Translation from the original in Russian

Reshenie Bank Joint-Stock Company

Financial Statements
for the year ended 31 December 2016

R-Bank JSC
11, Ignatenko str.,
Minsk 220034, Republic of Belarus
Telephone: +375 17 203 24 67
Banking license № 14,
dated 08 June 2016 is issued by the National Bank of the Republic of Belarus

Contents

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Ref. number: 04-05/3/218

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, the Board of Directors, the Management of R-Bank JSC
To the National Bank of the Republic of Belarus

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of R-Bank JSC (hereinafter - the Bank), which comprise:

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Key Audit Matters	Auditor's Response
1 Allowance for impairment of loans to customers	
Determination of the adequacy of allowance for impairment of loans to customers is the key area of judgment of the Bank's management. Identification of signs of impairment and measurement of recoverable value involve a significant use of professional judgment, assumptions, as well as analysis of various factors, including the financial state of the borrower, expected future cash flows, distribution cost of collateral. Use of difference models and assumptions influences the level of allowance for impairment of loans to customers. Due to the materiality of amounts of loans to customers, which make up 47% of the total amount of assets, and the high level of subjectivity of judgements, measuring allowance for impairment of loans to customers is one of the key audit matters. We have performed procedures in relation to information disclosed in Note 8 to the financial statements to determine the completeness and compliance of the disclosures to the IFRSs.	Our audit procedures included assessment of the calculation methods of allowance for impairment of loans to customers, testing of data carried forward, analysis of assumptions used by the Bank when calculating allowance for impairment. Apart from that, as for provisioning of significant individually assessed loans we analyzed expected future cash flows, including cost of collateral to be sold on the basis of analyzing assumptions used by the Bank's management when measuring collateral value and information on the market value from open sources of information. As for provisioning of collectively assessed loans our audit procedures included analysis of the allowance calculation models, and testing of data carried forward, used in these models. As part of our audit procedures, we analyzed succession and reliability of the management's judgements, used when assessing economic factors and statistics on the losses incurred and amounts recovered.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Director
Managing Partner
BDO in Belarus — **Alexander Shkodin**

Auditor in Charge
BDO in Belarus — **Nataliya Kondratyeva**

Minsk,
Republic of Belarus
25.05.2017

INFORMATION ABOUT THE AUDITEE AND THE AUDITOR:

	Auditee	Auditor
Company:	R-Bank JSC	BDO, LLC
Location:	11 Ignatenko str., Minsk, 220034, Republic of Belarus;	103 Pobediteley ave., office 807, Minsk, 220020, Republic of Belarus
Information on the state registration:	Registered by the National Bank of the Republic of Belarus dated 09.11.1994, registration number 53	Certificate on the state registration was issued by Minsk City Executive Committee dated 15.11.2013
Payer's identification number:	100789114	190241132

Statement of Management Responsibility

The Management of R-Bank JSC is responsible for preparing the financial statements of the Bank. The financial statements on pages 8 to 57 represent fairly the financial position of the Bank as of 31 December 2016, the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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

The Management of the Bank is responsible for keeping proper accounting records, for taking necessary steps to safeguard the assets of the Bank and to detect and prevent fraud and other irregularities. It is also responsible for operating the Bank in compliance with the Laws of the Republic of Belarus, including the rules established by the National Bank of the Republic of Belarus.

The financial statements for the year ended 31 December 2016 were authorised for issue on May 25, 2017 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

Acting Chairman of the Management Board
A.V. Plitko

Deputy Chief accountant
E.N. Levshevich

Minsk,
25 May 2017

Statement of Financial Position

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	5	29,601	17,560
Obligatory reserve deposits with the National Bank of the Republic of Belarus		367	581
Derivative financial instruments	6	-	15,347
Loans and receivables		53,966	46,584
Due from banks	7	*795*	*760*
Loans to customers	8	*53,171*	*45,824*
Financial assets available for sale	9	570	570
Financial assets held to maturity	10	8,422	-
Investment property	11	4,197	-
Property, plant and equipment	12	10,133	10,183
Intangible assets	13	638	158
Current tax asset		2	81
Other assets	14	5,729	9,654
TOTAL ASSETS		**113,625**	**100,718**
LIABILITIES			
Financial liabilities at amortized cost		78,452	72,424
Due to banks	15	*2*	*52*
Customer accounts	16	*54,309*	*49,550*
Debt securities issued	17	*5,591*	*5,302*
Finance lease liabilities		*530*	*330*
Subordinated loans	18	*18,020*	*17,190*
Other liabilities	19	958	886
TOTAL LIABILITIES		**79,410**	**73,310**
EQUITY			
Share capital	20	66,887	63,170
Reserve fund		2,980	-
Accumulated loss		(35,652)	(35,762)
Accumulated loss as at the beginning of the year		*(35,762)*	*(31,775)*
Total (loss) / profit for the period		*110*	*(3,987)*
TOTAL EQUITY		**34,215**	**27,408**
TOTAL LIABILITIES AND EQUITY		**113,625**	**100,718**

The accompanying notes on pages 13 to 57 form an integral part of these financial statements.

Acting Chairman of the Management Board
A.V. Plitko

Deputy Chief accountant
E.N. Levshevich

Minsk,
25 May 2017

Statement of Comprehensive Income

	Notes	2016	2015
Interest income	21	11,326	8,805
Interest expense	21	(4,275)	(6,197)
Net interest income		**7,051**	**2,608**
Fee and commission income	22	3,592	3,318
Fee and commission expense	22	(614)	(420)
Net fee and commission income		**2,978**	**2,898**
Net gain / (loss) on operations with derivative financial instruments and foreign currency	23	795	2,814
Net formation / (recovery) of other provisions		1,392	(178)
Net formation / (recovery) of provisions for credit related commitments	19	*78*	*(178)*
Net formation / (recovery) of provisions for other assets		*1,314*	-
Other income	24	953	820
Total operating income		**13,169**	**8,962**
Personnel costs	25	(4,832)	(4,205)
Depreciation and amortization	11-13	(756)	(548)
Administrative expenses	26	(5,115)	(3,449)
Net loss from impairment of other assets and investment property	11, 14	(603)	(1,022)
Net formation of impairment allowance for loans to customers	8	(1,753)	(3,602)
(Loss) / profit before income tax		**110**	**(3,864)**
Income tax expense	27	-	(123)
Net (loss) / profit for the reporting year		**110**	**(3,987)**
Total comprehensive (loss) / income for the reporting year		**110**	**(3,987)**

The accompanying notes on pages 13 to 57 form an integral part of these financial statements.

Acting Chairman of the Management Board
A.V. Plitko

Deputy Chief accountant
E.N. Levshevich

Minsk,
25 May 2017

Statement of Changes in Equity

	Notes	Share capital	Reserve fund	Accumulated loss	Total equity
Balance as at 31 December 2014		51,506	-	(31,775)	19,731
Total comprehensive income / (loss)		**-**	**-**	**(3,987)**	**(3,987)**
Net (loss) / income for the year		-	-	(3,987)	(3,987)
Transactions with owners, recognised directly in equity		**11,664**	**-**	**-**	**11,664**
Increase of share capital	20	11,664			11,664
Balance as at 31 December 2015		**63,170**	**-**	**(35,762)**	**27,408**
Total comprehensive income / (loss)		**-**	**-**	**110**	**110**
Net (loss) / income for the year		-	-	110	110
Transactions with owners, recognised directly in equity		**3,717**	**2,980**	**-**	**6,697**
Increase of share capital	20	3,717	-	-	3,717
Shareholders contributions to cover losses		-	2,980	-	2,980
Balance as at 31 December 2016		**66,887**	**2,980**	**(35,652)**	**34,215**

The accompanying notes on pages 13 to 57 form an integral part of these financial statements.

Acting Chairman of the Management Board
A.V. Plitko

Deputy Chief accountant
E.N. Levshevich

Minsk,
25 May 2017

Statement of Cash Flows

	Notes	2016	2015
Cash flows from operating activities			
Interest income received		10,003	7,609
Interest expenses paid		(4,483)	(6,003)
Fees and commissions received		3,787	3,213
Fees and commissions paid		(608)	(413)
Realised result on financial instruments at fair value through profit or loss		18,040	7,352
Realised result on foreign exchange and precious metals gain		1,702	1,223
Other operating income		953	820
Salary expenses paid		(4,832)	(4,205)
Administrative expenses paid		(5,718)	(3,449)
Cash flows (used in) / received from operating activities before changes in operating assets and liabilities		**18,844**	**6,147**
(Increase) / decrease in operating assets:			
Obligatory reserve deposits with the National Bank of the Republic of Belarus		214	5
Due from banks		(8)	187
Loans to customers		(6,950)	(6,022)
Other assets		220	(221)
Increase / (decrease) in operating liabilities:			
Due to banks		1	(2,983)
Customer accounts		2,961	(515)
Other liabilities		(63)	(164)
Net cash flows used in operating activities before tax		15,219	**(3,566)**
Income tax paid		(4)	(201)
Net cash flows from operating activities		**15,215**	**(3,767)**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		(777)	(121)
Proceeds from sales of property and equipment		-	-
Investments in financial assets available for sale		(8,712)	-
Net cash flows used in investing activities		**(9,489)**	**(121)**
Cash flows from financing activities			
Share issue		3,716	11,664
Proceeds from issue of debt securities		-	4,748
Shareholders contributions in reserve fund to cover losses		2,980	-
(Repayment) of debt securities issued		-	(6,141)
(Repayment) of financial lease obligations		-	(37)
Receipts of subordinated loans		-	12,320
(Repayment) of subordinated loan		-	(17,834)
Net cash flows from financing activities		**6,697**	**4,720**
Net increase in cash and cash equivalents		**12,423**	**832**

	Notes	2016	2015
Effect of exchange differences on cash and cash equivalents		(382)	5,601
Effect of inflation on cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year	**5**	**17,560**	**11,127**
Cash and cash equivalents at the end of the year	**5**	**29,601**	**17,560**

The accompanying notes on pages 13 to 57 form an integral part of these financial statements.

