	54	17
Allowance for impairment	–	–	-	–
Loans to customers net of allowance for impairment	**–**	**5 006**	**54**	**17**
Loans to customers at the date of the change of the ultimate controlling party	–	–	54	17
Issued during the year	29 103	3 346	217	56
Repaid during the year	(30 554)	(2 112)	(193)	(58)
Translation differences and other movements	1 455	324	(10)	1
Loans to customers at 31 December	**4**	**1 558**	**68**	**16**
Allowance for impairment	-	-	-	-
Loans to customers net of allowance for impairment	**4**	**1 558**	**68**	**16**
	-	-	-	-
Term deposits at 1 January	-	5 485	525	145
Attracted during the year	-	48 524	743	25
Repaid during the year	-	(52 791)	(81)	(54)
Translation differences and other movements	-	110	155	27
Term deposits at the date of the change of the ultimate controlling party	**-**	**1 328**	**1 342**	**144**
Term deposits at the date of the change of the ultimate controlling party	-	-	1 342	144
Attracted during the year	123 289	4 707	2 055	201
Repaid during the year	(125 958)	(3 517)	(2 346)	(160)
Translation differences and other movements	3 168	94	161	53
Term deposits at 31 December	**499**	**1 284**	**1 212**	**238**
	-	-	-	-
Current accounts at the date of the change of the ultimate controlling party	5	892	808	78
Current accounts of customers at 31 December	**1 224**	**130**	**1 936**	**117**

(in thousands of Belarusian roubles)

30. Related party disclosures (continued)

	Shareholders	*Entities under common control*	*Key management personnel*	*Other related parties*
Subordinated debt at 1 January	23 912	-	-	-
Attracted during the year	9 976	-	-	-
Repaid during the year	-	-	-	-
Translation differences and other movements	853	-	-	-
Subordinated debt at 31 December	**34 741**	-	-	-
Undrawn loan commitments at 31 December	6 072	44	137	60
Guarantees at the date of the change of the ultimate controlling party	8 755	-	-	16
Other liabilities (unused vacation accruals)	-	-	272	13

	2015			
	Shareholders	*Entities under common control*	*Key management personnel*	*Other related parties*
Subordinated debt at 1 January	11 268	–	–	–
Attracted during the year	–	–	–	–
Repaid during the year	–	–	–	–
Translation differences and other movements	**3 851**	**–**	**–**	**–**
Subordinated debt at the date of the change of the ultimate controlling party	**15 119**	**–**	**–**	**–**
Subordinated debt at the date of the change of the ultimate controlling party	15 119	–	–	–
Attracted during the year	5 842	–	–	–
Repaid during the year	–	–	–	–
Translation differences and other movements	2 951	–	–	–
Subordinated debt at 31 December	**23 912**	**–**	**–**	**–**
Derivative financial assets	338	–	–	–
Undrawn loan commitments at the date of the change of the ultimate controlling party	13	916	158	23
Undrawn loan commitments at 31 December	5 756	313	135	44
Guarantees at the date of the change of the ultimate controlling party	–	524	–	–
Guarantees at 31 December	51	–	–	–
Other liabilities (unused vacation accruals)	–	–	177	7

(in thousands of Belarusian roubles)

30. Related party disclosures (continued)

As of 31 December 2015, the Bank made a prepayment to its shareholder for the purchase of fixed asset in the amount of BYN 5 271 thousand and included it in other assets.

The income and expenses arising from related party transactions are as follows:

	2016 г.			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	4 280	231	20	10
Interest expense on subordinated debt	(1 572)	-	-	-
Interest expense on amounts due to customers	(1 409)	(36)	(116)	(22)
Interest expense on other borrowed funds	-	(17)	-	(3)
Allowance for loan impairment	113	49	8	9
Net gain from derivative financial intruments	21	14	-	5
Free and commission income	-	-	4 695	-

	2015					
	Shareholders		***Entities under common control***			
	From 1 January to the date of the change of the ultimate controlling party	***From the date of change of the ultimate controlling party until 31 December***	***From 1 January to the date of the change of the ultimate controlling party***	***From the date of change of the ultimate controlling party until 31 December***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	–	297	101	103	17	6
Interest expense on subordinated debt	(141)	(923)	–	–	–	–
Interest expense on amounts due to customers	–	(1 030)	(189)	(40)	(278)	(23)
Interest expense on other borrowed funds	–	–	–	–	–	–
Allowance for loan impairment	–	-	–	–	-	–
Net gain from derivative financial intruments	–	338	–	–	–	–
Free and commission income	–	44	44	36	7	3
Personnel expenses	–	–	–	–	(3 144)	(203)

Compensation of key management personnel was comprised of the following:

	2016	***2015***
Salaries and other short-term benefits	4 127	2 685
Social security costs	568	459
Total compensation of key management personnel	**4 695**	**3 144**

(in thousands of Belarusian roubles)

31. Capital adequacy

The Bank maintains an actively manages capital base to cover risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the National Bank in supervising the Bank. During the past year, the Bank had complied in full with all its externally imposed capital requirements.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

National Bank capital adequacy ratio

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on BAS. As of 31 December 2016 and 2015, the Bank's capital adequacy ratio on this basis was as follows:

	2016	*2015*
Main capital	59 791	53 511
Additional capital	45 186	26 750
Total capital	**104 977**	**80 261**
Risk-weighted assets	**643 607**	**523 484**
Capital adequacy ratio	16,3%	15,3%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988, with subsequent amendments, including the amendment to incorporate market risks, using a standardized approach, as of 31 December 2016 and 2015, comprised:

		2016	*2015*
Tier 1 capital		103 227	89 207
Including	*Share capital*	*57 134*	*57 014*
	Retained earnings	*61 980*	*38 466*
	Intangible assets	*(15 887)*	*(6 273)*
Tier 2 capital		34 741	23 757
Including	*Subordinated debt, including in the calculation of capital*	*34 741*	*23 757*
Total capital		**137 968**	**112 964**
Risk-weighted assets		**713 468**	**582 843**
Tier 1 capital ratio		14,5%	15,3%
Total capital ratio		19,3%	19,4%

Computation of capital adequacy under the provisions of the Basel Capital Accord is based on the financial statements prepared in accordance with IFRS.Differences in the amounts of risk-weighted assets, that are used in the computation of capital adequacy under requirements of the National bank and under the provisions of the Basel Capital Accord, arises as a result of adjustments of financial statements due to the differences in the accounting policies.

32. Subsequent events

Subsequent events

In January, February and March 2017, the National Bank of the Republic of Belarus reduced the refinancing rate from 18% to 17%, then to 16% and 15%, respectively, which is related to a slowdown in inflation.