CJSC BTA Bank

Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2016

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Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2016

Management is responsible for the preparation of the financial statements that present fairly the financial position of Closed Joint Stock Company BTA Bank (hereinafter the "Bank") as at 31 December 2016, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter "IFRSs").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the requirements in IFRSs is insufficient to enable the users of financial statements to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements of the Bank for the year ended 31 December 2016 were approved by the Acting Chairman of the Management Board of the Bank on 29 June 2017.

On behalf of the Management Board of the Bank:

B.K. Bekov	**N.M.Sergievich**
Acting Chairman of the Management Board	**Chief Accountant**
29 June 2017	29 June 2017
Minsk	Minsk

Республика Беларусь Закрытое акционерное общество «БТА Банк» г. Минск

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Closed Joint Stock Company “BTA Bank”

Opinion

We have audited the financial statements of Joint Stock Company “BTA Bank” (CJSC “BTA Bank” or “the Bank”), which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2016, and notes comprising a summary of 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 (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the 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 (the “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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Impairment of loans to customers We consider this matter to be a key audit matter due to the fact that the management applies complex and subjective judgments in relation to the terms and amounts of recognition of impairment losses. Below are the key areas of risk: • Key assumptions used when calculating the amount of losses from impairment of loan portfolios; • Key assumptions used when calculating the present value of the cash flows on loans recognized as individually impaired; • Methods of identifying impairment events related to not past due loans. More detailed description of the structure and nature of the loan portfolios and an approach to their evaluation are presented in Note 3 and Note 10 to the financial statements.	In relation to individually reviewed loans we analyzed the criteria used to identify impairment events. Using the information on borrowers available to us we ensured that there are no impairment indicators in relation to certain loans. For loans recognized as impaired we reviewed calculations made in relation to the expected future cash flows projections. We analyzed the reasonableness and accuracy of the assumptions used in the calculations, including through comparison with the information available from open sources. In relation to loans, for which the impairment losses were calculated based on the models, we reviewed the input data, assumptions used, as well as the calculations. In particular, we performed the following procedures: • We reviewed the information on the loan portfolio used in the models to calculate impairment losses for accuracy and completeness; • We reviewed the accuracy of calculating impairment losses, we made alternative calculations and compared the results with the calculations performed by management; • We reviewed key assumptions, used by management in calculation of impairment losses on loan portfolios, for their validity and consistency with the industry practice; • We analyzed the existence of factors which may have impact on the impairment level, but which were not considered in the impairment calculation models used by the Bank's management. We also reviewed the completeness and accuracy of the disclosures related to impairment in the Notes to the financial statements. In certain cases we made estimates that are different from those calculated by the Bank's management, but these differences were in tolerable threshold and related to the subjectivity of estimates.

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

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

In preparing the financial statements, management is responsible for assessing the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period, which constitute the key audit matters included herein.

Deloitte & Touche

29 June 2017
Minsk

Acting General Director of Foreign Unitary Enterprise "Deloitte & Touche"	M.M. Babitskaya Auditor qualification certificate No. 0001775 from 22 December 2009 issued by the Ministry of Finance of the Republic of Belarus Certificate No. 51 on compliance with the qualification requirements to perform audit activities in the banking system dated 23 October 2010.
Auditor of Foreign Unitary Enterprise "Deloitte & Touche"	D.A. Bekeshko Auditor qualification certificate No. 0002114 from 27 November 2013 issued by the Ministry of Finance of the Republic of Belarus. Certificate No. 71 on compliance with the qualification requirements to perform audit activities in the banking system dated 9 December 2013.

The Entity: Closed Joint Stock Company BTA Bank	Audit Firm: Foreign Unitary Enterprise "Deloitte & Touche"
The Bank's legal address: 20-2 V. Horuzhey str., Minsk, 220123, Republic of Belarus	The Bank's legal address: 51A K. Tsetkin Str., 13th floor, Minsk, 220004, Republic of Belarus
Registration data: Certificate of state registration No. 807000071 issued by the National Bank of the Republic of Belarus on 25 July 2002.	Registration data: Certificate of state registration No. 0098185 of 3 March 2014, UNP 101518377.

Statement of Financial Position

As at 31 December 2016

(In thousands of Belarusian Rubles)

	Note	31 December 2016	31 December 2015
Assets			
Cash and cash equivalents	6	19,268	21,894
Due from the National Bank of the Republic of Belarus	7	214	394
Due from credit institutions	8	100	76
Derivative financial assets	9	40	-
Loans to customers	10	58,059	57,844
Investment securities available for sale	11	37,741	-
Property and equipment and intangible assets	12	8,258	6,288
Current income tax assets		-	115
Deferred income tax expenses	13	138	-
Other assets	14	449	229
Total assets		**124,267**	**86,840**
Liabilities			
Due to credit institutions	15	18,751	-
Customer accounts	16	51,021	50,078
Debt securities issued	17	709	-
Current income tax liabilities		96	-
Current deferred tax liabilities	13	-	127
Other liabilities	18	488	352
Subordinated loans	19	11,751	-
Amounts received during formation of the share capital	20	-	18,617
Total liabilities		**82,816**	**69,174**
Equity			
Share capital	21	45,318	26,704
Accumulated loss		(7,678)	(12,265)
Available-for-sale reserve		(10)	-
Property and equipment revaluation reserve		3,821	3,227
Total equity		**41,451**	**17,666**
Total equity and liabilities		**124,267**	**86,840**

On behalf of the Management Board of the Bank:

B.K. Bekov
Acting Chairman of the Management Board

29 June 2017
Minsk

N.M.Sergievich
Chief Accountant

29 June 2017
Minsk

The accompanying notes on pages 11-54 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

(In thousands of Belarusian Rubles)

	Note	2016	2015
Interest income			
Loans to customers		12,958	16,490
Due from credit institutions		1,403	265
Investment securities available for sale		2,664	109
Other		3	1
		17,028	**16,865**
Interest expense			
Customer accounts		(4,154)	(8,419)
Due to credit institutions		(1,342)	(338)
Subordinated loans		(45)	(1,268)
Debt securities issued		(30)	(158)
Other		-	(21)
		(5,571)	**(10,204)**
Net interest income		**11,457**	**6,661**
Provision for loan impairment	10	(2,482)	(1,133)
Net interest income after provision for loan impairment		**8,975**	**5,528**
Fee and commission income	23	2,363	2,643
Fee and commission expense	23	(290)	(295)
Net foreign exchange gains/(losses):			
- dealing		2,527	1,036
- translation differences		1,486	(462)
Net loss on investment securities available for sale		(65)	(12)
Net gain on derivative financial instruments		40	1,891
Other income	24	540	441
Non-interest income		**6,601**	**5,242**
Staff costs	25	(6,315)	(5,970)
Depreciation and amortization	12	(311)	(295)
Other operating expenses	25	(3,306)	(3,008)
Other impairment losses and provisions	14	(137)	-
Taxes other than income tax		(303)	(257)
Non-interest expenses		**(10,372)**	**(9,530)**
Profit before taxation		**5,204**	**1,240**
Income tax (expense)/benefit	13	(617)	12
Net profit		**4,587**	**1,252**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of buildings		792	1,241
Deferred income tax expenses from revaluation of buildings		(198)	(310)
Items that may be reclassified subsequently to profit or loss:			
Fair value revaluation of financial assets available for sale		(75)	(12)
Reclassification adjustment relating to available-for-sale financial assets disposed of in the year		65	12
Other comprehensive income for the year		**584**	**931**
Total comprehensive income for the year		**5,171**	**2,183**

On behalf of the Management Board of the Bank:

B.K. Bekov
Acting Chairman of the Management Board

29 June 2017
Minsk

N.M.Sergievich
Chief Accountant

29 June 2017
Minsk

The accompanying notes on pages 11-54 form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 December 2016
(In thousands of Belarusian Rubles)

	Share capital	Accumulated loss	Available-for-sale reserve	Property and equipment revaluation reserve	Total
As at 31 December 2014	**26,704**	**(13,517)**	**-**	**2,296**	**15,483**
Profit for the year	-	1,252	-	-	**1,252**
Other comprehensive loss	-	-	-	931	**931**
Total comprehensive loss for the year	-	1,252	-	931	**2,183**
As at 31 December 2015	**26,704**	**(12,265)**	**-**	**3,227**	**17,666**
Additions to share capital	18,614	-	-	-	**18,614**
Profit for the year	-	4,587	-	-	**4,587**
Other comprehensive income	-	-	(10)	594	**584**
Total comprehensive income for the year	18,614	4,587	(10)	594	**23,785**
As at 31 December 2016	**45,318**	**(7,678)**	**(10)**	**3,821**	**41,451**

On behalf of the Management Board of the Bank:

B.K. Bekov
Acting Chairman of the Management Board

29 June 2017
Minsk

N.M.Sergievich
Chief Accountant

29 June 2017
Minsk

The accompanying notes on pages 11-54 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2016
(In thousands of Belarusian Rubles)

	2016	2015
Cash flows from operating activities		
Net profit for the year	4,587	1,252
Adjustments for:		
Depreciation and amortization	311	295
Income tax expense/(benefit)	617	(12)
Provision for impairment losses on loans and other financial assets	3,587	1,682
Proceeds from disposal of property and equipment and intangible assets	(56)	-
Net change in interest accruals	459	(13)
Net change in accrued commission	(4)	9
Change in other accrued expenses	(119)	88
Net (gain)/loss on revaluation of derivative financial instruments	(40)	-
Net loss on sale of investments available for sale	65	12
Translation differences	(1,486)	462
Cash flows from operating activities before changes in operating assets and liabilities and payment of income tax	**7,921**	**3,775**
Net (increase)/decrease in operating assets		
Due from the National Bank of the Republic of Belarus	180	340
Due from credit institutions	(215)	356
Derivative financial instruments	-	9,389
Loans to customers	(2,793)	27,534
Other assets	(161)	1,261
Net increase/(decrease) in operating liabilities		
Due to credit institutions	32,284	(235)
Customer accounts	(1,702)	(35,680)
Debt securities issued	695	(7,273)
Other liabilities	75	(270)
Net cash flows from operating activities before income tax	**36,284**	**(803)**
Income tax paid	(899)	(299)
Net cash flows from operating activities	**35,385**	**(1,102)**
Cash flows from investing activities		
Sale of investment securities available for sale	452,825	-
Purchase of investment securities available for sale	(491,082)	(161)
Proceeds from disposal of property and equipment and intangible assets	56	9,930
Purchase of property and equipment and intangible assets	(654)	(5,414)
Net cash outflows from investing activities	**(38,855)**	**4,355**
Effect of exchange rate changes on cash and cash equivalents	844	3,184
Change in cash and cash equivalents	**(2,626)**	**6,437**
Cash and cash equivalents as at 1 January	**21,894**	**15,457**
Cash and cash equivalents as at 31 December	**19,268**	**21,894**

The accompanying notes on pages 11-54 form an integral part of these financial statements.

Statement of Cash Flows (continued)
for the year ended 31 December 2016
(In thousands of Belarusian Rubles)

	2016	2015
Additional information:		
Interest paid	(5,506)	(10,374)
Interest received	17,421	16,952

In 2016 non-cash operations comprise: non-cash settlement of loans through repossession of collateral of BYN 835 thousand, transfer of funds from the account with amounts received on formation of the share capital to the share capital – BYN 18,614 thousand.