Acting Chairman of the Management Board
A.V. Plitko

Deputy Chief accountant
E.N. Levshevich

Minsk,
25 May 2017

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES OF THE BANK

Reshenie Bank Joint-Stock Company (hereinafter - the "Bank") is a commercial bank established on 9 November 1994 as a closed joint stock entity with participation of foreign capital in accordance with the legislation of the Republic of Belarus. The previous name of the Bank is Closed Joint-Stock Company "Trustbank". The bank was renamed on 8 June 2016 in accordance with the decision of the General Meeting of Shareholders. The Bank operates under a general license of the National Bank of the Republic of Belarus No. 14 to conduct banking operations, updated on 8 June 2016.

The Bank has a license to carry out professional and exchange activities on securities issued by the Ministry of Finance of the Republic of Belarus valid until 2022, as well as a license to carry out activities related to precious metals and precious stones issued by the Ministry of Finance of the Republic of Belarus for five years up to 16 March 2024.

The Bank was established as a universal bank for commercial and retail banking operations on the territory of the Republic of Belarus. The main activities of the Bank are the provision of corporate loans, loans to small and medium-sized businesses and individuals; mobilization of resources in deposits from non-banking and banking organizations and individuals; maintenance of customer accounts; provision of guarantees and letters of credit; operations with cash and settlement operations, operations with securities, currencies and precious metals.

The legal address of the Bank is 11 Ignatenko Str., 220035 Minsk, Republic of Belarus.

The average number of employees of the Bank was 362 as at 31 December 2016 (for reference: as at 31 December 2015 – 356).

Information about the shareholders of the Bank is presented below:

Name	31 December 2016 Interest (%)	31 December 2015 Interest (%)
Joint venture "Intersportproekt" Limited (Republic of Belarus)	21.22	24.31
Joint venture "Saturn-Info" Limited (Republic of Belarus)	16.95	19.42
Alm Investments FZE (United Arab Emirates Free Zone Ras A1 Khaimah,Ras A1 Khaimah)	61.83	56.27
Total	**100.00**	**100.00**

The ultimate controlling owner of the Bank as at 31 December 2016 and 31 December 2015 is Mohammad Ahmad Salem Khalifa Alzaraim A1 Suwaidi, resident of UAE, Dubai.

2. ECOMONIC ENVIRONMENT

The Bank operates primarily within the Republic of Belarus.

Currency transactions and currency control

Foreign currencies, in particular the US Dollar, Euro, Russian rouble, play a significant role in the underlying economics of many business transactions in the Republic of Belarus. The table below shows exchange rates of Belarusian rouble against US Dollar, Euro and Russian rouble:

Reporting date	US Dollar	Euro	Russian rouble
31 December 2016	1.9585	2.0450	0.0324
31 December 2015	1.8570	2.0300	0.0255
31 December 2014	1.1850	1.4380	0.0215

There are currency control regulations designed to promote the commercial utilisation of the Belarusian rouble in the Republic of Belarus. Such regulations place restrictions for enterprises on the conversion of Belarusian roubles into hard currencies and establish mandatory requirements for conversion of hard currency sales to Belarusian roubles.

Financial market transactions

Economic conditions in the Republic of Belarus continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values for financial instruments, which would be determined in an efficient, active market between knowledgeable and willing parties. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

These financial statements reflect the current evaluation by the Bank's management of the impact made by the economic situation in the Republic of Belarus on the activities and financial position of the Bank. Future economic development in the Republic of Belarus largely depends on efficiency of measures taken by the government, and other factors including legislative and political events outside the Bank's control. The management is unable to forecast how these factors can influence financial position of the Bank. The accompanying financial statements do not include any adjustments for the above risk.

3. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

Statement of compliance

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

Going concern

These financial statements have been prepared on a going concern basis.

As at 31 December 2016 the National Bank requires maintaining the size of regulatory capital at a minimum level of 50,190 thousand BYN in relation to the minimum regulatory capital calculated based on the accounting records prepared in accordance with Belarusian legislation for banks, which are to perform banking operations stipulated by Part I Article 14 the Banking Code of the Republic of Belarus.

According to the results of the annual financial statements for 2016 prepared in accordance with Belarusian legislation, the regulatory capital of the Bank as at 31 December 2016 amounted to 54,648 thousand BYN.

The regulatory capital of the Bank in 2016 was formed due to the increase in the share capital, which increased by 3,717,000 BYN or by 14.6% due to the contribution of the shareholder of the Bank by Alm Investments FZE (UAE) to the share capital of the Bank in the total amount 1.5 million US Dollars and 806.5 thousand Belarusian rubles.

For the year ended 31 December 2016 the Bank has incurred a net income of 110 thousand BYN.

Functional and presentation currency

Belarusian Ruble is the functional currency of the Bank and the presentation currency of these financial statements.

In July 2016 the official denomination of currency - Belarusian ruble at a ratio of 10,000 to 1 - took place in the Republic of Belarus.

These financial statements are presented in thousand of Belarusian Rubles if not stated otherwise (hereinafter – "thousand BYN").

Use of estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the management of the Bank to make estimates and assumptions that affect reported amounts of assets and liabilities of the Bank, disclosure of contingent assets and liabilities at the reporting date and reported income and expenses for the reporting period.

The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, when the carrying amount of assets and liabilities in the statement of financial position cannot be measured in other way. Although these estimates are based on the management's best knowledge of current events and actions of the Banks, actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the periods in which the estimates are reviewed and in any future periods affected.

The significant areas at estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on amounts recognized in the financial statements include impairment allowances on loans to customers, determination of fair value of financial instruments.

Allowance for impairment on loans to customers

The specific counterparty component of the total allowances for impairment applies to loans evaluated individually for impairment and is based upon management's estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

Impairment for loans, which are assessed collectively for impairment, is based on the available information, which evidences the decrease of the expected future cash flows on the loan group. The Bank's assumptions about estimated losses are based on past performance, past customer behaviour, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses. When assessing credit risk and impairment allowances, the Bank applies the same estimates and judgements to loan commitments as to loans.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated based on historical loss experience for assets with credit risk characteristics similar to those in the group and result of recovery of overdue amounts. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period in which the historical loss experience was based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Determination of fair value for financial instruments

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

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Determination of fair value for assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in the accounting policy. For financial instruments that have no active market fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation techniques include discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by independent market participants acting at arm's length.

Currency forward contracts included in derivatives do not have active market and are valued using the discounted cash flow model. The fair value of the derivatives is determined based on the observable market interest rates of financial instruments with similar level of credit risk and maturity applicable to respective currencies, and exchange rates effective in the Republic of Belarus.

Application of new and revised standards and interpretations

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

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Bank is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively. These amendments do not have any impact on the Bank as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation.

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset.

As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Bank, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and do not have any impact on the Bank as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements must apply that change retrospectively. These amendments do not have any impact on the Bank's financial statements.

Annual Improvements 2012-2014 Cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Bank's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

The materiality requirements in IAS 1

That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated.

That entities have flexibility as to the order in which they present the notes to financial statements

That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

These amendments do not have any impact on the Bank.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

4. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

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

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

Financial instruments

The Bank classifies its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which these financial assets were acquired, and their financial characteristics. Subsequent reclassifications are allowed only in cases stipulated by IFRSs. Financial instruments are classified into the categories listed below.

Financial assets and liabilities measured at fair value and changes therein are recognised in profit or loss are financial assets and liabilities classified by the Bank as at fair value through profit or loss or held-for-trading financial assets and liabilities. Held-for-trading financial instruments are financial instruments that the Bank acquires in order to profit from short-term fluctuations in the price of financial instruments, including derivatives.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the intent and ability to hold to maturity.

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

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

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

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

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

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

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

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities on the statement of financial position when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognised using settlement date accounting.

All financial assets and financial liabilities are initially recognised at fair value. Costs directly attributable to the acquisition or issue, except for financial assets at fair value through profit or loss are added to the initial cost.

Derecognition of financial assets

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

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

Financial assets and liabilities at fair value through profit or loss

Derivative financial instruments represent financial assets and liabilities measured at fair value through profit or loss. They include swaps on purchase/sale of foreign currency. The Bank enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values are obtained from quoted market prices and the discounted cash flow model. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the statement of comprehensive income for the year in which they arise under net gain on financial instruments at fair value through profit or loss.

Loans and receivables

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

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

Initially, loans to customers are recorded at the initial cost of funds provided, net of transaction costs. Loans, issued at interest rates, which are different from market rates, are measured as at the issue date and at fair value, which represents the future cash flows of the loan, discounted at market rates for similar loans. The difference between the fair value and the nominal value of loans is represented in the statement of profit and loss as the effect of the initial recognition of financial instruments at fair value. Subsequently loans are carried at amortized cost using the effective interest method. Loans to customers are accounted for net of allowance for impairment.

Loans to customers are recognized when loans are issued to borrowers. Loans for which during the reporting period the terms were reviewed and which would otherwise be past due, are recorded in accordance with the new (revised) conditions. The Bank does not purchase loans from third parties.

Due from banks

In the normal course of business the Bank maintains advances and deposits for various periods with other banks. Balances due from banks with fixed maturity are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Those that do not have fixed maturities are carried at amortised cost based on expected maturities. Amounts due from banks are carried net of allowance for impairment losses, if any.

The difference between the nominal amount of funds transferred and the fair value of allocation at a rate below the market rate, is recorded in the allocation period as an adjustment on initial recognition. Discounting is performed using approximate market rates effective at the time of funds (deposits) allocation, the adjustment is reflected in the profit and loss under the statement account "Net effect of initial recognition of financial instruments at fair value".

Financial assets available-for-sale

Financial assets available-for-sale represent equity and debt securities. Securities are initially recorded at fair value, and any transaction costs directly attributed to the acquisition of the financial assets.

Subsequently the securities are measured at fair value, with such re-measurement recognised in other comprehensive income, as a separate component of equity until sold when gain/loss, previously recorded in equity, recycles through the statement of comprehensive income, except for interest income on debt securities accrued using the effective interest method, which is recognised directly in the statement of comprehensive income. Dividends received on equity securities are recognised separately in the statement of comprehensive income, when the right to their receipt is established and receipt is probable.

The Bank uses quoted market prices to determine the fair value for the Bank's debt investments available-for- sale. Non-marketable debt securities are stated at amortised cost less impairment losses, if any, unless fair value may be reliably measured. Non-marketable equity securities are stated at cost.

Financial assets impairment

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

Impairment of funds due from banks and loans to customers

Funds due from banks and loans to customers are assessed individually for objective evidence of impairment for individually significant financial assets and collectively for financial assets, which are not individually significant.

Assets that are individually assessed for impairment and for which an impairment loss is to be recognised are not included in a collective assessment of impairment.

If the Bank determines that there is no objective evidence of impairment of a financial asset individually assessed for impairment, the asset is included in a group of financial assets with similar credit risk characteristics and is assessed for impairment on a collective basis.

For the purpose of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors. The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The main criteria, based on which the objective evidence for the impairment loss on loans and advances to banks and customers assessed for impairment on a collective basis are identified, is the available information, which evidences the decrease of expected future cash flows on the financial assets group after their initial recognition, which can be reasonably determined, that cannot be attributed to the individual financial assets in this group. The objective evidences can include unfavorable changes in the borrowers' payment status in the group and also national or local economic conditions attributable to the default to meet obligations related to assets within the group.

If there is any objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset shall be reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

To arrive at the present value of estimated cash flows, future cash flows are discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. The present value of estimated cash flows of financial assets received as collateral is the amount, which may be recovered through the sale of collateral fewer expenses on transferring and selling of collateral irrespective of possibility of repossession of collateral.

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

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed by adjusting the allowance in the statement of profit or loss.

The assets, which may not be repaid and in relation to which all the necessary procedures for full or partial repayment are completed and the final amount of losses are determined, are written off against the allowance for impairment losses.

Financial liabilities

Financial liabilities, except for those at fair value through profit and loss, are classified as the financial liabilities accounted at amortized cost. Financial liabilities recognized at amortized cost are initially recognized at fair value, net of transaction costs incurred. Subsequently, they are measured at amortized cost.

In the case of issuance of financial liabilities at rates which are above (below) than market rates, the difference between the fair and nominal value of financial liabilities is recognized in the statement of profit and loss as the effect of the initial recognition of financial instruments at fair value. Subsequently, the value of liabilities represented in the statement of financial position, is adjusted taking into account the amortization of the initial expense and related expenses are represented as interest expenses in the statement of profit and loss.

For loans received from shareholders at rates different from market rates, the difference between the nominal amount of the consideration received and the fair value is represented in the statement of changes in equity in the period of purchase of the instrument as an additional contribution to the equity. Subsequently, the value of such instruments is amortized and the related costs are represented in the statement of profit and loss in interest expenses using the effective interest method.

Financial liabilities, accounted at amortized cost, include loans and deposits due to banks, customer accounts, and other borrowed funds.

Due to banks. Loans and advances from other banks are recognized when loans are placed and deposits provided by other banks from banks-counterparties.

Customer accounts. Customer accounts include non-derivative financial obligations to individuals, public and corporate customers.

Other borrowed funds. Other borrowed funds include debt securities issued and subordinated loans received by the Bank.

Derecognition of financial liabilities

Derecognition of a financial liability is performed the case of execution, cancellation or expiry of the relevant liability. When replacing an existing financial liability with other liability to the same lender under material different terms, or in the case of material changes in the terms of an existing liability, the original liability is derecognised and the new liability is recognised with the recognition of the difference in the value of liabilities in the statement of comprehensive income.

Offset of financial assets and liabilities

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

Property and equipment

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

The Bank reviews the carrying amounts of property and equipment at each reporting date for evidence of impairment. If such evidence exists, the Bank evaluates the recoverable amount of property and equipment, which is determined as the higher of its fair value less costs to sell and its value in use, which is the present value of the future cash flows expected to be derived from an asset. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount and difference is recognized in statement of comprehensive income as property and equipment impairment loss.

Gains and losses on disposals of property and equipment are determined based on their carrying values and recognised in the statement of comprehensive income as operating expenses.

Repair and maintenance costs are charged to the statement of comprehensive income as incurred.

Depreciation is charged from the moment the property and equipment is put into operation. Depreciation is charged on a straight line basis during the following useful lives:

- buildings -20-50 years;
- transport - 8 years;
- office and computer equipment- 5-50 years.

Depreciation method, residual value and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

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

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

Intangible assets include software, licenses and other intangible assets.

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

Intangible assets with a definite useful life are amortized during the useful life of 1 to 10 years and are evaluated for impairment when there is an evidence of possible impairment of intangible assets. Useful lives and method of amortization of intangible assets are reviewed at least annually at the end of the reporting period.

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

Repossessed assets

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

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

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

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

Leased assets

Finance leases are leases that transfer substantially all the risks and benefits connected with ownership of an asset to the lessee.

The Bank recognises finance leases in assets and liabilities in the statement of financial position as at the date of commencement of the lease in the amount equal to the fair value of the leased property or the present value of the minimum lease payments, if lower than fair value. In calculating the present value of the minimum lease payments, the internal rate of interest on the lease is used as a discount factor, if the definition of such a rate is possible. In other cases, a borrowing rate of the Bank is used. Initial direct costs are recognized in the asset. Lease payments are apportioned between the financing expenses and repayments. Financing expenses for the rental period are included in the periods in such a way as to insure representation of expenses at a constant periodic interest rate charged for the liability balance for each reporting period.

Any other lease is recognised as operating lease. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Impairment of non-financial assets

The carrying amount of non-financial assets of the Bank, except for deferred tax assets, are reviewed at each reporting date to determine any indication of impairment. If there is any such evidence of impairment, the recoverable amount of the asset is estimated.

The recoverable amount of other non-fmancial assets is the higher value of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of cash and the risks specific to the asset.

For an asset that, independently from other assets, do not generate cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

All impairment losses on non-financial assets are recognised as an expense in the statement of comprehensive income and are reversed only if there were changes in the estimates used to determine the recoverable amount. Any reversal of impairment losses is performed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined after the deduction of depreciation, if there were no recognition of impairment losses.

Share capital

Ordinary shares are classified as equity.

Share capital, contributed after this date is accounted for at cost. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Provisions

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

The provisions are measured at the present value of the lower of the expected cost that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Short-term employee benefits

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

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labor and Social Protection Ministry of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

Loan commitments

The Bank assumes obligations of a credit nature, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when a customer does not fulfill its obligations to third parties and have the same level of credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in agreed amount when certain conditions are met; they are collaterised with the corresponding deliveries of goods or deposits and, accordingly, have lower risk level, than direct loan granting.

Loans commitments represent an unused part of loans, guarantees or letters of credit authorized for issue. In respect of the commitments to issue loans, the Bank potentially has the risk to sustain losses in the amount equal to the total amount of the unused commitments. The Bank controls maturity terms, as usually long-term obligations bear higher credit risk level than the short-term ones.

A financial guarantee liability is recognised initially at fair value net of related transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other commitments are recognised when losses are considered probable and can be measured reliably. Such provisions are recognised in other liabilities.

Taxation

Income taxes comprise current and deferred tax. Current income tax expense is based on the taxable profit for the year and is computed in accordance with the legislation of the Republic of Belarus.

The current tax expense is based on taxable profit for the year using tax rates that have been enacted or substantively enacted by the statement of financial position date. Current income tax balances include amounts due to state budget or due from state budget in relation to the taxable profit and deductible expenses of the current or previous periods.

Deferred tax is the tax expected to be payable or recoverable on 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

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

Deferred tax is calculated at the tax rates that are enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited to other comprehensive income , in which case the deferred tax is also dealt with in other comprehensive income.

Taxes other than income tax, which are stipulated by the legislation of the Republic of Belarus, are accounted for in operating expenses.

Income and expense recognition

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

Once a financial asset or a group of similar financial assets has been written down (partially or fully) as a result of an impairment loss, interest income is recognised using interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss.

Foreign currency transactions

Foreign currency transactions are accounted for at the exchange rates set by the National Bank of the Republic of Belarus at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency (foreign currencies) are translated into Belarusian Rubles at the appropriate rate of exchange prevailing at the reporting date. Retranslation gains and losses are included in net gain on foreign exchange operations.

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

Future changes in accounting policies

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments Introduction

Overview

In July 2014, the IASB issued IFRS 9 Financial Instruments, the standard that will replace IAS 39 for annual periods on or after 1 January 2018, with early adoption permitted. In 2015 the Bank set up a multidisciplinary implementation team ('the Team') with members from its Global Risk, Finance and Operations teams to prepare for IFRS 9 implementation ('the Project'). The Project is sponsored by the Chief Risk and Financial officers, who regularly report to the Bank's Supervisory Board and is managed within the Bank's transformation framework. The Project has clear individual work streams within two sub-teams for classification and measurement and impairment. The sub-teams have individual budgets with six key phases: the initial assessment and analysis, design, build, testing the system, parallel running in 2017, and go live in 2018. The initial assessment and analysis stage was completed at the end of 2015 for all work streams. Both the classification and measurement and impairment sub-teams have now finished the analysis and design phases and have assessed the corresponding disclosure requirements.

Classification and measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories will be replaced by: fair Value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortised cost. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortised cost or fair value through OCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement.

The accounting for financial liabilities will largely be the same as the requirements of IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements will be presented in OCI with no subsequent reclassification to the income statement, unless an accounting mismatch in profit or loss would arise.

Having completed its initial assessment, the Bank has concluded that:

- The majority of loans and advances to banks, loans and advances to customers, cash collateral for reverse repo agreements and cash settlement balances with clearing houses that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9

- Financial assets and liabilities held for trading and financial assets and liabilities designated at FVPL are expected to be continue to be measured at FVPL

- The majority of the debt securities classified as available for sale under IAS 39 are expected to be measured at amortised cost or FVOCI. Some securities, however, will be classified as FVPL, either because of their contractual cash flow characteristics or the business model within which they are held

- Debt securities classified as held to maturity are expected to continue to be measured at amortised cost.