On behalf of the Management Board of the Bank:

B.K. Bekov
Acting Chairman of the Management Board

29 June 2017
Minsk

N.M.Sergievich
Chief Accountant

29 June 2017
Minsk

Республика Беларусь Закрытое акционерное общество «БТА Банк» г. Минск

1. PRINCIPAL ACTIVITIES

Closed Joint Stock Company "BTA Bank" (hereinafter the "Bank") was formed in 2002 as a closed joint stock company with foreign investments under the laws and regulations of the Republic of Belarus. The Bank is registered on the territory of the Republic of Belarus by Resolution No. 147 of the National Bank of the Republic of Belarus dated 25 July 2002 in the Common State Register of Legal Entities and Individual Entrepreneurs under No. 807000071. The Bank's legal address: 220123, Minsk, V.Horuzhey str., 20-2

According to the decision of the General Meeting of the Shareholders of the Bank dated 28 March 2008 the Bank was renamed to Closed Joint Stock Company BTA Bank (CJSC BTA Bank). The changes in the Charter of the Bank related to renaming were registered by the National Bank of the Republic of Belarus on 14 April 2008.

During 2016 the Charter of the Bank was amended by the following:

- As amended on 25 January 2016:
  - The Charter is amended to conform to the current legislation of the Republic of Belarus;
  - The share capital of CJSC BTA Bank was increased by issuing additional ordinary registered shares.

- As amended on 30 March 2016:
  - The Charter is amended to conform to the Banking Code of the Republic of Belarus, Law of the Republic of Belarus On Business Entities, Regulation of the National Bank of the Republic of Belarus dated 30 October 2012 No. 557 On Approving the Instruction on Organizing Corporate Management of the Bank, Open Joint Stock Company Development Bank of the Republic of Belarus, Non-Banking Credit Institution, Law of the Republic of Belarus On Securities Market.

- As amended on 30 May 2016:
  - The share capital is adjusted to conform to the process of denomination;
  - The number of the participants of the Management Board of the Bank is changed from 6 to 5 persons;
  - It is indicated that in case of the Chairman's dismissal (transfer), or their temporary absence, their responsibilities are assigned to the Deputy Chairman of the Management Board or an individual which was assessed for compliance with the requirements to this position based on the relevant Order.

In 2016 the Bank performed its activities based on special permits (licenses):

- License No. 17 of the National Bank of the Republic of Belarus dated 28 May 2013 to perform banking activities;
- Special permit (license) No. 02200/5200-12-1131 of the Ministry of Finance of the Republic of Belarus to perform professional and exchange activities on securities (the expiry date 23 October 2022 based on Decision No. 279 dated 28 September 2012);
- Special permit (license) No. 02010/16795 of the Ministry of Internal Affairs of the Republic of Belarus to perform security activities (the expiry date 29 November 2022 based on Decision No. 22km dated 30 November 2012);
- Special permission (license) No. 01019/299 to perform activities on technical (or) cryptographic information security (the expiry date 5 October 2019 based on Decision No. 80 dated 6 October 2014).

State Enterprise "Agency for the Guaranteed Reimbursement of Individuals' Bank Deposits" (hereinafter the "Agency") issued Certificate of Registration with the Agency No. 22 dated 21 January 2009 to the Bank.

The Bank transfers payments, grants loans to corporate customers registered in the Republic of Belarus (investment, working capital, import financing); finances small and medium businesses, raises deposits and grants loans to retail clients (car and consumer financing), performs operations with foreign currencies on behalf of its customers and on its own behalf, and performs operations with securities for liquidity and investment purposes, transfers payments in the Republic of Belarus and abroad, exchanges currencies, and provides other banking services to its corporate customers and individuals.

The Bank established and operates 4 Banking Service Centers (hereinafter "BSC"): BSC "Brest general office", BSC "Vitebsk general office", BSC "Mogilev general office", BSC "Gomel general office" (from 1 August 2014). Prior to September 2016 BSC "Minsk general office" operated which included two supplementary offices (hereinafter, "SO"); Supplementary Office "NemigaCity" (Minsk), Supplementary Office "Uruchye" (Minsk). Starting from September 2016 the specified SO are operating as independent structural divisions, SO "NemigaCity" is renamed to SO No. 1, SO "Uruchye" is renamed to SO No. 2.

Information on the shareholders' interest in the share capital of the Bank is presented as follows:

Shareholders	**31 December 2016, %**	**31 December 2015, %**
JSC BTA Bank (Republic of Kazakhstan)	99.9	99.7
Other	0.1	0.3
Total	**100.0**	**100.0**

The shareholders of JSC BTA Bank owning 5% or more of distributed shares as at 31 December 2016 and 31 December 2015 comprise: Nurzhan Salkenovitch Subkhanberdin (Kazakhstan) (46.64%); Kenes Khamituly Rakishev (Kazakhstan) (46.64%).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Going concern. These financial statements have been prepared on the assumption that the Bank is a going concern and will continue to operate for the foreseeable future. The Bank has no intention or need to reduce substantially its business operations.

The management and shareholders have intention to develop further the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

Functional and presentation currencies. Items in the financial statements are measured using the currency of the primary operational environment of the Bank (the "functional currency"). The functional currency of the Bank is the Belarusian Ruble (BYN). These financial statements are presented in Belarusian Rubles. All values are rounded to the nearest thousand Rubles, except when otherwise indicated.

Redenomination of the Belarusian Ruble. According to Order No. 450 of the President of the Republic of Belarus On Performing Redenomination of Official Monetary Unit of the Republic of Belarus dated 4 November 2015, on 1 July 2016 the Republic of Belarus performed redenomination of the Belarusian Ruble at the ratio of 10,000:1, i.e. all the prices denominated in the Belarusian Ruble were decreased ten thousand times. All comparatives of the financial statements for the year 2015 denominated in Belarusian Rubles were decreased at the ratio of ten thousand to one to provide comparability with the financial statements for the year 2016.

Basis for measurement. These financial statements have been prepared on the historical cost basis except for certain assets that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17 Lease, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairments of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the fair value hierarchy. Such levels indicate whether it is possible to determine the fair values directly based on the market data and reflect the importance of the input data used for the overall fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

Accounting standards. The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These financial statements have been prepared from the Belarusian statutory accounting records and have been adjusted to conform to IFRS.

The Bank presents its statement of financial position broadly in order of liquidity. The analysis regarding recovery of financial assets or repayment of financial liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 26.

Offsetting. Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Income and expense are not offset in the Statement of profit or loss and other comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

The principal accounting policies are set out below.

Hyperinflationary accounting

According to IAS 29 Financial Reporting in Hyperinflationary Economies, the economy of the Republic of Belarus was considered hyperinflationary from 1 January 2011 to 31 December 2014. The economy of the Republic of Belarus ceased to be considered hyperinflationary starting from 1 January 2015. Accordingly, starting from 1 January 2015 the Bank did not apply price index for restating assets and liabilities and items of the Bank’s income and expenses. The carrying value of non-monetary assets and liabilities as well as income and expense balances calculated as at 31 December 2014 restated for inflation formed the carrying value of these items for subsequent periods.

Income recognition

Recognition of interest income and expenses. Interest income from a financial asset is recognized when there is a high probability that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis calculated using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income. Loan origination extension and maintenance fees, together with the related direct costs, are recognized as an adjustment to the effective interest rate of the loan. All other commissions are recognized as services are rendered.

Recognition of rental income. The Bank's policy for recognition of income as a lessor is set out in the "Leases" section of this note.

Financial instruments. The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the financial instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets. Financial assets are classified into the following categories:
financial assets at fair value through profit or loss, held to maturity, available for sale and loans to customers and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss. Financial assets are classified as at fair value through profit or loss when is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at fair value through profit of loss at its initial recognition.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as financial asset at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined instrument (asset or liability) to be designated as financial asset at fair value through profit or loss with fair value changes recognized in the statement of profit or loss and other comprehensive income.

Financial assets at fair value through profit of loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Held-to-maturity investments. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

If the Bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the current financial year and following two financial years.

Financial assets available for sale. Financial assets available for sale are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed shares and listed redeemable notes that are traded in an active market are classified as available for sale and are stated at fair value. The Bank also has investments in unlisted shares that are not traded in an active market but that are also classified as available-for-sale financial assets and stated at fair value (because the Bank's management considers that fair value can be reliably measured). Fair value is determined in the manner described in Note 27. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest method, dividend income and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Available for sale equity investments that do not have a quoted market price and fair value of which cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Derivative financial instruments. The Bank uses derivative financial instruments such as foreign currency swaps and exchange of deposits in different currencies with other banks. These instruments are used by the Bank to manage its exposure to foreign currency risk.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As foreign currency swaps do not have an active market in the Republic of Belarus they are measured using interest rates parity model. The resulting gains or losses are recognized in profit or loss.

Loans to customers and receivables. Trade receivables, loans to customers, and other receivables that have fixed or determinable payments that are not quoted in an active market (including balances with the National Bank of the Republic of Belarus, due from banks, loans to customers and other financial assets) are classified as ‘loans and receivables’.

Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets. Financial assets, other than those at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted investments in financial assets classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For financial assets objective evidence of impairment could include:

- Significant financial difficulties of the issuer or counterparty;
- Breach of contract, such as default or delinquency in interest or principal payments; or
- Default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization;
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans to customers and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at acquisition cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to customers and receivables, where the carrying amount is reduced through the use of a provision account. When loans to customers or receivables are considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off decrease the amount of expenses on provision for impairment losses on assets in the statement of profit or loss and other comprehensive income.

If an available-for-sale financial asset is impaired, then income and expenses recognized in other comprehensive income are transferred to the profit or loss.

If in a subsequent period the amount of the impairment loss on financial assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve.

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans to customers. 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.
Accounting for such loan restructuring is performed as follows:

- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses similar approach for assessment on individual or collective basis to the loan, as well as to newly granted loans.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is considered to be impaired after restructuring, the Bank creates provision for that loan with due consideration of retrospective analysis, evaluation of future cash flows in accordance with new terms and professional judgement of risk-manager.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured 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, taking into account financial position and payment history of the borrower.

Write-off of loans to customers. Loans to customers are written off against the provision for impairment losses when deemed uncollectible. Loans to customers are written off after the Bank's management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral.

Derecognition of financial assets. The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank continues to recognize its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes the consideration received as a collateralized loan.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity. Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

Equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities. Financial liabilities, except for derivative financial liabilities, including due to banks and customer accounts, debt securities issued, other borrowings and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities, except for derivative financial liabilities, are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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

Financial guarantee contracts. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets;
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policy.

Lease. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as a lessor. Finance lease receivables are recognized as loans to customers in the amount of the Bank's net investment in finance leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Income from operating leases is recognized on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Bank as lessee. Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on correspondent and deposit accounts with the National Bank with original maturity of less or equal to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Mandatory reserve deposit with the National Bank. Mandatory cash deposits with the National Bank represent mandatory reserve deposits with the National Bank which are not available to finance the Bank's day-to-day operations, and hence are not considered as part of cash and cash equivalents.

Property and equipment. After initial recognition at cost, buildings are carried at a revalued amount, representing their fair value at the revaluation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the other comprehensive income except for the amount of reversal of the previous decrease in cost of the asset previously recognized in the statement of comprehensive income. In that case revaluation surplus is recognized in profit and loss. A revaluation deficit is recognized in the statement of comprehensive income, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve for property and equipment.

On the retirement or disposal of the asset, the revaluation reserve is immediately transferred to the retained earnings.