Hedge accounting

IFRS 9 allows entities to continue with the hedge accounting under IAS 39 even when other elements of IFRS become mandatory on 1 January 2018. Based on its analysis, the Bank has decided to continue to apply hedge accounting under IAS 39.

Impairment of financial assets

IFRS 9 will also fundamentally change the loan loss impairment methodology. The standard will replace IAS 39's incurred loss approach with a forward-looking expected loss (ECL) approach. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

In comparison to IAS 39, the Bank expects the impairment charge under IFRS 9 to be more volatile than under IAS 39 and to result in an increase in the total level of current impairment allowances.

The Bank groups its loans into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology, as described below|:

- Stage 1 - Performing loans: when loans are first recognised, the Bank recognises an allowance based on 12-month expected credit losses.

- Stage 2 - Underperforming loans: when a loan shows a significant increase in credit risk, the Bank records an allowance for the lifetime expected credit loss.

- Stage 3 - Impaired loans: the Bank recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Bank accrues interest income on the amortised cost of the loan net of allowances.

The Bank will record impairment for FVOCI debt securities, depending on whether they are classified as Stage 1, 2, or 3, as explained above. However, the expected credit losses will not reduce the carrying amount of these financial assets in the statement of financial position, which will remain at fair value. Instead, an amount equal to the allowance that would arise if the asset were measured at amortised cost will be recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss.

For 'low risk' FVOCI debt securities, the Bank intends to apply a policy which assumes that the credit risk on the instrument has not increased significantly since initial recognition and will calculate ECL as explained in Stage 1 below. Such instruments will generally include traded, investment grade securities where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Bank will not consider instruments to have low credit risk simply because of the value of collateral. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the Bank's other financial instruments.

Stage 1

Under IAS 39 the Bank has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses). These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under IFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis. In comparison to the emergence periods of 3, 6 and 12 months under IAS 39 , the 12 months ECL allowance amount is expected to be higher than the current IBNI allowance. Based on the analysis performed, the 12-month ECL allowance calculated on the 2016 portfolio would have been higher than the IBNI allowance under IAS 39.

Stage 2

IFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to IAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under IAS 39. If the new standard were applied as at 2016, this would result in a substantial additional increase in the impairment allowance.

The Bank considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, or if the bank expects to grant the borrower forbearance, or the facility is placed on the Bank’s watch list.

It is the Bank’s policy to evaluate additional available reasonable and supportive forwarding-looking information as further additional drivers.

When estimating lifetime ECLs for undrawn loan commitments, the Bank will:

- Estimate the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment; and

- Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the loan commitment draws down that expected portion of the loan and the cash flows that the entity expects to receive if that expected portion of the loan is drawn down

- For financial guarantee contracts, the Bank will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

- For revolving facilities such as credit cards and overdrafts, the Bank measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased and that serve to mitigate losses.

The Bank intends to apply a policy that if the transfer into Stage 2 had been initially triggered by indicators other than the movement in the probability of default, the loan can only return to Stage 1 after a probation period of two years

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired. The criteria of such objective evidence are the same as under the current IAS 39 methodology explained. Accordingly, the Bank expects the population to be generally the same under both standards.

Loans in Stage 3, where the Bank calculated the IAS 39 impairment on an individual basis will continue to be calculated on the same basis as described , but collateral values will be adjusted to reflect the amounts that can be expected to be realised, giving consideration to the possibility that these will be lower in more adverse macroeconomic scenarios.

It is expected that loans in stage 3 will be the same as those considered to be impaired in accordance with IAS 39. The impairment calculation will be the same as for Stage 2 loans with the probability of default set to 100%.

When forbearance results in the derecognition of the original loan, the new loan will be classified as originated credit-impaired.

Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired after a probation period of two years.

Predictive information

The Bank will incorporate forward-looking information in both the assessment of significant increase in credit risk and the measurement of ECLs.

The Bank considers forward-looking information such as macroeconomic factors (e.g., unemployment,

GDP growth, interest rates and house prices) and economic forecasts. To evaluate a range of possible outcomes, the bank intends to formulate three scenarios: a base case, a worse case and a better case.

The base case scenario represents the more likely outcome resulting from the bank's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Bank will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

The Bank will use internal information coming from internal economic experts, combined with published external information from government and private economic forecasting services such as Good Forecast Agency. Both the Risk and Finance management teams will need to approve the forward-looking assumptions before they are applied for different scenarios.

Limitation of estimation techniques

The models applied by the Bank may not always capture all characteristics of the market at a point in time as they cannot be recalibrated at the same pace as changes in market conditions. Interim adjustments are expected to need to be made until the base models are updated. Although the Bank will use data that is as current as possible, models used to calculate ECLs will be based on data that is one month in arrears and adjustments will be made for significant events occurring prior to the reporting date to. The governance over such adjustments is still in development.

Capital management

The Bank is in the process of evaluating how the new ECL model will impact the Bank's ongoing regulatory capital structure and further details will be provided once the assessment is complete. Based on the analysis to date, the Bank anticipates a negative effect on its regulatory capital. The magnitude of the effect will depend, amongst other things, on whether the capital rules will be amended to reflect IFRS 9 or to include transition provisions for the effect of IFRS 9.

On-going risk management, operation and finance structure

The Bank will present the proposed operating model to the Supervisory Board in February 2017 and further details will be provided once the new operating structure has been approved.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

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

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

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

Amendments to IAS 12 Income Taxes

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

Amendments to IAS 7 Statement of Cash Flows

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

The Bank is currently evaluating the impact.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following amounts:

	31 December 2016	31 December 2015
Correspondent accounts and overnight deposits with other banks	23,563	8,800
Cash in hand	4,074	3,158
Cash balances with the National Bank of the Republic of Belarus (less obligatory reserve deposit)	1,964	5,602
Total cash and cash equivalents	**29,601**	**17,560**

As at 31 December 2016 and 31 December 2015 cash and cash equivalents have been placed in the National Bank of the Republic of Belarus and other banks with a credit rating B or no credit rating.

6. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December financial instruments at fair value through profit or loss are represented as follows:

	31 December 2016			31 December 2015		
	Notional amount (currency acquired)	Fair value, thousand BYN		Notional amount (currency acquired)	Fair value, thousand BYN	
		Asset	Liability		Asset	Liability
SWAP transactions USD / BYN	-	-	-	USD 10,097.60	15,347	-
Итого	-	-	-	-	**15,347**	-

The presence of these derivatives leads to the Bank's exposure to credit risk. The maximum credit risk of the asset which appeared as a result of the fair value measurement of derivative financial instrument equals to its carrying amount reported in the statement of financial position. As at 31 December 2015 derivative financial assets are presented by transactions with the National Bank.

7. DUE FROM BANKS

	31 December 2016	31 December 2015
Not impaired or past due		
Loans and advances to banks (credit rating B-)	809	766
Total loans and advances to banks	**809**	**766**
Less allowance for impairment loss	(14)	(6)
Total net balances due from financial institutions	**795**	**760**

(a) Restricted balances with other banks

As at 31 December 2016 and 2015 due from other banks included guarantee deposits placed by the Bank in JSC "Belarusbank" for operations with letters of credit and bankcards in the amount of 795 thousand BYN and 760 thousand BYN, respectively.

(b) Concentration of placements with other banks

As at 31 December 2016 and 31 December 2015 the Bank had no balances with banks which balances exceeded 10% of the Bank's equity.

(c) Maximum exposure to credit risk

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

8. LOANS TO CUSTOMERS

	31 December 2016	31 December 2015
Commercial loans	37,641	35,433
Loans to individuals	18,817	15,216
Total loans to customers	**56,458**	**50,649**
Less allowance for impairment loss	(3,287)	(4,825)
Total net balances due from financial institutions	**53,171**	**45,824**

(a) Credit quality of commercial loan portfolio

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

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans with undetermined impairment	-	-	-	0.0%
Individually impaired loans	32,555	(2,835)	29,720	8.7%
Collectively impaired loans	5,086	(303)	4,783	6.0%
Total commercial loans	**37,641**	**(3,138)**	**34,503**	**8.3%**

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

	Gross loans	Impairment	Net loans	Impairment to gross loans
Loans with undetermined impairment	-	-	-	0.0%
Individually impaired loans	31,338	(3,538)	27,800	11.3%
Collectively impaired loans	4,095	(104)	3,991	2.5%
Total commercial loans	**35,433**	**(3,642)**	**31,791**	**10.3%**

(a)(i) Analysis of collateral for commercial loans (before impairment)

The following tables below provide the analysis of commercial loan portfolio by types of collateral as at 31 December 2016 and 2015:

	31 December 2016	Share in loan portfolio, %	31 December 2015	Share in loan portfolio, %
Mortgage	30,303	80.5%,	22,575	63.7%
Eqiupment and vehicles	1,996	5.3%,	3,539	10.0%
Guarantee	1,652	4.4%,	4,096	11.6%
Other collateral	2,624	7.0%,	2,587	7.3%
Unsecured loans	1,066	2.8%,	2,636	7.4%
Total commercial loans	**37,641**	**100.0%**	**35,433**	**100.0%**

(a)(ii) Ageing of impaired loans (before impairment)

	31 December 2016	31 December 2015
Loans with undetermined impairment	-	-
Not overdue	37,466	32,439
Overdue less than 1 year	175	2,994
Overdue more than 1 year	-	-
Total impaired loans	**37,641**	**35,433**
Total loans to customers	**37,641**	**35,433**

(a)(iii) Industry analysis of commercial loan portfolio

	31 December 2016	Share in loan portfolio, %	31 December 2015	Share in loan portfolio, %
Manufacturing	12,816	34.0%	8,356	23.6%
Real estate	12,034	32.0%	15,410	43.5%
Trade	7,216	19.2%	6,067	17.1%
Leasing	1,588	4.2%	310	0.9%
Communication	397	1.1%	478	1.3%
Other	3,590	9.5%	4,812	13.6%
Total commercial loans	**37,641**	**100.0%**	**35,433**	**100.0%**

(b) Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals as at 31 December 2016:

	Gross loans	Allowance for impairment	Net loans	Impairment to gross loans %
Overdraft loan	12,843	(102)	12,741	0.8%
Consumer loans	5,771	(45)	5,726	0.8%
Mortgage loans	199	(2)	197	1.0%
Car loans	4	-	4	0.0%
Total collectively impaired loans	**18,817**	**(149)**	**18,668**	**0.8%**
Total loans to individuals	**18,817**	**(149)**	**18,668**	**0.8%**

The following table provides information on the credit quality of loans to individuals as at 31 December 2015:

	Gross loans	Allowance for impairment	Net loans	Impairment to gross loans %
Overdraft loan	12,632	(1,118)	11,514	8.9%
Consumer loans	2,334	(59)	2,275	2.5%
Mortgage loans	248	(6)	242	2.5%
Car loans	2	-	2	5.3%
Total collectively impaired loans	**15,216**	**(1,183)**	**14,033**	**7.8%**
Total loans to individuals	**15,216**	**(1,183)**	**14,033**	**7.8%**

(b) (i) Analysis of collateral for loans to individuals (before impairment)

The following table provides the analysis of loans to individuals by types of collateral as at 31 December 2016 and 2015:

	31 December 2016	Share in loan portfolio, %	31 December 2015	Share in loan portfolio, %
Overdraft loans				
Unsecured loans	12,843	100.0%	12,632	100.0%
Guarantee	-	0.0%	-	0.0%
Other collateral	-	0.0%	-	0.0%
Total	**12,843**	**100.0%**	**12,632**	**100.0%**
Consumer loans				
Unsecured loans	5,771	100.0%	2,334	100.0%
Guarantee	-	0.0%	-	0.0%
Other collateral	-	0.0%	-	0.0%
Total	**5,771**	**100.0%**	**2,334**	**100.0%**
Mortgage loans				
Mortgage	199	100.0%	248	100.0%
Unsecured loans	-	0.0%	-	0.0%
Guarantee	-	0.0%	-	0.0%
Other collateral	-	0.0%	-	0.0%
Total	**199**	**100.0%**	**248**	**100.0%**
Car loans				
Unsecured loans	4	100.0%	2	100.0%
Guarantee	-	0.0%	-	0.0%
Other collateral	-	0.0%	-	0.0%
Total	**4**	**100.0%**	**2**	**100.0%**
Total loans to individuals	**18,817**		**15,216**	

The amounts shown in the table above represent the carrying value of gross loans recognised in the statement of financial position rather than the fair value of collateral.

(b)(ii) Ageing of impaired loans (before impairment)

	31 December 2016	31 December 2015
Not overdue	18,264	14,101
Overdue less than 1 month	254	432
Overdue from 1 to 6 month	299	683
Overdue from 6 to 12 month	-	-
Total loans to individuals	**18,817**	**15,216**

(c) Allowance for impairment

Movements in the loan impairment allowance are as follows:

	31 December 2016	31 December 2015
Balance as at 1 January	4,825	2,965
Formation for the year	1,745	3,602
Write-off of loans against allowance for Impairment	(3,283)	(1,742)
Balance as at 31 December	**3,287**	**4,825**

(d) Significant credit exposures

As at 31 December 2016 and 2015, the Bank had five and five borrowers, respectively, whose loan balances exceeding 10% of the Bank's equity. The gross value of these loans as at 31 December 2016 and 2015 was 18,538 thousand BYN and 18,416 thousand BYN, respectively.

(e) Maximum exposure to credit risk

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

9. FINANCIAL ASSETS AVAILABLE FOR SALE

Investments in equity securities at 31 December 2016 and 2015 is presented as follows:

Name	Activity	Country of registration	Share in capital, %	31 December 2016	31 December 2015
JV "MAZ-MAN"	Manufacturing	Belarus	7.37	8	8
CJSC "Belzarubezhstroy"	Construction	Belarus	10.00	536	536
JV "VENBELCOM"	Foreign trade	Venezuela	19.60	26	26
Total				**570**	**570**

Investments in equity securities are classified as financial assets available-for-sale. The amount of dividends received for 2016 and 2015 amounted to 207 thousand BYN and 34 thousand BYN, respectively, and is accounted for in other income.

10. FINANCIAL ASSETS HELD TO MATURITY

	31 December 2016	31 December 2015
Debt securities held to maturity	8,422	-
Total	**8,422**	**-**

As at 31 December 2016 financial assets held to maturity are bonds issued by National bank of the Republic of Belarus.

As at 31 December 2015 the Bank had no financial assets held to maturity.

11. INVESTMENT PROPERTY

The movement of investment property for the year ended at 31 December 2016 is presented as follows:

	31 December 2016
Cost	
As at 31 December 2015	-
Additions in 2016	4,985
Impairment in 2016	(626)
Disposals in 2016	-
As at 31 December 2016	**4,359**
Accumulated depreciation	
As at 31 December 2015	-
Charge for 2016	185
Impairment in 2016	(23)
Disposals in 2016	-
As at 31 December 2016	**162**
Net book value	
As at 31 December 2015	-
As at 31 December 2016	**4,197**

Investment property includes real estate and other property received as compensation for loans, which the Bank leases.

As at 31 December 2015 this property was included in other assets of the Bank.

12. PROPERTY, PLANT AND EQUIPMENT

The movement of property , plant and equipment for the year ended at 31 December 2016 is presented as follows:

	Buildings	Vehicles	Office and computer equipment, other	Total
Cost				
As at 31 December 2015	12,595	531	3,805	16,931
Additions in 2016	2	-	387	389
Disposals in 2016	-	-	(229)	(229)
As at 31 December 2016	**12,597**	**531**	**3,963**	**17,091**
Accumulated depreciation				
As at 31 December 2015	3,102	457	3,189	6,748
Charge for 2016	224	38	130	392
Disposals in 2016	-	-	(182)	(182)
As at 31 December 2016	**3,326**	**495**	**3,137**	**6,958**
Net book value as at 31 December 2015	**9,493**	**74**	**616**	**10,183**
Net book value as at 31 December 2016	**9,271**	**36**	**826**	**10,133**

The movement of property, plant and equipment for the year ended at 31 December 2015 is presented as follows:

	Buildings	Vehicles	Office and computer equipment, other	Total
Cost				
As at 31 December 2014	12,566	647	4,034	17,247
Additions in 2015	29	11	91	131
Disposals in 2015	-	(127)	(320)	(447)
As at 31 December 2015	**12,595**	**531**	**3,805**	**16,931**
Accumulated depreciation				
As at 31 December 2014	2,874	545	3,307	6,726
Charge for 2015	228	39	156	423
Disposals in 2015	-	(127)	(274)	(401)
As at 31 December 2015	**3,102**	**457**	**3,189**	**6,748**
Net book value as at 31 December 2014	**9,692**	**103**	**727**	**10,522**
Net book value as at 31 December 2015	**9,493**	**74**	**616**	**10,183**

13. INTANGIBLE ASSETS

The movement of intangible assets for the year ended at 31 December 2016 is presented as follows:

	Intangible assets	Investments in intangible assets	Total
Cost			
As at 31 December 2015	932	-	932
Additions in 2016	578	81	659
Disposals in 2016	-	-	-
As at 31 December 2016	**1,510**	**81**	**1,591**
Accumulated depreciation			
As at 31 December 2015	774	-	774
Charge for 2016	179	-	179
Disposals in 2016	-	-	-
As at 31 December 2016	**953**	**-**	**953**
Net book value as at 31 December 2015	**158**	**-**	**158**
Net book value as at 31 December 2016	**557**	**81**	**638**

The movement of intangible assets for the year ended at 31 December 2015 is presented as follows:

	Intangible assets	Investments in intangible assets	Total
Cost			
As at 31 December 2014	869	-	869
Additions in 2015	63	-	63
Disposals in 2015	-	-	-
As at 31 December 2015	**932**	-	**932**
Accumulated depreciation			
As at 31 December 2014	610	-	610
Charge for 2015	164	-	164
Disposals in 2015	-	-	-
As at 31 December 2015	**774**	-	**774**
Net book value as at 31 December 2014	**259**	-	**259**
Net book value as at 31 December 2015	**158**	-	**158**

14. OTHER ASSETS

	31 December 2016	31 December 2015
Accrued commission income	254	194
Lease payments	111	90
Accounts receivable	62	55
Other financial assets	**427**	**339**
Repossessed collateral	2,666	6,516
Prepayments on taxes (other than income tax)	1,821	1,977
Advances paid	394	750
Prepayments on capital investments	295	19
Deferred expenses	35	46
Other	91	7
Other non-financial assets	**5,302**	**9,315**
Total other assets	**5,729**	**9,654**

In 2015, other non-financial assets include property, which is a commercial real estate and equipment received by the Bank as debt service repayment through repossession of collateral or as compensation for credit and other contracts, and are intended for subsequent sale. Due to the decline in the active real estate market, the Bank leases these properties. In 2016, this property is transferred from other assets to investment property. The cost of the property is assessed for impairment using the comparative method without the involvement of an independent appraiser. Pricing information was obtained from public sources, comparison was performed and as the carrying amount of the assets exceeded the market value, the impairment is recognised. Thus, in 2015 the Bank incurred the impairment loss of 1 022 thousand BYN. In 2016, an impairment loss on investment property amounted to 603 thousand BYN (Note 11).

The Bank has no restrictions on the realization of existing assets, as well as has no contractual commitments for the acquisition, construction or improvement of other property, its repair, maintenance or improvement.

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

15. DUE TO BANKS

	31 December 2016	31 December 2015
Correspondent accounts of other banks	2	2
Loans and deposits from other banks	-	50
Total due to banks	**2**	**52**

As at 31 December 2016 and 31 December 2015, the Bank had no banks, whose balance exceeded 10% of the Bank's equity.

16. CUSTOMER ACCOUNTS

	31 December 2016	31 December 2015
Corporate customers		
- current accounts	17,565	10,259
- term deposits	6,525	6,334
Individuals		
- current accounts	6,406	12,305
- term deposits	23,813	20,652
Total customer accounts	**54,309**	**49,550**

As at 31 December 2016 and 31 December 2015, the Bank had one customer, whose balance exceeded 10% of the Bank's equity. These balances amounted to 5,212 thousand BYN and 3,156 thousand BYN, respectively.

17. DEBT SECURITIES ISSUED

Holder	Interest rate	Maturity date	Currency	31 December 2016	31 December 2015
JLLC "Intersportproekt	6.5%	12.12.2017	USD	4,492	4,255
FPTMUE "Belsplav"	6.5%	02.03.2017	USD	1,099	1,047
Total debt securities issued				**5,591**	**5,302**

As at 31 December 2016 and 31 December 2015 debt securities in the amount of 4,492 thousand BYN and 4,255 thousand BYN, respectively, were acquired by the Bank's related parties.

18. SUBORDINATED LOANS

In 2009 the Bank received a subordinated loan from CJSC "Belzarubezhstroy" in the amount of 9,750,000 US dollars with the interest rate LIBOR + 6%. The loan was repaid in accordance with the contract on 15 December 2015.

In May 2014 the Bank received a subordinated loan from the shareholder company JLLC "Intersportproekt" in the amount of 1,150,000 Euros. As at 31 December 2016 and 2015 the amount of debt in the equivalent amounted to 2,352 and 2,334 thousand BYN. Maturity date under the contract terms is 31 March 2021 and the interest rate is set at 5% per annum.

In June 2015 the Bank received a subordinated loan from the shareholder company Alm Investments FZE in the amount of 3,500,000 US dollars. As at 31 December 2016 and 2015 the amount of debt in the equivalent amounted to 15,668 and 14,885 thousand BYN. Maturity date under the contract terms is 30 June 2021 and the interest rate equals to LIBOR + 6% per annum.

In accordance with the contractual terms the creditor shall not meet its requirements to the borrower before meeting requirements of other creditors in full.

19. OTHER LIABILITIES

	31 December 2016	31 December 2015
Other payables	378	365
Accrued other operating expenses	168	53
Accrued commission expenses	15	14
Other	14	9
Other financial liabilities	**575**	**441**
Provision on credit related commitments	118	197
Provision for unpaid leave	104	111
Accruals on other taxes, except for income tax	104	70
Payments to the Individuals' Deposit Guarantee Fund	45	49
Other	12	18
Other non-financial liabilities	**384**	**445**
Total other liabilities	**958**	**886**

The provision for other liabilities is represented by allowance for potential losses from transactions not reflected on the balance sheet. Movement of the provision is as follows:

	2016	2015
Allowance for loans commitments		
Balance as at 1 January	197	19
Formation for the year	(79)	178
Write-off against allowance	-	-
Balance as at 31 December	**118**	**197**

20. SHARE CAPITAL

As at 31 December 2016 and 2015 the issued and fully paid share capital was as follows:

	31 December 2016	31 December 2015
Number of ordinary shares	11,911	10,397
Nominal value of 1 share, rubles	*2,454.5*	*2,454.5*
Nominal value of shares	29,236	25,519
Hyperinflation effect	37,651	37,651
Total share capital	**66,887**	**63,170**

The increase in the share capital in 2016 and 2015 occurred due to the additional issue of 1,514 and 4,752 ordinary shares in the amount of 2,454.5 BYN per share and the total amount of 3,717 and 11,664 thousand BYN, respectively, which were acquired by ALM Investments FZE (UAE).

As at 31 December 2016 and 2015 all ordinary shares are fully paid carry one vote and give equal right to receive dividends and participate in residual assets. All ordinary shares have equal rights with respect to net assets.

In accordance with Belarusian legislation, the Bank distributes profit as dividends or transfers profit to the fund accounts based on financial statements prepared in accordance with the national accounting rules.

As at 31 December 2016 and 2015 the reserve fund was recorded in equity in the amount of 5,663 and 2,690 thousand BYN, respectively, according to the national accounting rules. The reserve fund represents funds reserved in accordance with the legislation of the Republic of Belarus, and contributed by shareholders to cover losses on the Bank's operations. The size of the fund should be 10% of the Bank's regulatory capital as required by the National Bank of the Republic of Belarus.

21. INTEREST INCOME AND EXPENSES

	2016	2015
Interest income on loans and receivables	11,302	8,788
Loans to customers	*10,861*	*8,711*
Due from banks	*44*	*77*
Financial assets held to maturity	*397*	*-*
Other interest income	24	17
Total interest income	**11,326**	**8,805**
Interest expenses on financial liabilities at amortised cost	(4,275)	(6,196)
Customer accounts and subordinated loans	*(3,544)*	*(5,031)*
Due to banks	*(367)*	*(833)*
Own securities issued	*(364)*	*(332)*
Other interest expense	-	(1)
Total interest expenses	**(4,275)**	**(6,197)**
Net interest income	**7,051**	**2,608**

22. COMMISSION INCOME AND EXPENSES

	2016	2015
Commission income		
Commissions on bank cards	2,091	2,818
Customer transactions fees	1,429	369
Commission for the services of the lease of depository cells	31	26
Foreign exchange fees	3	62
Other	38	43
Total commission income	**3,592**	**3,318**
Commission expenses		
Commissions on clients transactions	(357)	(265)
Commissions on banks transactions	(108)	(79)
Fees for acceptance and transfer of payments by RUP “Belpost»	(73)	(33)
Commissions on transactions in AIS “Raschet”	(69)	(19)
Foreign exchange fees	(3)	(4)
Other	(4)	(20)
Total commission expenses	**(614)**	**(420)**
Net commission income	**2,978**	**(2,898)**

23. NET (LOSS)/GAIN ON FINANCIAL INSTRUMENTS AND FOREIGN EXCHANGE

	2016	2015
Net gain/(loss) with foreign currency and precious metals transactions	617	(6,942)
Net gain on transactions with derivatives	178	9,756
Net gain on financial instruments and foreign exchange transactions	**795**	**2,814**

24. OTHER INCOME

	2016	2015
Income from leasing	416	396
Dividends and other income from available for sale investments	207	34
Penalties received	169	(253)
Income tax refund for 2015	123	-
Net gain on disposal of property and equipment	(26)	9
Income from repayment of loans previously written off	-	536
Other	64	98
Total other income	**953**	**820**

25. PERSONNEL COSTS

	2016	2015
Remuneration	3,623	3,150
Social security contributions	1,209	1,055
Total personnel costs	**4,832**	**4,205**

26. ADMINISTRATIVE EXPENSES

	2016	2015
Taxes other than on income taxes	1,135	477
Software expenses	883	768
Professional services (advisory, audit, legal, etc.)	840	458
Rent, utilities and repair expenses	779	435
Security	291	161
Repairs and maintenance	237	183
Payments to the Individual Deposits Security Fund	199	269
Communications and information services	182	108
Transport expenses	123	69
Advertising and marketing	114	121
Insurance	31	22
Office expenses	5	60
Other	296	318
Total administrative expenses	**5,115**	**3,449**

27. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Belarus, which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

For the years ended 31 December 2015 and 31 December 2014 the income tax rates for Belarusian banks were 25% and 18%, respectively.

Deferred income taxes represent the net tax effect of temporary differences between the carrying amount of the assets and liabilities for financial reporting purposes and the amount defined for taxation purposes.

Temporary differences as at 31 December 2016 and 2015 are as follows:

	2016	2015
Deductible temporary differences		
Other assets and liabilities	2,154	6,970
PPE and intangible assets	6,079	4,226
Loans to banks and customers	-	2,380
Derivative financial instruments	-	178
Investment property	789	-
Total deductible temporary differences	**9,022**	**13,754**
Deferred tax asset at the tax rate of 25%	**2,256**	**3,438**
Temporary differences subject to taxation		
Loans to banks and customers	(66)	-
Total temporary differences subject to taxation	**(66)**	-
Deferred tax liability at the tax rate of 25%	**(17)**	-
Unrecognised part of the tax asset	(2,239)	(3,438)
Total net asset / (liability)	-	-

The comparison of the theoretical tax expense to the actual income tax expense for the years ended 31 December 2016 and 31 December 2015 is represented below.

	2016	2015
(Loss)/profit before tax	110	(3 864)
Statutory tax rate	25.0%	25.0%
Benefit of tax at the statutory tax rate of income tax	28	(966)
PPE revaluation effect	(254)	(808)
Net non-deductible costs	1 425	105
Change in the unrecognised deferred tax asset	(1,199)	1,792
Income tax	**-**	**123**

Expenses for income tax are as follows:

	2016	2015
Expenses for income tax	-	123
Expenses for deferred income taxes	-	-
Expenses for income tax	**-**	**123**

The movement of deferred tax assets is as follows:

	2016	2015
Deferred tax asset		
Balance as at 1 January	3,438	1,647
Accrual for the year	(1,199)	1,791
Unrecognised part of the tax asset	(2,239)	(3,438)
Balance as at 31 December	-	-

The Bank does not recognise a deferred tax asset due to the uncertainty associated with the probability of receiving taxable profit against which a deductible temporary difference may be offset.

28. RISK MANAGEMENT

Risk management in the Bank is performed with respect to financial risks (credit, market, country, currency risks, liquidity and interest rate risk), as well as operational risks. The main objective of the financial risk management is to minimize the Bank's exposure to the financial risks providing appropriate level of profitability of the Bank's operations. The assessment of the risk taken is also a basis for optimal capital distribution taking into account risks, transaction pricing and performance measurement. Operational and legal risk management should provide compliance with internal regulations and procedures to minimize the risks.

Credit risk. The Bank takes on credit risk, i.e. the risk that one party to a financial instrument will fail to discharge an obligation, or will discharge it in an untimely manner or not in the full amount, and cause the other party to incur a financial loss. The main purpose of credit risk management is the improvement of the quality of loan portfolio of the Bank through minimization of the risk.

To manage credit risk the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by product. Limits of credit risk of carrying out active operations within the framework of authority on the products and the borrowers are approved by the Supervisory Board of the Bank and can be reviewed by the management of the Bank if required within the framework of their authority. Limits are determined for types of loans, categories of borrowers or groups of interrelated borrowers, for the loans in certain areas, for the most risky directions of lending. Actual compliance with the limits is monitored on a daily basis at the level of heads of structural subdivisions and the Department of Risk Management System Development. In case of non compliance or breach of limit, the heads of structural subdivisions of the Bank inform the Chairman of the Management Board of the Bank.