The remaining groups of property and equipment, excluding buildings, are carried at historical cost restated for inflation before 1 January 2015 less any accumulated depreciation and any accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line basis. The estimated useful life, carrying values and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. In these financial statements the depreciation is calculated on a straight-line basis at the following annual rates:

Property and equipment group	**Useful life, years**
Buildings	100
Installations	9
Furniture and fixtures	1-10
Computer and office equipment	5
Vehicles	7-9
Intangible assets	1-10

Properties under construction for production or administrative purposes are carried at cost restated for inflation before 1 January 2015 less any recognized impairment loss. Cost of construction includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of such property and equipment assets as well as other fixed assets commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on sale or other disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets acquired separately

Intangible assets include computer software and licenses.

Intangible assets with finite useful lives that are acquired separately are carried at historical cost restated for inflation before 1 January 2015 less accumulated amortization and accumulated impairment losses, if any. Amortization is charged on a straight-line basis over the estimated useful lives of the intangible assets of 1 to 10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is calculated on a straight-line basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds on disposal and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible asset.
At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of: fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Reversals of impairment losses are immediately recognized in profit or loss.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other reporting periods and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period and are expected to be enforced in the period in which the liability is settled or the asset realized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year. Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized directly in other comprehensive income or in equity, in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Operating taxes. In the Republic of Belarus, where the Bank operates, there are also various other tax requirements, which are assessed on the Bank's activities, except income tax. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Provisions for accrued expenses

Provisions for accrued expenses are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision for accrued expenses is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a respective receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position but are disclosed in the financial statements unless the outflow of economic benefits is remote. Contingent assets are not recognized but disclosed in the financial statements when an inflow of economic benefits is probable.

Foreign currencies

In preparing the financial statements of the Bank, transactions in currencies other than functional currency ("foreign currencies") are recognized at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency, adjusted for inflation, are not restated.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	31 December 2016	**31 December 2015**
USD/BYN	1.9585	1.8569
EUR/BYN	2.0450	2.0300
100 RUB/BYN	3.2440	2.5533

Collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's provision on loans is established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to provision for impairment of loans and receivables a key source of estimation uncertainty because (a) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (b) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses professional judgment to estimate the amount of any impairment loss in cases when a borrower has 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 past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or economic conditions that correlate with defaults on assets in the group. The Bank 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. The Bank uses professional estimates to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The provisions for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Belarus and what effect such changes might have on the adequacy of the provisions for impairment of financial assets in future periods.

The management of the Bank believes that the provision gives objective evidence of incurred losses from impairment of loans and receivables based on current economic position of borrowers.

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 otherwise required in establishing fair values. Please refer to Note 27 for additional information.

Revaluation of buildings

The Bank reassesses the fair value of buildings on a periodic basis to ensure that the carrying value of buildings does not differ significantly from their fair value. Revaluation of buildings at market value was performed as at 31 December 2016 and 2015 by an independent and qualified appraiser. Revalued buildings are depreciated in accordance with the remaining useful lives.

Useful lives of property and equipment

As described above, the Bank reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

4. APPLICATION OF NEW AND REVISED IFRS AND IFRIC

In the current year, the following new and revised Standards and Interpretations have become effective.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants;
- Annual Improvements to IFRSs 2012-2014 Cycle.

These amendments has not resulted in any impact on the financial performance or financial position of the Bank.

New and revised IFRSs in issue but not yet effective

Standards and interpretations	Effective for annual period beginning on or after
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not specified
Amendments to IAS 1 Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15.

The Bank anticipates that the application of IFRS 15 in the future may have an impact on the amount and timing of revenue recognition. However, it is impossible to measure the impact of IFRS 15 application reliably without a detailed analysis.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016 and 2015 the Bank has no non-cancellable operating lease commitments.

The new requirement for a lessee to recognize a right-of-use asset and a related lease liability is expected to have an impact on the amounts recognized in the Bank's financial statements and the management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the management completes the review.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalized version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such instruments are measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 prescribes that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.
- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The Standard will be effective from 1 January 2018, with early adoption permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The Bank considers that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. It would require more detailed analysis using reasonable and acceptable information, including projected one, to measure that influence.

The management of the Bank does not anticipate that the application of these amendments will have an impact on the Bank's financial statements.

5. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements for 2015 to conform to the presentation for 2016 as current year presentation provides better view of the financial position of the Bank.

	As previously reported	Reclassification amount	As reclassified	Substance of reclassification
Provision for loan impairment	(1,682)	549	(1,133)	Recognition of debts previously written off through decreasing expenses on provision for loan impairment
Other income	990	(549)	441	

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2016	31 December 2015
Current accounts with credit institutions	11,098	11,668
Current accounts with the National Bank of the Republic of Belarus	3,788	6,645
Cash on hand	4,382	3,581
Total cash and cash equivalents	**19,268**	**21,894**

7. DUE FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS

As at 31 December 2016 and 2015 due from the National Bank of the Republic of Belarus are represented by a mandatory reserve deposit with the National Bank of the Republic of Belarus in the amount of BYN 214 thousand and BYN 394 thousand, respectively.

Credit institutions are required to maintain a cash deposit with the National Bank of the Republic of Belarus (mandatory reserve deposit), the amount of which depends on the amount of funds raised by a credit institution. The Bank's ability to use the funds from this deposit account is significantly restricted by the statutory legislation.

8. DUE FROM CREDIT INSTITUTIONS

As at 31 December 2016 and 31 December 2015 due from credit institutions in the amount of BYN 100 thousand and BYN 76 thousand, respectively, are placed as a guarantee deposit on operations with plastic cards in the payment system Visa in JSC Belagroprombank.

9. DERIVATIVE FINANCIAL ASSETS

The Bank enters into foreign currency forward contracts and foreign currency swaps with the National Bank of the Republic of Belarus and other resident and non-resident banks. These instruments are used by the Bank to manage its exposure to foreign currency risk. The table below presents fair values of derivative financial instruments recorded as assets or liabilities with their required notional amounts of the purchased currency (BYN thousand in equivalent). The contingent amounts indicate the volume of outstanding transactions as at the end of the year and do not reflect credit risk exposure.

	31 December 2016			31 December 2015		
		Fair value			Fair value	
	Notional amount of purchased currency	Asset	Liability	Notional amount of purchased currency	Asset	Liability
Foreign currency contracts						
Swap contracts – non-residents	4,851	40	-	-	-	-
Total derivative financial assets/liabilities		**40**	**-**		-	-

Swaps

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

10. LOANS TO CUSTOMERS

As at 31 December 2016 and 2015 loans to customers comprise:

	31 December 2016	31 December 2015
Corporate lending	48,345	45,900
Entrepreneurs lending	4,050	3,757
Consumer lending	8,696	11,223
Total loans to customers	**61,091**	**60,880**
Less provision for impairment losses	(3,032)	(3,036)
Loans to customers	**58,059**	**57,844**

Provision for impairment losses on loans to customers

Movements in the provision for impairment losses on loans during 2016 are as follows:

	Corporate lending	Entrepreneurs lending	Consumer lending	Total
As at 1 January 2016	**2,612**	**74**	**350**	**3,036**
Charge for the year	2,137	225	120	**2,482**
Bad debts written off	(2,964)	(84)	(440)	**(3,488)**
Repayment of amounts written off	544	15	409	**968**
Effect of foreign exchange rate changes	26	3	5	**34**
As at 31 December 2016	**2,355**	**233**	**444**	**3,032**

Movements in the provision for impairment losses on loans during 2015 are as follows:

	Corporate lending	Entrepreneurs lending	Consumer lending	Total
As at 1 January 2015	**1,546**	**163**	**415**	**2,124**
Charge for the year	1,082	(26)	77	**1,133**
Bad debts written off	(307)	(71)	(181)	**(559)**
Repayment of amounts written off	473	13	63	**549**
Effect of foreign exchange rate changes	(182)	(5)	(24)	**(211)**
As at 31 December 2015	**2,612**	**74**	**350**	**3,036**

Analysis by credit quality of outstanding loans as at 31 December 2016 is presented as follows:

31 December 2016	**Corporate lending**	**Entrepreneurs lending**	**Consumer lending**	**Total**
Loans that are neither past due nor impaired	**5,064**	**-**	**-**	**5,064**
Loans assessed for impairment individually	35,418	598	1,036	**37,052**
Provision	(2,273)	(176)	(366)	**(2,815)**
Loans assessed for impairment individually less provision	**33,145**	**422**	**670**	**34,237**
Loans assessed for impairment collectively	7,863	3,452	7,660	**18,975**
Provision	(82)	(57)	(78)	**(217)**
Loans assessed for impairment collectively less provision	**7,781**	**3,395**	**7,582**	**18,758**

Analysis by credit quality of outstanding loans as at 31 December 2015 is presented as follows:

31 December 2015	**Corporate lending**	**Entrepreneurs lending**	**Consumer lending**	**Total**
Loans that are neither past due nor impaired	**5,760**	**493**	**-**	**6,253**
Loans assessed for impairment individually	28,850	228	1,532	**30,610**
Provision	(2,500)	(44)	(253)	**(2,797)**
Loans assessed for impairment individually less provision	**26,350**	**184**	**1,279**	**27,813**
Loans assessed for impairment collectively	11,290	3,036	9,691	**24,017**
Provision	(112)	(30)	(97)	**(239)**
Loans assessed for impairment collectively less provision	**11,178**	**3,006**	**9,594**	**23,778**

Collateral and other instruments of credit risk mitigation

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

The main types of collateral obtained are as follows:

- For commercial lending – real estate, equipment, inventory, rights to receivables, property rights, cash deposits and guarantees;
- For entrepreneurs and consumer lending – vehicles and guarantees.

The Collateral Department 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 provision for impairment of loans.

The table below summarizes carrying value of loans to customers analyzed by the type of collateral obtained by the Bank:

	31 December 2016	**31 December 2015**
Mixed types of collateral	37,428	34,703
Real estate and rights thereon	11,818	14,515
Other types of collateral	9,937	10,831
Guarantees	393	573
Cash and guarantee deposits	5	47
Inventories	1	54
No collateral	1,509	157
Total loans to customers	**61,091**	**60,880**
Less provision for impairment losses	(3,032)	(3,036)
Loans to customers	**58,059**	**57,844**

Concentration of loans to customers

As at 31 December 2016, the Bank had a concentration of loans represented by BYN 27,780 thousand due from the ten largest borrowers (57% of gross loan portfolio) (2015: BYN 22,997 thousand or 41% of gross loan portfolio). A provision of BYN 1,104 thousand (2015: BYN 1,203 thousand) was recognized against these loans.

Loans are issued within the Republic of Belarus to the customers operating in the following sectors:

	31 December 2016	31 December 2015
Trade enterprises	36,397	28,549
Individuals	8,696	11,223
Manufacturing	4,614	5,848
Transport	1,147	3,036
Real estate operations	3,062	4,429
Construction	737	1,384
Entrepreneurs	4,050	3,758
Other	2,388	2,653
Total loans to customers	**61,091**	**60,880**

Loans and collateral are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. As at 31 December 2016 and 31 December 2015 renegotiated loans amounted to BYN 679 thousand and BYN 576 thousand, respectively. Had these loans not been renegotiated, they would be past due or impaired. Renegotiated loans are mostly attributed to prolongation of contractual loan repayment period, rather than changes of interest rate or other favorable changes in the terms of the loan.