Credit risk management performed by respective departments includes also regular analysis of the ability of existing and potential borrowers to repay principle and, if necessary, changes in credit limits. Moreover, the Bank manages credit risk by obtaining collateral and guarantees of companies and individuals. The Bank analyzes loans by maturities and monitors overdue balances. The respective departments submit the information on overdue loans.

Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

(a) granting loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as represented in the statement of financial position;

(b) entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount as presented in the statement of financial position;

(c) granting financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on;

(d) making a loan commitment that is irrevocable over the life of the facility or is revocable only in response to a material adverse change. If the issuer cannot settle the loan commitment net in cash or another financial instrument, the maximum credit exposure is the full amount of the commitment.

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

Control of compliance with the established rules and credit risk management procedures is carried out within the system of internal control. Those charged with carrying out control are the Supervisory Board of the Bank, the Management Board, the Chairman of the Management Board, Deputy Chairmen of the Management Board, the Chief Accountant of the Bank, Internal Audit Department, the Department of Risk Management System Development as well as the heads of all structural subdivisions of the Bank, whose decisions affect the level of credit risk.

Market risk. Market risk covers interest rate risk, currency risk, pricing risks on debt and equity instruments, to which the Bank is exposed. The strategy of this risk management and the direct control are performed under the supervision of the Management Board and the Financial Committee of the Bank.

The Management Board of the Bank sets limits in respect of the level of risk taken. Compliance with limits is controlled on a daily basis.

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

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 fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Bank determines limits by currencies and for financial statements as a whole. Limits are set at the end of each day as well as during the day. Limits are monitored for compliance on a daily basis. Treasury Department controls the net open currency position and limits on each currency based on the accounting data for statement of financial position and assets and liabilities not recognised in the statement of financial position on the everyday basis.

The Bank's exposure to foreign currency exchange rate risk as at 31 December 2016 is presented in the table below. Assets and liabilities of the Bank are shown in the table at their carrying amount by currencies:

31 December 2016	BYN	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	3,276	1,540	24,645	140	**29,601**
Obligatory reserve deposits with the National Bank of the Republic of Belarus	367	-	-	-	**367**
Due from banks	-	-	795	-	**795**
Loans to customers	20,080	7,311	25,780	-	**53,171**
Available for sale assets	570	-	-	-	**570**
Financial assets held-to-maturity	2,497	-	5,925	-	**8,422**
Other assets	413	2	12	-	**427**
Total financial assets	**27,203**	**8,853**	**57,157**	**140**	**93,353**
Liabilities					
Due to banks	1	1	-	-	**2**
Customer accounts	12,874	3,448	37,917	70	**54,309**
Debt securities issued	-	-	5,591	-	**5,591**
Finance lease liabilitiess	530	-	-	-	**530**
Subordinated loans	-	2,352	15,668	-	**18,020**
Other liabilities	449	3	123	-	**575**
Total financial liabilities	**13,854**	**5,804**	**59,299**	**70**	**79,027**
Open currency position	**13,349**	**3,049**	**(2,142)**	**70**	**14,326**

As 31 December 2016 there is no effect of financial assets at fair value through profit or loss on currency position. The Bank's exposure to foreign currency exchange rate risk as at 31 December 2015 is presented in the table below.

31 December 2015	BYN	EUR	USD	Other currencies	Total
Assets					
Cash and cash equivalents	6,889	1,912	8,257	502	**17,560**
Obligatory reserve deposits with the National Bank of the Republic of Belarus	581	-	-	-	**581**
Due from banks	-	-	760	-	**760**
Loans to customers	18,293	7,397	20,134	-	**45,824**
Available for sale assets	570	-	-	-	**570**
Financial assets held-to-maturity	-	-	-	-	**-**
Other assets	322	-	17	-	**339**
Total financial assets	**26,655**	**9,309**	**29,168**	**502**	**65,634**
Liabilities					
Due to banks	51	-	1	-	**52**
Customer accounts	8,987	4,418	36,090	55	**49,550**
Debt securities issued	-	-	5,302	-	**5,302**
Finance lease liabilitiess	330	-	-	-	**330**
Subordinated loans	-	2,335	14,855	-	**17,190**
Other liabilities	157	2	282	-	**441**
Total financial liabilities	**9,525**	**6,755**	**56,530**	**55**	**72,865**
Open currency position	**17,130**	**2,554**	**(27,362)**	**447**	**(7,231)**

Effect of financial assets at fair value through profit or loss on currency position:

31 December 2015	BYN	EUR	USD	Other currencies	Total
Accounts payable on derivative contracts	3,657	-	-	-	**3,657**
Accounts receivable on derivative contracts	-	-	19,004	-	**19,004**
Net position on derivatives	**(3,657)**	**-**	**19,004**	**-**	**15,347**
Total open currency position	**13,473**	**2,554**	**(8,358)**	**447**	**8,144**

As at 31 December 2016 and 31 December 2015, the Bank was in compliance with the regulatory limits of foreign exchange risk, established by the National Bank. Therefore, the total open currency position does not exceed the established limit 20% of the regulatory capital.

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

The following table details the Bank's sensitivity to a 30% increase and 10% decrease in the main convertible currencies against the Belarusian rubles.

	31 December 2016		31 December 2015	
	Effect on income before income tax expense	**Effect on equity**	**Effect on income before income tax expense**	**Effect on equity**
Strengthening of US Dollar by 30%	(642)	(482)	(2,507)	(1,881)
Weakening of US Dollar by 10%	214	161	836	627
Strengthening of Euro by 30%	915	686	766	575
Weakening of Euro by 10%	(305)	(229)	(255)	(192)

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The analyses on the strengthening or weakening of currencies are also based on the adjusted carrying value of financial instruments and the open currency position resulting from the initial recognition of those instruments at fair value, whereas the nominal values of those instruments are affected by changes in foreign currency rates.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Bank is exposed to the risk due to daily requirements to have funds for performing settlement transactions on customer accounts, for deposits withdrawals, for loan granting, for settlements on guarantees executed and on derivatives, which are settled in cash. The Bank does not reserve funds for simultaneous fullflllment of all those obligations as based on the practical experience the level of cash and cash equivalents required for meeting obligations can be forecasted with a sufficient probability. The liquidity risk is managed at all levels in the Bank.

The Bank maintains a stable financing base, which comprises mainly current accounts and deposits of corporate customers and individuals, loans and advances from other banks, and invests funds in diversified portfolios of liquid assets in order to have the possibility without delays to meet unforeseen liquidity requirements.

Financial Committee is the main body which determines and applies the Bank's policy on the management of active and passive transactions aimed at the increase of interest and non-interest income of the Bank along with the maintenance of the appropriate liquidity, consistency of assets and liabilities on maturity dates, compliance with the prudential standards set by the National Bank of the Republic of Belarus and minimization of the financial risk influence on the Bank's operations; performs the appropriate policy in the area of liquidity, exercises control and makes decisions on effective and qualitative liquidity management.

Financial Committee performs the general liquidity management and coordinates the performance of organisation departments, tries to reduce the imbalance between assets and liabilities with floating and fixed interest rate. All the participants of internal control system are involved in the process of permanent monitoring (analysis) of short-term liquidity of the Bank's balance, its dynamics and control over the value of liquidity, according to their authority stated in local legal acts and administrative acts of the Bank.

Information about the maturities of financial assets and liabilities is provided in the Treasury. Treasury provides an adequate portfolio of short-term liquid assets, mainly composed of deposits in banks and other interbank instruments, to maintain a sufficient level of liquidity in the entire Bank. The Treasury Department controls the daily liquidity position and regularly performs stress-test on liquidity based on different scenarios, which include ordinary and negative market changes.

The tables below have been drawn up to detail the remaining contractual maturity of financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay, and the result of exchange of a derivative financial instruments.

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

31 December 2016	Up to 1 month	1 month to 6 months	6 months to 1 year	More than 1 year	Total	Carrying amount
Financial liabilities						
Due to banks	2	-	-	-	**2**	**2**
Customer accounts	31,660	9,306	2,776	11,742	**55,484**	**54,309**
Debt securities issued	30	4,479	1,120	-	**5,629**	**5,591**
Finance lease obligations	6	31	35	458	**530**	**530**
Subordinated loans	10	49	59	18,409	**18,527**	**18,020**
Other liabilities	575	-	-	-	**575**	**575**
Total future outflows of financial liabilities	**32,283**	**13,865**	**3,990**	**30,609**	**80,747**	**79,017**
Loan commitments	1,171	543	470	457	**2,641**	-

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

31 December 2015	Up to 1 month	1 month to 6 months	6 months to 1 year	More than 1 year	Total	Carrying amount
Financial liabilities						
Due to banks	52	-	-	-	**52**	**52**
Customer accounts	27,253	3,037	5,219	19,263	**54,772**	**49,550**
Debt securities issued	65	170	227	5,350	**5,812**	**5,302**
Finance lease obligations	12	11	12	295	**330**	**330**
Subordinated loans	95	464	1,028	21,560	**23,147**	**17,190**
Other liabilities	441	-	-	-	**441**	**441**
Total future outflows of financial liabilities	**27,918**	**3,682**	**6,486**	**46,468**	**84,554**	**72,865**
Loan commitments	642	811	646	-	**2,099**	**-**

The Bank has sufficient amount of liquid and current assets to meet its current liabilities as they fall due.

Interest rate risk. The interest rate risk is the risk that the fair value or fixture cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes of interest rates the interest margin can be also decreased or generate losses. Interest rate risk exposed to all financial assets and liabilities of the Bank, which has a floating interest rate.

The Bank is subject to interest risk mainly on loans granted at floating interest rates in amounts and for periods which differ from the amounts and periods of fund raising at floating interest rates. In practice interest rates, as a rule, are set for a short period. Moreover, although interest rates are mostly fixed in agreements for both assets and liabilities they are often reviewed based on mutual agreement in accordance with a current market situation in the short term.