Finance lease receivables

Corporate and entrepreneurs lending portfolio includes net investments in finance lease. The analysis of finance lease receivables as at 31 December 2016 is as follows:

	Less than 1 year	1 to 5 years	Total
Finance lease receivables	241	92	**333**
Unearned future finance income on finance lease	(25)	(4)	**(29)**
Net investments in finance lease	**216**	**88**	**304**

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

	Less than 1 year	1 to 5 years	Total
Finance lease receivables	384	257	**641**
Unearned future finance income on finance lease	(104)	(34)	**(138)**
Net investments in finance lease	**280**	**223**	**503**

11. INVESTMENT SECURITIES AVAILABLE FOR SALE

During 2016 the Bank performed a number of operations with short-term bonds of the National Bank of the Republic of Belarus in US dollars and in Belarusian Rubles with the maturity from 7 to 365 days. The bonds purchased by the Bank were classified as financial assets available for sale as the Bank considered the possibility of selling a part of bond packages in case of insufficiency of liquid funds. However, the situation with ruble liquidity and foreign currency liquidity allowed the Bank to repay short-term bonds of the National Bank of the Republic of Belarus on their maturity date.

During the year the amount of investments in bonds denominated in foreign currency totaled USD 9,0 million and in bonds denominated in Belarusian rubles – BYN 465,813 thousand. In 2016 net income received from operations with short-term bonds of the National Bank of the Republic of Belarus amounted to BYN 2,599 thousand.

As at 31 December 2016 securities available for sale are represented by a package of bonds of the National Bank of the Republic of Belarus of 59th issue in US dollars and two packages of the short-term bonds of the National Bank of the Republic of Belarus denominated in Belarusian rubles.

During 2015 while avoiding accumulation of the long-term investments into securities the Bank performed a number of operations with short-term bonds of the National Bank of the Republic of Belarus. In 2015 net income received from operations with investment securities amounted to BYN 97 thousand. As at 31 December 2015 there were no securities available for sale on the Bank's balance sheet.

12. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

Movements in the property and equipment for 2016 are disclosed below:

	Buildings	Installa-tions	Furniture and fixtures	Computer and office equipment	Vehicles	Construc-tion in progress	Intangible assets	Total
Initial / revalued cost								
As at 31 December 2015	**5,622**	**84**	**1,466**	**806**	**201**	**-**	**266**	**8,445**
Proceeds	835	21	76	117	115	15	310	**1,489**
Disposal	-	-	-	-	(138)	-	(12)	**(150)**
Revaluation	726	-	-	-	-	-		**726**
As at 31 December 2016	**7,183**	**105**	**1,542**	**923**	**178**	**15**	**564**	**10,510**
Accumulated depreciation / amortization								
As at 31 December 2015	**-**	**20**	**1,122**	**718**	**192**	-	**105**	**2,157**
Depreciation charge	66	9	109	41	10	-	76	**311**
Disposal	-	-	-	-	(138)	-	(12)	**(150)**
Revaluation	(66)	-	-	-	-	-		**(66)**
As at 31 December 2016	-	**29**	**1,231**	**759**	**64**	-	**169**	**2,252**
Net carrying value:								
As at 31 December 2015	**5,622**	**64**	**344**	**88**	**9**	**-**	**161**	**6,288**
As at 31 December 2016	**7,183**	**76**	**311**	**164**	**114**	**15**	**395**	**8,258**

Movements in the property and equipment for 2015 are disclosed below:

	Buildings	Installa-tions	Furniture and fixtures	Computer and office equipment	Vehicles	Construc-tion in progress	Intangible assets	Total
Initial / revalued cost								
As at 31 December 2014	**4,425**	**82**	**1,437**	**784**	**201**	**9**	**169**	**7,107**
Proceeds	-	11	25	22	-	-	103	**161**
Disposal	-	(9)	(5)	-	-	-	(6)	**(20)**
Transfers among categories	-	-	9	-	-	(9)	-	-
Revaluation	1,197	-	-	-	-	-	-	**1,197**
As at 31 December 2015	**5,622**	**84**	**1,466**	**806**	**201**	-	**266**	**8,445**
Accumulated depreciation / amortization								
As at 31 December 2014	**-**	**17**	**979**	**689**	**171**	**-**	**70**	**1,926**
Depreciation charge	44	12	148	29	21	-	41	**295**
Disposal	-	(9)	(5)	-	-	-	(6)	**(20)**
Revaluation	(44)	-	-	-	-	-	-	**(44)**
As at 31 December 2015	**-**	**20**	**1,122**	**718**	**192**	-	**105**	**2,157**
Net carrying value:								
As at 31 December 2014	**4,425**	**65**	**458**	**95**	**30**	**9**	**99**	**5,181**
As at 31 December 2015	**5,622**	**64**	**344**	**88**	**9**	**-**	**161**	**6,288**

Fully depreciated property and equipment and intangible assets as at 31 December 2016 and 31 December 2015 amounted to BYN 1,221 thousand and BYN 1,150 thousand, respectively.

The Bank engaged an independent appraiser to determine the fair value of the buildings, owned by the Bank. The fair value is determined based on the combination of the income and comparative methods. The date of revaluation was 31 December 2016. If the buildings were measured using the historical cost model, the carrying amounts would be as follows:

	31 December 2016	31 December 2015
Initial cost	3,265	2,430
Accumulated depreciation and impairment	(326)	(291)
Net carrying value	**2,939**	**2,139**

Information on the buildings fair value hierarchy level of inputs used for revaluation of buildings is disclosed in Note 27 of these financial statements.

13. TAXATION

The income tax expense comprises:

	31 December 2016	31 December 2015
Current tax charge	1,080	291
Deferred tax (charge)/release – origination and reversal of temporary differences	(463)	(303)
Income tax expense / (benefit)	**617**	**(12)**

The income tax rate applicable to the Bank's income is 25.0% in 2016 and 2015. Deferred tax as at 31 December 2016 and 2015 was calculated at the rate of 25.0%. The reconciliation between the theoretical and the actual tax charge is presented below:

	2016	2015
Profit before income tax	**5,204**	**1,240**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**1,301**	**310**
Non-taxable income on government securities	(653)	(8)
Non-deductible expenses	129	125
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes, and hyperinflation effect	(160)	(439)
Income tax expense / (benefit)	**617**	**(12)**

Differences between IFRS and statutory taxation regulations in the Republic of Belarus give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate of 25.0%.

	31 December 2016	Tax effect on (deductible) / taxable temporary differences: In profit or loss	Tax effect on (deductible) / taxable temporary differences: In other comprehensive income	31 December 2015
Tax effect of temporary differences:				
Provision for impairment of loans	6	(122)	-	128
Property and equipment	17	145	(198)	70
Settlements on contributions to the share capital	-	248	-	(248)
Other assets	54	165	-	(111)
Due from credit institutions	(21)	22	-	(43)
Provision for impairment losses on other assets	82	5	-	77
Deferred tax asset / (liability), net	**138**	**463**	**(198)**	**(127)**
Including:				
Long-term part of asset/(liability)	138			(127)

	31 December 2015	Tax effect on (deductible) / taxable In profit or loss	In other comprehensive income	31 December 2014
Tax effect of temporary differences:				
Provision for impairment of loans	128	171	-	(43)
Property and equipment	70	461	(310)	(81)
Settlements on contributions to the share capital	(248)	(248)	-	-
Other assets	(111)	(66)	-	(45)
Due from credit institutions	(43)	36	-	(79)
Provision for impairment losses on other assets	77	(51)	-	128
Deferred tax liability, net	**(127)**	**303**	**(310)**	**(120)**
Including:				
Long-term part of liability	(127)			(120)

14. OTHER ASSETS

As at 31 December 2016 and 2015 other assets comprise:

	31 December 2016	31 December 2015
Other financial assets:		
Debt on lease payments	126	-
Receivables on state duty	34	37
Receivables on other operations	56	10
Other financial assets	41	10
	257	**57**
Less: provision for impairment losses on other financial assets	(171)	(34)
	86	**23**
Other non-financial assets:		
Prepaid taxes other than income tax	69	9
Prepaid expenses	29	27
Prepayments for property and equipment	144	56
Other prepayments	79	31
Materials and inventory	32	10
Other non-financial assets	10	73
	363	**206**
Total other assets	**449**	**229**
Including:		
Short-term part of other non-financial assets	**363**	**206**

Movements in the provision for other impairment losses are disclosed below:

	Other assets
As at 31 December 2014	**320**
Provision	-
Write off against provision	(286)
As at 31 December 2015	**34**
Provision	137
Write off against provision	-
As at 31 December 2016	**171**

Provisions for impairment of assets are deducted from the carrying amounts of the related assets.

15. DUE TO CREDIT INSTITUTIONS

As at 31 December 2016 and 2015 due to credit institutions comprise:

	31 December 2016	31 December 2015
Term deposits	1,075	-
Short-term loans	17,627	-
Other	49	-
Total due to credit institutions	**18,751**	**-**

16. CUSTOMER ACCOUNTS

As at 31 December 2016 and 2015 customer accounts comprise:

	31 December 2016	31 December 2015
Current accounts	10,494	9,200
Term deposits	40,527	40,878
Total customer accounts	**51,021**	**50,078**
Held as security against loans	528	70
Held as security against guarantees	-	153

Customer accounts include accounts with the following types of customers as at 31 December 2016 and 2015:

	31 December 2016	31 December 2015
Legal entities	31,011	25,991
Individuals	20,010	24,087
Total customer accounts	**51,021**	**50,078**

Analysis of customer accounts by industries as at 31 December 2016 and 2015 is as follows:

	31 December 2016	31 December 2015
Trade	17,574	16,726
Individuals	20,010	24,087
Real estate construction	5,248	1,589
Manufacturing	2,159	828
Insurance	327	754
Transport and communication	78	213
Other	5,625	5,881
Total customer accounts	**51,021**	**50,078**

17. DEBT SECURITIES ISSUED

In 2016 and 2015 the Bank did not issue any new bonds, however it continued transactions on the secondary market with already issued bonds denominated in US dollars. The Bank allocated funds raised by selling bonds issued by the Bank, to legal entities, to finance current operations according to the purposes provided for in the prospectus.

As at 31 December 2016 the Bank placed bonds of 12th issue on the secondary market in the amount of USD 350.0 thousand with 7% yield declared at placement. During 2016 the Bank regularly sold and repurchased the bonds issued by the Bank.

18. OTHER LIABILITIES

As at 31 December 2016 and 2015 other liabilities comprise:

	31 December 2016	31 December 2015
Other financial liabilities:		
Accrued expenses	45	49
Provision for vacation payment	261	168
Other settlements	77	103
	383	**320**
Other non-financial liabilities:		
Other non-financial liabilities	104	-
Amounts payable to government authorities, except for income tax	1	32
Total other liabilities	**488**	**352**
Including:		
Short-term part of other non-financial assets	105	**32**

19. SUBORDINATED LOAN

As at 31 December 2016 the subordinated loan comprised:

Counterparty	Interest rate to nominal	Maturity date	Currency	31 December 2016	31 December 2015
JSC "Kazkommertsbank" (Republic of Kazakhstan)	7.56 %	25 September 2023	USD	11,751	-
Total subordinated loan				**11,751**	**-**

Subordinated debt ranks after all other creditors in the case of the Bank's liquidation.

20. AMOUNTS RECEIVED DURING FORMATION OF THE SHARE CAPITAL

On 19 November 2015 the shareholders of the Bank decided to increase the share capital of the Bank by BYN 18,614 thousand by conversion of the subordinated loan received earlier from JSC BTA Bank. As at 31 December 2015 the Bank waited for the authorization of the National Bank of the Republic of Belarus regarding increase of the share capital and the registration of the changes in the Charter of the Bank. The authorization was obtained on 11 January 2016, and the changes were registered on 29 January 2016. Therefore, the funds were recorded as the Amounts Received during Formation of the Share Capital. The amount was reclassified to non-monetary assets and accordingly, it was recorded at historical cost, which was determined using exchange rate as of 19 November 2015.

21. EQUITY

As at 31 December 2016 authorized share capital of the Bank was paid in full and amounted to BYN 45,318 thousand or 1,388 ordinary shares. As at 1 January 2016 authorized share capital of the Bank was paid in full and amounted to BYN 26,704 thousand or 344 ordinary shares.

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

Uncertificated shares were issued by the Bank in the form of records on accounts and registered in the State Securities Register under No. 5-200-01-14950.

The Register of Shareholders of the Bank is maintained in the depository of the OJSC "Bank BelVEB". The share capital for the reporting year increased by BYN 18,614 thousand due to additional issue of shares (see Note 20).

In 2016 and 2015 the Bank did not declare and pay dividends.

The Bank's distributable funds are determined by the amount of its funds as disclosed in its financial statements prepared in accordance with the legislation of the Republic of Belarus. As at 31 December 2016, the Bank's statements, prepared in accordance with the legislation of the Republic of Belarus, contained a disclosure of distributable funds of BYN 16,199 thousand (2015: BYN 10,622 thousand) and non-distributable funds of BYN 876 thousand (2015: BYN 505 thousand). Non-distributable funds are represented by a general reserve fund, which is established to cover general banking risks, including future losses and other unforeseen risks or contingencies.

22. CONTRACTUAL AND CONTINGENT LIABILITIES

Operating environment – Emerging markets including the Republic of Belarus are subject to economical, political, social, legal and legislative risks, which are different from the risks of more developed markets. Laws and regulations affecting businesses in Belarus continue to change rapidly. Tax, currency and customs legislation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in Belarus. The future economic direction of Belarus is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory and political developments in the country.

The economic situation in Belarus depends, to a large extent, upon success of the Belarusian government's efforts and future condition of the Russian economy and political developments in the CIS. The effectiveness of the anticrisis policy and further development of the economic situation are hard to predict.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management estimates that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2016 and 2015 the Bank had no material liabilities for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Legislation – Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and, as result, the Bank may face additional taxes and charges and other preventive measures. The Management of the Bank believes that it has already made all tax and other payments or accruals, and therefore no additional provision has been made in the financial statements. Prior fiscal years remain open to review by the authorities.

As at 31 December 2016 and 2015 the Bank's contractual and contingent liabilities comprised:

	31 December 2016	31 December 2015
Credit related commitments		
Unused loan commitments, cancellable	3,947	5,164
Issued financial guarantees and other commitments	67	283
Contractual and contingent liabilities	**4,014**	**5,447**
Less: Cash held as collateral against letters of credit, guarantees and unused loan commitments (Note 16)	-	(153)
Contractual and contingent liabilities	**4,014**	**5,294**

23. FEE AND COMMISSION INCOME

For 2016 and 2015 net fee and commission income comprise:

	2016	2015
Operations with customers	2,025	2,288
Currency exchange operations	21	179
Current account replenishment	134	84
Other	183	92
Fee and commission income	**2,363**	**2,643**
Transactions with banks	(94)	(110)
Bank plastic card operations	(91)	(92)
Currency exchange operations	(13)	(21)
Documentary operations	-	(12)
Other	(92)	(60)
Fee and commission expense	**(290)**	**(295)**
Net fee and commission income	**2,073**	**2,348**

24. OTHER INCOME

Other income comprises:

	2016	2015
Rent income	241	-
Fines and penalties received	192	250
Gain on disposal of property and equipment	56	-
Income from sales of other property	17	174
Other	34	17
Total other income	**540**	**441**

25. STAFF COSTS AND OTHER OPERATING EXPENSES

Staff costs and other operating expenses comprise:

	2016	2015
Payroll and bonuses	4,955	4,635
Social security costs	1,360	1,335
Staff costs	**6,315**	**5,970**
Software	1,192	961
Operating lease expense	466	491
Marketing and advertising	97	186
Contributions to deposit insurance fund	118	202
Transportation costs	187	177
Repairs	243	27
Utility expenses	184	126
Security services	114	96
Office supplies	103	29
Audit services	100	89
Communications	90	88
Information and consulting services	56	54
Charity	-	2
Losses from disposal of tangible and intangible assets	-	1
Written off fines/penalties	30	133
Other	326	346
Other operating expenses	**3,306**	**3,008**

26. RISK MANAGEMENT

Risks are inherent to the Bank's operations. The Bank manages risks in the course of the constant process of identification, evaluation and observation, by establishing risk limits and other internal control measures. 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. The Bank is also subject to operational risks.

The process of independent control over risks is irrelevant to the operational risks such as the change in environment, technology and changes within the industry. These risks are managed by the Bank in the course of strategic planning.

Risk management structure

The responsibility for approval of strategy and principles of risk management, design of effective system of risk management and internal controls lies within the Board of Directors. The Risk Committee was created to assist the Board of Directors in executing this function. There are also separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for establishing overall approach to risk management, and for the approval of risk management strategy and principles.

Risk Committee

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

Management Board

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

Credit Committee

The Committee is mainly responsible for implementation and improvement of Credit policy of the Bank, approval of decisions on credit operations and definition of their parameters. The Committee assesses the quality of cumulative claims of the Bank in respect of loans granted, guarantees and other active operations subject to credit risk.

Assets and liabilities management committee

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

Risk Management Department

The Risk Management Department is responsible for developing the methods of identification, analysis and measurement of main bank risks (credit, operational, interest, currency, commodity, country, reputational, strategic, liquidity, stock market risks), developing, realizing and controlling compliance with limit policy, implementing and performing risk management procedures related to such risks. These activities are performed in order to ensure independent control process. The Risk Management Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. This department also presents reports on credit, operational, interest, currency, commodity, country, reputational, strategic, liquidity, stock market risk levels to the Management Board and the Board of Directors of the Bank.

Financial Controlling Department

Financial Controlling Department is responsible for operational management and routing monitoring of the Bank's liquidity in terms of the compliance to the liquidity ratios, as well as for the coordination of the process of strategic planning, developing and following through the target planned performance indicators, Bank's activity planning and control over plan execution.

Internal audit

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

Systems of risk measurement and communication

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

Monitoring and control of risks are chiefly based on the limits established by the Bank. Such limits reflect the business strategy and the market conditions, in which the Bank is operating, as well as the risk level the Bank is ready to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure when capital adequacy is calculated.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. This information is presented and explained to the Risk Committee, Management Board, Assets and Liabilities Management Committee and Credit Committee. The report includes aggregate credit exposure, liquidity ratios, levels of operational, interest and currency risks and information on changes in risk levels. Appropriateness of the provision for credit losses is assessed on a quarterly basis. The Board of Directors (Risk Committee) receives a comprehensive report on loan portfolio and the Bank's financial position once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk Mitigation

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

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

Excessive risk concentration

Risk concentration occurs in case a number of counterparties performs similar activities with similar risk characteristics or activities taken place in one geographical region, or counterparties have similar economic characteristics. As a result of changes in economic, political and other conditions risk concentration has similar impact on the ability of these parties to meet their contractual obligations. Risk concentration reflects relative sensitivity of the Bank's performance to the changes in conditions which have impact on particular industry or geographical region.

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 losses in case its clients or counterparties did not meet their contractual obligations.

Main stages of risk management:

- Identification of risks;
- Risk measurement – quantitative description of identified risks (probability and amount of possible losses);

- Choice of risk management methods while assessing their comparative effectiveness;
- Decision-making and direct impact on the risk;
- Monitoring of the accepted credit risk and control over the procedures being used.

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

- Monitoring of issued credit instruments by the corresponding structural units of the Bank;
- Classification of assets and contingent liabilities, and creation of special provisions for covering possible losses in relation to assets and contingent liabilities;
- For the purposes of general compliance with certain loan portfolio parameters established by Credit policy and other Bank's documents, regulating Bank's credit activity.

The Risk Management Department performs monthly loan portfolio analysis and classification to assess the required provision for covering possible losses, the results of which are communicated to the Credit Committee. The extended analysis of the loan portfolio is performed by the Bank's Risk Management Department on a quarterly basis – the Management Board and Board of Directors are informed on its results.

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

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

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

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

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

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

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

Credit-related commitments risks

The Bank offers its clients an opportunity of receiving the guarantees that may require from the Bank to make payments on behalf of the clients. Such payments are collected from customers based on the terms of the letter of credit. Under the specified contracts the Bank bears the risks that are similar to the credit risks and that are mitigated by applying the same risk control procedures and policy.

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

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

For more detail on the maximum exposure to credit risk for each class of financial instruments, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 10.

The amount of maximum credit risk as at 31 December 2016 and 2015 is disclosed in the table below:

	Maximum credit risk exposure 31 December 2016	**Maximum credit risk exposure 31 December 2015**
Cash and cash equivalents (except for cash on hand)	14,886	18,783
Due from the National Bank of the Republic of Belarus, banks and credit and financial institutions	314	470
Derivative financial assets	40	-
Loans to customers	58,059	57,844
Investment securities available for sale	37,741	-
Other financial assets	86	23
Unused loan commitments, cancellable	3,947	5,164
Issued financial guarantees and other commitments	67	283
Total	**115,140**	**82,567**

Credit quality by classes of financial assets

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. The sovereign credit rating in foreign currency of the Republic of Belarus according to the international rating agency Standard & Poor's in 2016 and 2015 corresponded to level B-.

	AAA	**A**	**BBB**	**BB**	**B and below**	**Not rated**	**31 December 2016 Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	-	-	2	5,050	6,032	8,184	**19,268**
Due from the National Bank of the Republic of Belarus	-	-	-	-	214	-	**214**
Due from credit and financial institutions	-	-	-	-	100	-	**100**
Derivative financial assets	-	-	-	-	40	-	**40**
Loans to customers	-	-	-	-	-	58,059	**58,059**
Investment securities available for sale	-	-	-	-	37,741	-	**37,741**
Other financial assets	-	-	-	-	-	86	**86**
TOTAL FINANCIAL ASSETS	**-**	**-**	**2**	**5,050**	**44,127**	**66,329**	**115,508**

	AAA	**A**	**BBB**	**BB**	**B and below**	**Not rated**	**31 December 2015 Total**
FINANCIAL ASSETS:							
Cash and cash equivalents	-	-	3,535	543	13,731	4,085	**21,894**
Due from the National Bank of the Republic of Belarus	-	-	-	-	394	-	**394**
Due from credit and financial institutions	-	-	-	-	76	-	**76**
Loans to customers	-	-	-	-	-	57,844	**57,844**
Other financial assets	-	-	-	-	-	23	**23**
TOTAL FINANCIAL ASSETS	**-**	**-**	**3,535**	**543**	**14,201**	**61,952**	**80,231**

The Bank manages the credit quality of financial assets using internal credit ratings. The table below represents analysis of the credit quality of loans to customers based on the Bank's credit rating systems.

The borrowers are classified according to the following rating:

1) Standard – includes borrowers with good quality of debt servicing (overdue days up to 5 days), as well as having improved, stable financial position or its slight deterioration. There is no negative information on the borrower;
2) The standard rating with indicators of negative information – the borrower meets all the criteria of to the standard rating, however there is certain negative information on the borrower;
3) Doubtful, non-performing, noncollectable – all other loans, if there are indications of deterioration of the financial position or bad quality of debt servicing. The designation between the categories Doubtful/Non-performing/Noncollectible is determined based on the extent, to which the financial position deteriorates, and the amount of overdue days.