Cash flow sensitivity analysis to changes in interest rates

Analysis of the sensitivity of profit or loss for the period to changes in market interest rates is based on a simplified scenario of reduction or increase of yield curves by 100 basis points and positions on interest bearing assets and liabilities existing as at 31 December 2016 and 31 December 2015, and can be represented as follows:

	31 December 2016		31 December 2015	
	Impact on income before income tax expense	Impact on equity	Impact on income before income tax expense	Impact on equity
Increase of interest rates by 100 basis points	(275)	(206)	197	148
Decrease of interest rates by 100 basis points	275	206	(197)	(148)

29. CAPITAL MANAGEMENT

The Bank manages its capital to ensure compliance with prudential requirements and ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes. The management of the Bank reviews capital ratio adequacy and exposure to risks of each assets levels.

The requirement of the National Bank of the Republic of Belarus for the minimum amount of regulatory capital calculated on the basis of accounts prepared in accordance with the Belarusian legislation for banks is to maintain the amount of regulatory capital at a minimum level of 45 million BYN with a quarterly adjustment to the value of the consumer price index. The regulatory value of regulatory capital as of January 1, 2017 was 50.19 million BYN.

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

	31 December 2016	31 December 2015
Basic capital	31,801	25,026
Additional capital	22,847	24,038
Total regulatory capital	**54,648**	**49,064**
Risk-weighted assets	113,269	99,335
Regulatory capital adequacy ratio	**48.2%**	**49.4%**

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

	31 December 2016	31 December 2015
Basic capital	33,467	31,237
Additional capital	18,130	13,203
Total regulatory capital	**51,597**	**44,440**
Risk-weighted assets	82,191	81,998
Regulatory capital adequacy ratio	**62.8%**	**54.2%**

30. CONTINGENT ASSETS AND LIABILITIES

Loan commitments. In the normal course of business, the Bank is a party to financial instruments, which are not recognised in the statement of financial position and carry risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not presented in the statement of financial position. The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking commitments not recognised in the statement of financial position as it does for on-balance operations.

Commitments of the Bank were as following:

	31 December 2016	31 December 2015
Unused credit lines	2,494	2,099
Guarantees	147	-
Total credit commitments	**2,641**	**2,099**

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

	31 December 2016	31 December 2015
Up to 1 year	132	34
1 to 5 years	118	-
Total lease commitments	**250**	**34**

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The best evidence of the fair value is the quotation of financial instrument in an active market. As there is no active market for the main part of financial instruments, their fair value is determined based on the current market situation and specific risks attributable to the specific instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

Below the fair value of financial instruments as at 31 December 2016 and 2015 is presented:

	Carrying amount at of 31 December 2016	Fair value at of 31 December 2016	Carrying amount at of 31 December 2015	Fair value at of 31 December 2015
Financial assets				
Cash and cash equivalents	29,601	29,601	17,560	17,560
Obligatory reserve deposits with the National Bank of the Republic of Belarus	367	367	581	581
Financial assets at fair value throughprofit and loss	-	-	15,347	15,347
Due from banks	795	795	760	760
Loans to customers	53,171	53,171	45,824	45,824
Available for sale financial assets	570	570	570	570
Financial assets held-to-maturity	8,422	8,422	-	-
Other assets	427	427	339	339
Total financial assets	**93,353**	**93,353**	**80,981**	**80,981**
Financial liabilities				
Due to banks	2	2	52	52
Customer accounts	54,309	54,309	49,550	49,550
Debt securities issued	5,591	5,591	5,302	5,302
Finance lease liabilities	530	530	330	330
Subordinated loans	18,020	18,020	17,190	17,190
Other liabilities	575	575	441	441
Total financial liabilities	**79,027**	**79,027**	**72,865**	**72,865**

Due from banks. The fair value of funds placed at floating interest rates represents their value in the statement of financial position. The estimated fair value of placements under fixed interest rates is based on the calculation of discounted cash flows by applying interest rates of the financial instruments with credit risk and similar maturities. The Bank's management believes that the fair value of funds as at 31 December 2016 and 2015 did not significantly differ from their carrying value. This fact is evidenced by the short-term nature of instruments and the existing practice to review interest rates to reflect current market conditions. As the result interest on the major part of balances is accrued at rates which approximate market interest rates.

Loans to customers. Loans to customers represents less impairment allowances. The fair value of loans to customers represents the discounted estimated cash flows. In order to determine the fair value, estimated cash flows are discounted at current interest rates. The Bank's management believes that the fair value of loans to customers as at 31 December 2016 and 2015 does not significantly differ from loans carrying value in the statement of financial position. This fact is evidenced by the existing practice to review interest rates to reflect current market conditions. As the result interest on the major part of balances is accrued at rates which approximate market interest rates.

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled:

	2016			2015		
	Within 1 year	More than 1 year	Total	Within 1 year	More than 1 year	Total
Assets						
Cash and cash equivalents	29,601	-	29,601	17,560	-	17,560
Obligatory reserve deposits with the National Bank of the Republic of Belarus	367	-	367	581	-	581
Financial assets at fair value through profit or loss	-	-	-	15,347	-	15,347
Due from banks	-	795	795	-	760	760
Loans to customers	13,856	39,315	53,171	15,019	30,805	45,824
Financial assets available for sale	-	570	570	-	570	570
Financial assets held-to-maturity	8,422	-	8,422	-	-	-
Investment property	-	4,197	4,197	-	-	-
Property and equipment	-	10,133	10,133	-	10,183	10,183
Intangible assets	-	638	638	-	158	158
Deferred income tax asset	2	-	2	81	-	81
Other assets	3,063	2,666	5,729	3,138	6,516	9,654
Total assets	**55,311**	**58,314**	**113,625**	**51,726**	**49,472**	**100,718**
Liabilities						
Due to banks	2	-	2	52	-	52
Customer accounts	42,700	11,609	54,309	33,513	16,037	49,550
Debt securities issued	5,591	-	5,591	-	5,302	5,302
Finance lease liabilities	72	458	530	35	295	330
Subordinated loans	-	18,020	18,020	-	17,190	17,190
Other liabilities	958	-	958	886	-	886
Total liabilities	**49,323**	**30,087**	**79,410**	**34,486**	**38,824**	**73,310**
Net position	**5,988**	**28,227**	**34,215**	**17,240**	**10,168**	**27,408**

33. RELATED PARTIES TRANSACTIONS

In the ordinary course of business the Bank performs transactions with its shareholders, management of the Bank and other related parties. These transactions include settlements, loan granting, deposits attraction, financing of trading and foreign currency transactions. Based on the Bank's policy all transactions with related parties are performed on terms as those with third parties.

Balances as at the end of the year and transactions for 2016 and 2015 with related parties are presented as follows:

	31 December 2016	31 December 2015
Loans to customers		
Loans to customers	7,221	5,657
Allowance for impairment on loans to customers	(659)	-
Total	**6,562**	**5,657**

	31 December 2016	31 December 2015
Customer accounts	10,790	2,095
Subordinated loans	18,020	17,190
Debt securities issued	4,492	4,255
Total	**33,302**	**23,540**

The income and expenses on transactions with related parties for 2016 and 2015 are presented below:

	2016	2015
Intrest income and expenses		
Interest income	1,070	418
Interest expenses	(1,375)	(1,081)
Total	**(305)**	**(663)**

	2016	2015
Remuneration to key management staff	454	369
Total	**454**	**369**

34. UNCERTAINTIES

Business environment

During 2016 the National Bank of the Republic of Belarus continued to apply the policy of financial market stabilization. To increase the efficiency of the refinancing rate as an instrument of monetary policy, since January 2016 the NBRB has been gradually reducing interest rates on instruments of liquidity regulation from 25% to 18% at the year-end.

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

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

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

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

During 2016 the Republic of Belarus continued to increase the national debt. The external state debt as of 1 January 2017 amounted to 13.6 billion US dollars, by increasing from the beginning of the year by 1,2 billion US dollars, or by 9.6%.

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

The remaining increase in the external state debt is mainly related to a net raising of funds by the Government and the banks of the Russian Federation and the banks of the People's Republic of China.

In June 2016, the Moody's Agency confirmed the sovereign rating of the Republic of Belarus at the level of Caa1 having revised the rating from "negative" to "stable", basing on the improvement of the foreign liquidity position of Belarus.

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

Legal proceedings

In the normal course of business, the Bank is subject to legal claims and complaints. Management believes that the probable liabilities (if any) arising from such claims or complaints will not have a material adverse effect on the financial position or financial performance of the Bank in future.

Taxation

Belarusian tax legislation and regulatory documents, as well as other operational issues, including foreign exchange and customs legislation and regulatory documents are being developed. Legislation and regulatory documents allow for different interpretations by local, regional and national authorities and other public bodies. Cases of different interpretations are frequent. At the same time, there is a risk that transactions and interpretations that have not been previously questioned may be questioned by authorities in future. Fiscal periods remain open to review by the authorities for an indefinite period of time. These facts determine the existence of more significant tax risks than the ones that are normally presented in countries with a more developed tax system; however, this risk is reducing with time.

Determination of the amount of unasserted claims that may arise as a result of any adverse circumstances (if any) is unreasonable.

As of 31 December 2016 management of the Bank believes that its interpretation of the applied norms of the legislation is reasonable and that the Bank's position in relation to tax legislation, as well as currency and customs legislation will be sustained.

35. SUBSEQUENT EVENTS

On 18 January, 15 February, 15 March и 19 April 2017 the National Bank of the Republic of Belarus decreased the refinancing rate to 17%, 16%, 15% и 14% per annum, respectively.

On 15 February 2017, the required amounts of obligatory reserves with the National Bank of the Republic of Belarus changed as follows: for funds raised in national currency the amount decreased from 7.5% to 4%, and for funds raised in currency - increased from 7.5% to 11%.

In February 2017, international rating agency Fitch Ratings confirmed the "B-" long-term rating with a stable outlook to the Republic of Belarus. The short-term issuer foreign and local currency default ratings were confirmed at "B", and the country threshold was confirmed at "B-".