The analysis of the unimpaired and not overdue loans according to the internal quality ratings is represented below:

	31 December 2016 Normal	31 December 2015 Normal
Loans lo legal entities	5,064	5,760
Loans to individual entrepreneurs	-	493
Total unimpaired and not overdue loans	**5,064**	**6,253**

Total interest income on financial assets recorded at amortized cost

	2016	2015
Interest income on individually impaired financial assets	1,028	1,912
Interest income on collectively impaired financial assets	13,336	14,844
Total	**14,364**	**16,756**

Assessment of impairment

The key factors that are taken into consideration during the assessment of the loans for impairment include whether any payments of principal or interest are overdue by more than 5 days for legal entities and 30 days for individuals; whether 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 reviews the impairment at two levels – provisions estimated on individual basis and provisions estimated on aggregate basis.

Provisions estimated on individual basis

The Bank determines the provisions that are required with respect to each individually significant loan, advance payment, or loan with indication of impairment on individual basis. When determining the provision amount the following circumstances are to be taken into consideration: the indicators of financial activity, their changes in the period of loan servicing, evaluation of the quality of loan servicing, the realizable value of collateral. Impairment losses are assessed at each reporting date or more frequently if unforeseen circumstances require a more careful attention.

Provisions estimated collectively

Provisions for impairment of loans that are not deemed to be individually significant (including credit cards, mortgage loans and unsecured consumer credits) as well as the provisions with respect to individually significant loans that do not have the objective evidence of individual impairment are estimated on aggregate basis. Provisions are estimated at each reporting date and each loan portfolio is tested individually.

The estimation on aggregate basis allows for determining portfolio impairment that can take place even if there is no objective evidence of individual impairment. Impairment losses are determined on the basis of the following information: losses incurred with respect to portfolio during prior periods, existing economic conditions, existence of loans past due as at the reporting date (over 5 days for legal entities and over 30 days for individuals) until the moment when the necessity to create an individually estimated provision for impairment of the loan is established, as well as the amounts to be received and the recovery of value after the asset impairment. The provision for impairment shall be tested by the Bank's credit unit management for its compliance with the Bank's general policy.

Financial guarantees and the letters of credit issued are also tested for impairment and the provision is created with respect to them in a similar way as for loan.

Liquidity risk and funding management

Liquidity risk refers to the availability of sufficient funds to meet the Bank's obligations when they fall due in the normal course of business or unforeseen events. To minimize the risk the management made available various funding sources in addition to the existing minimum bank deposits. The management also performs asset management based on liquidity and monitors future cash flows and liquidity on a daily basis. The process comprises evaluation of expected cash flows, availability of high-quality collateral which may be used for obtaining additional funds if required.

The Bank owns the portfolio of various premium assets that can be easily realized for money in case of unexpected cessation of money inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in funds. In addition, the Bank maintains a cash deposit (obligatory reserve) with the National Bank of the Republic of Belarus, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the National Bank of the Republic of Belarus. These ratios as at 31 December 2016 and 2015 were as follows:

	Required minimum ratio	2016	2015
Current liquidity ratio (assets received or sold within 30 days/ liabilities paid within 30 days)	70%	158	269
Short-term liquidity ratio (assets, receivable within one year/ liabilities payable within one year)	1	2.7	1.4
Instant liquidity ratio (assets received or sold on demand/ liabilities paid on demand)	20%	382	473

Order No. 7 of the President of the Republic of Belarus dated 11 November 2015 On Raising Funds to Deposits became effective on 1 April 2016, according to which customers' deposits are classified into revocable and irrevocable deposits. Irrevocable deposits do not permit early withdrawal of funds, while revocable deposits may be withdrawn by customers on demand. Due to this fact, the method for calculating short-term liquidity ratio as at 31 December 2016 differs from the calculation method effective as at 31 December 2015 in the way that revocable deposits are accounted for as demand deposits regardless of their contractual maturity.

Analysis of financial liabilities by the periods to maturity

The tables below show non-derivative financial liabilities at 31 December 2016 and 2015 by their remaining contractual maturity. The amounts in the tables represent contractual undiscounted cash flows and gross credit commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the end of the reporting period. Currency payments are recalculated using the spot exchange rate as at the end of the reporting period.

Financial liabilities As at 31 December 2016	**Less than 3 months**	**3 to 12 months**	**From 1 to 5 years**	**Over 5 years**	**Total**
Due to credit and financial institutions	18,782	-	-	-	**18,782**
Customer accounts	43,011	7,226	3,213	-	**53,450**
Debt securities issued	709	-	-	-	**709**
Other financial liabilities	383	-	-	-	**383**
Subordinated debt	222	666	4,439	16,844	**22,171**
Issued financial guarantees and other commitments	67	-	-	-	**67**
Liabilities on loans and unused credit lines	3,947	-	-	-	**3,947**
Total undiscounted financial liabilities	**67,121**	**7,892**	**7,652**	**16,844**	**99,509**

Financial liabilities As at 31 December 2015	Less than 3 months	3 to 12 months	From 1 to 5 years	Over 5 years	Total
Due to credit and financial institutions	-	-	-	-	**-**
Customer accounts	19,587	21,823	12,089	-	**53,499**
Other financial liabilities	391	-	-	-	**391**
Issued financial guarantees and other commitments	-	132	151	-	**283**
Liabilities on loans and unused credit lines	5,164	-	-	-	**5,164**
Total undiscounted financial liabilities	**25,142**	**21,955**	**12,240**	**-**	**59,337**

Liquidity requirements to support calls under guarantees and import letters of credit are considerably lower than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement.

Maturity analysis of assets and liabilities

The table below represents contractual maturity analysis as at 31 December 2016 as specified by the Bank:

	Up to 3 months	3 to 12 months	Over 1 year	Undefined maturity	Total
Cash and cash equivalents	19,268	-	-	-	**19,268**
Due from the National Bank of the Republic of Belarus	-	-	-	214	**214**
Due from credit and financial institutions	-	-	-	100	**100**
Derivative financial assets	40	-	-	-	**40**
Loans to customers	24,110	16,632	17,317	-	**58,059**
Investment securities available for sale	37,741	-	-	-	**37,741**
Other financial assets	86	-	-	-	**86**
Total	**81,245**	**16,632**	**17,317**	**314**	**115,508**
Due to credit and financial institutions	18,751	-	-	-	**18,751**
Customer accounts	41,263	6,655	3,103	-	**51,021**
Debt securities issued	709	-	-	-	**709**
Other financial liabilities	383	-	-	-	**383**
Subordinated debt	-	-	11,751	-	**11,751**
Total	**61,106**	**6,655**	**14,854**	-	**82,615**
Net position	**20,139**	**9,977**	**2,463**	**314**	**32,893**

The table below represents contractual maturity analysis as at 31 December 2015 as specified by the Bank:

	Up to 3 months	3 to 12 months	Over 1 year	Undefined maturity	Total
Cash and cash equivalents	21,894	-	-	-	**21,894**
Due from the National Bank of the Republic of Belarus	-	-	-	394	**394**
Due from credit and financial institutions	-	-	-	76	**76**
Loans to customers	20,938	17,694	19,212	-	**57,844**
Other financial assets	23	-	-	-	**23**
Total	**42,855**	**17,694**	**19,212**	**470**	**80,231**
Due to credit and financial institutions	-	-	-	-	**-**
Customer accounts	18,591	19,603	11,884	-	**50,078**
Other financial liabilities	320	-	-	-	**320**
Total	**18,911**	**19,603**	**11,884**	**-**	**50,398**
Net position	**23,944**	**(1,909)**	**7,328**	**470**	**29,833**

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

In accordance with the Banking Code of the Republic of Belarus, the Bank is required to repay time revocable deposits within five days upon demand of a depositor. The term irrevocable deposits cannot be early withdrawn at the initiative of a depositor without the Bank's authorization. However, the Bank does not expect that all customers will request repayment at original maturity. These balances are therefore included in accordance with their contractual maturity.

Risk of early repayment

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

The Bank's management believes that the Bank is not subject to early repayment risk.

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, and equity instrument prices. Market risk is managed and monitored by using sensitivity analysis. Except for currency position the Bank has no significant market risk concentrations.

Interest rate risk

Interest rate risk occurs due to the possibility that interest rate changes may influence future cash flows or fair value of financial instruments. The following table presents the sensitivity of the Bank's statement of comprehensive income to possible changes in interest rates, however all the other variable parameters are assumed as constant parameters.

An analysis of interest rate risk is presented in the following table.

	31 December 2016			31 December 2015		
	Floating interest rate	Fixed interest rate / Undefined	Total	Floating interest rate	Fixed interest rate / Undefined	Total
Financial assets						
Cash and cash equivalents	-	19,268	**19,268**	-	21,894	**21,894**
Due from the National Bank of the Republic of Belarus	-	214	**214**	-	394	**394**
Due from credit and financial institutions	-	100	**100**	-	76	**76**
Derivative financial assets	-	40	**40**	-	-	-
Loans to customers	58,059	-	**58,059**	57,844	-	**57,844**
Investment securities available for sale	-	37,741	**37,741**	-	-	-
Other financial assets	-	86	**86**	-	23	**23**
Total financial assets	**58,059**	**57,449**	**115,508**	**57,844**	**22,387**	**80,231**
Financial liabilities						
Due to credit and financial institutions	-	18,751	**18,751**	-	-	-
Customer accounts	38,193	12,828	**51,021**	40,267	9,811	**50,078**
Debt securities issued	-	709	**709**	-	-	-
Other financial liabilities	-	383	**383**	-	320	**320**
Subordinated debt	-	11,751	**11,751**	-	-	-
Total financial liabilities	**38,193**	**44,422**	**82,615**	**40,267**	**10,131**	**50,398**
Open position	**19,866**			**17,577**		

Sensitivity of the statement of comprehensive income is effect of expected changes in interest rates on net interest income for one year calculated based on non-trading financial assets and financial liabilities at floating interest rate existing at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	**Increase in % 2016**	**Sensitivity of net interest income 2016**	**Sensitivity of other comprehensive income 2016**
Belarusian ruble	5%	927	-
EUR	1%	13	-
USD	1%	20	-

Currency	**Decrease in % 2016**	**Sensitivity of net interest income 2016**	**Sensitivity of other comprehensive income 2016**
Belarusian ruble	(5%)	(927)	-
EUR	(1%)	(13)	-
USD	(1%)	(20)	-

Currency	**Increase in % 2015**	**Sensitivity of net interest income 2015**	**Sensitivity of other comprehensive income 2015**
Belarusian ruble	5%	408	-
EUR	1%	44	-
USD	1%	49	-

Currency	**Decrease in % 2015**	**Sensitivity of net interest income 2015**	**Sensitivity of other comprehensive income 2015**
Belarusian ruble	(5%)	(408)	-
EUR	(1%)	(44)	-
USD	(1%)	(49)	-

Geographical concentration

Geographical concentration analysis of the Bank's assets and liabilities as at 31 December 2016 is provided below:

	Belarus	**Kazakhstan**	**CIS countries**	**Other countries**	**31 December 2016 Total**
Financial assets					
Cash and cash equivalents	13,670	87	553	4,958	**19,268**
Due from the National Bank of the Republic of Belarus	214	-	-	-	**214**
Due from credit and financial institutions	100	-	-	-	**100**
Derivative financial assets	-	-	40	-	**40**
Loans and advances to customers	58,059	-	-	-	**58,059**
Investment securities available for sale	37,741	-	-	-	**37,741**
Other financial assets	86	-	-	-	**86**
Total financial assets	**109,870**	**87**	**593**	**4,958**	**115,508**
Financial liabilities					
Due to credit and financial institutions	1,075	17,675	1	-	**18,751**
Customer accounts	50,205	197	544	75	**51,021**
Debt securities issued	709	-	-	-	**709**
Other financial liabilities	383	-	-	-	**383**
Subordinated debt	-	11,751	-	-	**11,751**
Total financial liabilities	**52,372**	**29,623**	**545**	**75**	**82,615**
Open position	**57,498**	**(29,536)**	**48**	**4,883**	

Financial assets and liabilities have generally been based on the country where the counterparty is located. Cash on hand has been allocated based on the country, in which they are physically held. Geographical concentration analysis of the Bank's assets and liabilities as at 31 December 2015 is provided below:

	Belarus	Kazakhstan	CIS countries	Other countries	31 December 2015 Total
Financial assets					
Cash and cash equivalents	14,815	54	2,996	4,029	**21,894**
Due from the National Bank of the Republic of Belarus	394	-	-	-	**394**
Due from credit and financial institutions	76	-	-	-	**76**
Loans and advances to customers	57,844	-	-	-	**57,844**
Other financial assets	23	-	-	-	**23**
Total financial assets	**73,152**	**54**	**2,996**	**4,029**	**80,231**
Financial liabilities					
Due to credit and financial institutions	-	-	-	-	**-**
Customer accounts	49,149	133	721	75	**50,078**
Other financial liabilities	320	-	-	-	**320**
Total financial liabilities	**49,469**	**133**	**721**	**75**	**50,398**
Open position	**23,683**	**(79)**	**2,275**	**3,954**	

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank sets internal limits for open position by currency calculated using VaR method for a historical selection of 80 trading days. These limits comply with the minimum requirements of the National Bank of the Republic of Belarus. For currencies with significantly fluctuating exchange rate exposure the Bank takes measures to minimize open positions. Decisions on foreign currency position optimization are approved by the Deputy Chairman in charge of foreign currency operations.

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

	BYN	USD	EUR	RUB	Other currencies	31 December 2016 Total
Financial assets						
Cash and cash equivalents	5,656	6,946	5,252	1,330	84	**19,268**
Due from the National Bank of the Republic of Belarus	214	-	-	-	-	**214**
Due from credit and financial institutions	-	100	-	-	-	**100**
Loans and advances to customers	32,576	17,534	7,233	716	-	**58,059**
Investment securities available for sale	20,054	17,687	-	-	-	**37,741**
Other financial assets	85	1	-	-	-	**86**
Total financial assets	**58,585**	**42,268**	**12,485**	**2,046**	**84**	**115,468**
Financial liabilities						
Due to credit and financial institutions	1,075	17,675	-	1	-	**18,751**
Customer accounts	22,550	17,309	7,750	3,409	3	**51,021**
Debt securities issued	-	709	-	-	-	**709**
Other financial liabilities	354	22	5	2	-	**383**
Subordinated debt	-	11,751	-	-	-	**11,751**
Total financial liabilities	**23,979**	**47,466**	**7,755**	**3,412**	**3**	**82,615**
Currency position	**34,606**	**(5,198)**	**4,730**	**(1,366)**	**81**	

Derivative financial instruments

Fair value of the derivative financial instruments is included in the currency analysis presented above and the following table presents further analysis of currency risk of derivative financial instruments as at 31 December 2016:

	BYN	USD	EUR	RUB	Other currency	31 December 2016 Total
Receivables on swap contracts	-	3,294	-	1,553	-	**4,847**
Payables on swap contracts	-	-	(4,807)	-	-	**(4,807)**
Net derivative position	-	**3,294**	**(4,807)**	**1,553**	-	**40**
Total open currency position	**34,606**	**(1,904)**	**(77)**	**187**	**81**	

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

	BYN	USD	EUR	RUB	Other currency	31 December 2015 Total
Financial assets						
Cash and cash equivalents	8,310	4300	8,096	925	263	**21,894**
Due from the National Bank of the Republic of Belarus	394	-	-	-	-	**394**
Due from credit and financial institutions	-	76	-	-	-	**76**
Loans and advances to customers	40,205	13,056	3,837	746	-	**57,844**
Other financial assets	22	1	-	-	-	**23**
Total financial assets	**48,931**	**17,433**	**11,933**	**1,671**	**263**	**80,231**
Financial liabilities						
Due to credit and financial institutions	-	-	-	-	-	**-**
Customer accounts	17,693	20,353	9,839	2,169	24	**50,078**
Other financial liabilities	267	44	8	1	-	**320**
Total financial liabilities	**17,960**	**20,397**	**9,847**	**2,170**	**24**	**50,398**
Currency position	**30,971**	**(2,964)**	**2,086**	**(499)**	**239**	

Derivative financial instruments

Fair value of the derivative financial instruments is included in the currency analysis presented above and the following table presents further analysis of currency risk of derivative financial instruments as at 31 December 2015:

	BYN	USD	EUR	RUB	Other currency	31 December 2015 Total
Receivables on swap contracts	-	-	-	-	-	**-**
Payables on swap contracts	-	-	-	-	-	**-**
Net derivative position	**-**	**-**	**-**	**-**	**-**	**-**
Total open currency position	**30,971**	**(2,964)**	**2,086**	**(499)**	**239**	

The following table presents the currencies in which the Bank has material positions as at 31 December 2016 and 2015 with respect to non-trading monetary assets and liabilities as well as future cash flows. The analysis performed includes calculation of the impact of possible change in foreign currency exchange rates with respect to Belarusian ruble on the statement of comprehensive income (due to availability of non-trading monetary assets and liabilities, the fair value of which is sensitive to the changes in foreign currency exchange rates). The effect on equity does not differ from the effect on the statement of comprehensive income. All other parameters are considered constant. The negative amounts in the table reflect the potentially possible net decrease in the statement of comprehensive income or equity, and the positive amounts reflect the potential net increase.

Currency	**Increase in the currency rate, in % 2016**	**Impact on profit before tax 2016**	**Increase in the currency rate, in % 2015**	**Impact on profit before tax 2015**
USD	30%	(571)	30%	(890)
EUR	30%	(23)	30%	626

Currency	**Decrease in the currency rate, in % 2016**	**Impact on profit before tax 2016**	**Decrease in the currency rate, in % 2015**	**Impact on profit before tax 2015**
USD	(5%)	95	(5%)	148
EUR	(5%)	4	(5%)	(104)

Currency	**Increase in the currency rate, in % 2016**	**Impact on equity 2016**	**Increase in the currency rate, in % 2015**	**Impact on equity 2015**
USD	30%	(428)	30%	(667)
EUR	30%	(17)	30%	469

Currency	**Decrease in the currency rate, in % 2016**	**Impact on shareholders' equity 2016**	**Decrease in the currency rate, in % 2015**	**Impact on shareholders' equity 2015**
USD	(5%)	71	(5%)	111
EUR	(5%)	3	(5%)	(78)

Operational risk

Operational risk is the risk that arose due to a system failure, personnel errors, fraud or some external events. If the control system fails, operational risks may damage the Bank’s reputation, result in legal implications or in financial losses. The Bank is not able to set forward an assumption that all the operational risks are eliminated but the control system and monitoring and responding to potential risks could be effective tools to manage the risks. The control system enables efficient segregation of duties, access permissions, approval and reconciliation procedures, staff training and valuation procedures, including internal audit.

27. FAIR VALUE MEASUREMENTS

Fair value of assets and liabilities measured at fair value

IFRS defines fair value as 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.

Fair value of the Bank's financial instruments not carried at fair value on a recurring basis

	Carrying amount 2016	Fair value 2016	Unrecognized gain / (loss) 2016	Carrying amount 2015	Fair value 2015	Unrecognized gain / (loss) 2015
Financial assets						
Cash and cash equivalents	19,268	19,268	-	21,894	21,894	-
Due from the National Bank of the Republic of Belarus	214	214	-	394	394	-
Due from credit and financial institutions	100	100	-	76	76	-
Loans and advances to customers	58,059	58,059	-	57,844	57,844	-
Other financial assets	86	86	-	23	23	-
Financial liability						
Due to credit and financial institutions	18,751	18,751	-	-	-	-
Customer accounts	51,021	51,021	-	50,078	50,078	-
Subordinated debt	11,751	11,751	-	-	-	-
Other financial liabilities	383	383	-	320	320	-
Debt securities issued	709	709	-	-	-	-
Total unrecognized change in unrealized fair value			**-**			**-**

The techniques and assertions used in fair value measurement of the financial instruments that are not carried at fair value in the financial statements are disclosed below.

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. Such financial assets and liabilities are cash and cash equivalents, amounts due from the NBRB, amounts due from credit and financial institutions, other financial assets and liabilities. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed and variable rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms and credit risk.

The management believes that the fair value of loans to customers, customer accounts, subordinated debt and debt securities as at 31 December 2016 issued does not significantly differ from the carrying amount as at the reporting date, because the interest rates for these liabilities approximate the market rates.

Levels of fair value hierarchy

For the purpose of fair value disclosure the Bank classified assets and liabilities on the basis of their nature, characteristics and risk of an asset or liability, as well as the level of fair value hierarchy.

As at 31 December 2016	Quoted prices in active market (Level 1)	Fair value measurement using Significant observable input(s) (Level 2)	Significant unobservable input(s) (Level 3)	Total
Assets at fair value				
Derivative financial assets	-	40	-	**40**
Investment securities available for sale	37,741	-	-	**37,741**
Property and equipment – buildings	-	895	6,288	**7,183**
Assets for which fair values are disclosed				
Loans and advances to customers	-	58,059	-	**58,059**
Liabilities for which fair values are disclosed				
Customer accounts	-	51,021	-	**51,021**

As at 31 December 2015	Quoted prices in active market (Level 1)	Fair value measurement using Significant observable input(s) (Level 2)	Significant unobservable input(s) (Level 3)	Total
Assets at fair value				
Property and equipment – buildings	-	-	5,622	**5,622**
Assets for which fair values are disclosed				
Loans and advances to customers	-	57,844	-	**57,844**
Liabilities for which fair values are disclosed				
Customer accounts	-	50,078	-	**50,078**

In 2016 there were no transfers between the fair value hierarchy levels.

The tables below present information on how the fair value was determined for assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities the carrying amount of which differs from their fair value and is disclosed in the financial statements (in particular, the valuation technique(s) and inputs used).

Assets/ Liabilities	Fair value as at 31 December 2016	Fair value as at 31 December 2015	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial assets	40	-	Level 2	Discounted cash flows. Future cash flows are estimated based on interest rate parity model. Interest rates applied are rates on financial instruments with similar risk denominated in the same currency with similar maturity.
Investment securities. Available-for-sale	37,741	-	Level 1	Quoted bid prices in an active market.
Property and equipment – buildings	6,288	5,622	Level 3	Independent valuation based on market and income methods.
Property and equipment – buildings	895	-	Level 2	Independent valuation based on market method.

A change in the fair value of financial assets of Level 3 is represented by revaluation of property and equipment performed by the Bank involving the results of a certified independent appraiser.

According to the measurement model developed by the independent appraiser, the fair value is measured based on a combination of income and comparable approaches with 50% and 50%, respectively. According to the comparable approach towards measuring the market value of items of property and equipment, appraisers used compensation adjustments under the income approach – capitalization rate according to rates of return. Changes in the ratio of income and comparable approaches, selling prices used, rent rates and the resulting gross multiplier are unobservable inputs having an impact on measurement of investments.

28. RELATED PARTIES DISCLOSURES

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

Related parties may enter into transactions that unrelated parties might not. Transactions between related parties may be on different terms, conditions and amounts than the transactions between unrelated parties.

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

	2016			**2015**	
	Shareholders	**Companies under common control**	**Key management personnel**	**Shareholders**	**Key management personnel**
Cash and cash equivalents	-	87	-	54	-
Loans to customers, gross	-	-	6	-	9
Provision for impairment losses	-	-	-	-	-
Loans to customers, net	-	-	6	-	9
Subordinated debt	-	17,677	-	-	-
Customer accounts	-	11,751	-	-	6
Amounts received during formation of the share capital	-	-	-	18,617	-
Unused loan commitments	-	-	44	-	-
Interest income	-	-	-	-	11
Interest expense	-	-	1	1,268	4
Commission income	-	1,356	2	-	-
Commission expense	-	-	-	8	-

Compensation to key management personnel is disclosed below:

	2016	**2015**
Salaries and other short-term employee benefits	381	578
Social payments	33	79
Social security costs	63	37
Total key management personnel compensation	**477**	**694**

29. CAPITAL MANAGEMENT

The Bank performs active management of the level of capital adequacy in order to be defended from the risks inherent to its operations. The adequacy of the Bank's capital is monitored using the ratios established by the NBRB in supervising the Bank.

The key objective in capital management for the Bank implies compliance of the Bank with external requirements regarding the capital and maintenance of the high credit rating and capital adequacy ratio that are necessary for its business operations and maximization of the shareholder value.

The Bank manages the structure of its capital and adjusts it in line with the changes in economic environment and characteristics of risks associated with the types of operations. In order to sustain or change the structure of the capital the Bank may adjust the amount of dividends to be paid to the shareholders, return the capital to the shareholders or issue the equity securities. No changes in objectives, policy and capital management procedures took place as compared to previous years.

Capital adequacy ratio of the National Bank of the Republic of Belarus

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 Belarusian Accounting Standards. As at 31 December 2016 and 2015, the Bank's capital adequacy ratio computed on the basis set forth above was as follows:

	31 December 2016	31 December 2015
Tier 1 capital	28,928	9,650
Additional capital used for computation of capital	23,652	9,286
Total regulatory capital	52,580	**18,936**
Risk-weighted assets used for computation of capital adequacy	**89,971**	**81,357**
Capital adequacy ratio	**57.222%**	**22.50%**

As at 1 January 2016 and each monthly reporting date up to 1 September 2016, the Bank did not comply with the requirement of the National Bank of the Republic of Belarus related to the minimum amount of the regulatory capital. The Bank did not comply with the requirement since 2011 due to the significant devaluation of the national currency.

As at 1 October 2016 the Bank complied with the licensing requirement related to the minimum amount of the regulatory capital which was violated in previous periods since 2011 due to the significant devaluation of the national currency. The increase in the regulatory capital to the required amount occurred due to conversion of subordinated debt in the amount of USD 10,0 million to the share capital in January 2016 and attraction of additional subordinated loans in the amount of USD 6 million in September 2016. In 2016 the Bank also successfully decreased the amount of overdue accrued and unearned income, deducted from equity, which relates to accruals for previous periods.

As at 1 January 2017 the Bank's regulatory capital amounted to BYN 52,580.4 thousand while the required amount equals to BYN 50.19 million.

Non-compliance with the licensing requirement to the minimum amount of regulatory capital set by the National Bank of the Republic of Belarus resulted in application of restrictions on the amount of funds attracted from individuals, which do not represent individual entrepreneurs, to accounts and deposits which shall not exceed the amount of the Bank's share capital for the period from 23 April 2016 to 24 January 2017. The Bank complied with the requirements of the National Bank of the Republic of Belarus.

In January 2016, on 1 February 2016 and 1 April 2016 the Bank did not implement the decision of the National Bank of the Republic of Belarus on application of restrictive measures related to the Bank's operations on the attraction of funds to accounts and deposits of individuals. For the period from January to February 2016 the Bank violated the maximum risk exposure per borrower (a group of interrelated debtors). The Bank sent letters to the National Bank of the Republic of Belarus with the explanation of the reasons for the noncompliance. As a result, the National Bank of the Republic of Belarus did not apply any additional supervisory response measures to the Bank.

According to Resolution No. 211DSP of the National Bank of the Republic of Belarus dated 22 April 2016, Resolution No. 521 of the National Bank of the Republic of Belarus dated 10 October 2016, Resolution No. 36DSP of the National Bank of the Republic of Belarus dated 24 January 2017, the decisions were made not to apply supervisory response measures for violation of secure functioning standards and to revoke restrictive measures related to prohibiting income allocation between shareholders through declaration and payment of dividends, requirements from the Bank's shareholders to take measures to increase the Bank's regulatory capital, limitations on the amount of funds of individuals, which do not constitute individual entrepreneurs, attracted to accounts and deposits.

As at 31 December 2016, the Bank complied with the obligatory ratios, established by the National Bank of the Republic of Belarus.

Based on the new Strategic Development Plan of the Bank for 2017-2021 approved by the Bank's Board of Directors dated 30 November 2016 (Minutes No. 67), the Bank's revenue was determined as the key source of increase in the regulatory capital. The annual increase in the revenue will ensure the increase in the amount of the regulatory capital by the end of 2021 to BYN 98,900 or USD 29.5 million. The planned amount of the Bank's regulatory capital will allow to cover the risks assumed by the Bank to the full extent. The regulatory capital and core capital adequacy ratios according to the Strategic Development Plan are expected to be higher than the required ratios.

According to the Plan, the forecasted size of the Bank's capital and aggregate levels of risk are as follows (unaudited):

Indicator	1 January 2018	1 January 2019	1 January 2020	1 January 2021	1 January 2022
Tier 1 capital (BYN thousand)	56,900	62,700	69,300	81,300	98,900
Capital increase, %	8%	10%	11%	17%	22%
Aggregate weighted level of accepted risks, BYN thousand	129,900	144,800	172,400	225,000	310,800

30. OPERATING SEGMENTS

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

The Bank identifies the following operating segments (lines of business) by the customer type, nature of business processes and type of the performed transactions (rendered services):

- **Corporate business** – settlements and cash services on accounts of legal entities and individual entrepreneurs, attraction of deposits, provision of loans and performing other active transactions, conducting foreign currency exchange transactions, rendering services on emission and operation of bank plastic cards, trade financing;
- **Retail banking** – attracting deposits and providing loans, performing settlements and cash transactions and foreign currency exchange transactions, rendering services on emission and operation of bank plastic cards of individuals.

One more segment is **financial business** operating segment related to transactions with securities and financial derivatives in the interbank market.

Each segment performs activities according to business plans of the Bank, approved for the current year.

The main objective of the segment is to implement planned tasks reaching ratios established in the business plan of the Bank.

Assets and liabilities, income and expenses of the Bank are distributed between the segments in full. Direct income, own assets and liabilities of the segments are attributed to the segment based on their origination.

The assets of the segment comprise: loans to customers, securities, mandatory reserves with the National Bank of the Republic of Belarus, deposits with the National Bank of the Republic of Belarus. Liabilities of the segment comprise: current and term customer accounts, securities issued, subordinated loans, deposits with the National Bank of the Republic of Belarus.

Customers, operating in the Republic of Belarus, are a source of Bank's income production.

The Bank classifies the operating segment if either of the following applies:

- Operating segment income (including income from external customers and other operating segments) amounts to not less than 10% of comprehensive income of all segments for the same reporting period.
- The assets of the operating segment amount to not less than 10% of total assets of all operating segments for the same reporting period.

The disclosure of the information on reporting segments is formed based on the accounting treatment in accordance with the requirements of the Belarusian legislation.

Information on operating segments for 2016 is given in the following table:

Indicator	**Corporate banking**	**Retail banking**	**Financial business**	**Adjustment**	**Total**
Revenue					
Interest income	10,073	3,176	4,064	(285)	**17,028**
Fee and commission income	1,690	830	24	(181)	**2,363**
Net gain (loss) on foreign currency transactions and derivatives			4,960	(907)	**4,053**
Other income	500	110	(65)	(70)	**475**
Total revenue	**12,263**	**4,116**	**8,983**	**(1,443)**	**23,919**
Interest expense	3,751	1,026	1,368	(574)	**5,571**
Fee and commission expense		179	109	2	**290**
Provision for loan impairment	2,383	(3)	(115)	217	**2,482**
Staff costs	3,140	2,493	634	48	**6,315**
Other operating expenses	1,631	1,765	371	153	**3,920**
Other loss on impairment and provisions	(22)	(1)	-	160	**137**
Segment expense	**10,883**	**5,459**	**2,367**	**6**	**18,715**
Current income tax expenses	344	-	795	(522)	617
Financial performance	**1,036**	**(1,343)**	**5,821**	**(927)**	**4,587**
Segment assets	**54,789**	**9,183**	**60,592**	**(297)**	**124,267**
Segment liabilities	**32,767**	**20,276**	**30,142**	**(369)**	**82,816**

Information on operating segments for 2016 is given in the following table:

Indicator	**Corporate banking**	**Retail banking**	**Financial business**	**Adjustment**	**Total**
Revenue					
Interest income	11,687	4,432	358	388	**16,865**
Fee and commission income	1,436	1,356	5	(154)	**2,643**
Net gain (loss) on foreign currency transactions and derivatives	834	983	-	648	**2,465**
Other income	962	353	(12)	(874)	**429**
Total revenue	**14,919**	**7,124**	**351**	**8**	**22,402**
Interest expense	6,740	2,006	1,606	(148)	**10,204**
Fee and commission expense	60	120	113	2	**295**
Provision for loan impairment	1,199	415	47	(528)	**1,133**
Staff costs	3,214	2,726	-	30	**5,970**
Other operating expenses	1,608	1,831	-	121	**3,560**
Other loss on impairment and provisions	(44)	(12)	(26)	82	**-**
Segment expense	**12,777**	**7,086**	**1,740**	**(441)**	**21,162**
Current income tax income	265	56	-	(333)	**(12)**
Financial performance	**1,877**	**(18)**	**(1,389)**	**782**	**1,252**
Segment assets	**52,118**	**11,178**	**22,624**	**920**	**86,840**
Segment liabilities	**38,745**	**26,262**	**5,322**	**(1,155)**	**69,174**

31. SUBSEQUENT EVENTS

By the date of approval of the financial statements the Belarusian ruble (beginning from 2017) strengthened its position against the US dollar by 1.2 p.p. and depreciated against the Euro by 7.5 p.p and against the Russian rouble by 0.1 p.p.

According to official statistics published by the National Statistical Committee of the Republic of Belarus, inflation level in the Republic of Belarus was 2.7% for the first five months of 2017.

Beginning from 2017 and to the date of approval of the financial statements, the National Bank of the Republic of Belarus made a decision resulting in the refinancing rate being decreased from 18% as at 31 December 2016 to 13% as at the singoff date of the financial statements, which is related to the subsiding inflation.

In February 2017 the international credit rating agency Fitch Ratings confirmed the long-term credit rating of Belarus at the level B- with a stable outlook. The short-term ratings of default in foreign and local currencies were affirmed at the level B and the country ceiling at the level B-.