BELGAZPROMBANK

Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2016

BELGAZPROMBANK

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
Belorussian-Russian Belgazprombank Joint Stock

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Belorussian-Russian Belgazprombank Joint Stock (the "Bank"), which comprise the balance sheet as at 31 December 2016, the income statement, statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Irina Vereschagina
Partner
Director of KPMG LLC

27 February 2017

Details of the audited entity
Name: Belorussian-Russian Belgazprombank Joint Stock
Registration details: registered by the National Bank of the Republic of Belarus 19 August 1991,
Registration number in the Unified State Register of entities and individual entrepreneurs No. 100429079
Legal address: 60/2 Pritytsky St., Minsk, 220121, Republic of Belarus

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

BELGAZPROMBANK

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	5, 31	349,400	310,846
Interest expense	5, 31	(171,128)	(187,170)
NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		178,272	123,676
Impairment losses on interest-bearing assets	6, 31	(42,698)	(97,609)
Recovery of assets previously written off		11,512	5,563
NET INTEREST INCOME		147,086	31,630
Net foreign exchange profit	7	654	45,191
Net gain on operations with financial instruments at fair value through profit or loss	8, 31	44,823	81,262
Fee and commission income	9, 31	41,071	41,520
Fee and commission expense	9, 31	(8,025)	(7,054)
Net gain on operations with precious metals	10	1,605	619
Provision for other transactions	6	(1,149)	(113)
Other income	11, 31	5,797	4,170
NET NON-INTEREST INCOME		84,776	165,595
OPERATING INCOME		231,862	197,225
OPERATING EXPENSE	12, 31	(120,039)	(99,261)
PROFIT BEFORE TAX		111,823	97,964
Income tax expense	13	(16,172)	(16,909)
NET PROFIT		**95,651**	**81,055**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
27 February 2017
Minsk

Chief Accountant
I.A. Patapava
27 February 2017
Minsk

The notes on pages 10-68 form an integral part of these financial statements.

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Year ended 31 December 2016	Year ended 31 December 2015
NET PROFIT	95,651	81,055
OTHER COMPREHENSIVE INCOME		
Items that may be reclassified subsequently to profit or loss:		
Transfer of comprehensive loss to income statement upon disposal of investments available for sale	(1,878)	(823)
Change in fair value of investments available for sale	7,769	5,244
Income tax	(1,294)	109
TOTAL OTHER COMPREHENSIVE INCOME	4,597	4,530
TOTAL COMPREHENSIVE INCOME	**100,248**	**85,585**

On behalf of the Management Board:

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V.D. Babaryka
27 February 2017
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I.A. Patapava
27 February 2017
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BELGAZPROMBANK

BALANCE SHEET AS AT 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Notes	31 December 2016	31 December 2015
ASSETS:			
Cash and cash equivalents	14, 31	274,951	283,959
Precious metals		460	591
Securities at fair value through profit or loss	15	-	72,821
Derivative financial instruments, assets	16, 31	1,628	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	17	9,108	72,062
Loans to customers	18, 31	1,931,975	1,793,447
Investments available for sale	19, 31	740,178	580,418
Non-current assets held for sale	21	37,942	2,232
Property, equipment and intangible assets	20	146,261	135,794
Investment property	22	454	458
Current income tax asset		-	28
Other assets	23, 31	29,189	27,504
TOTAL ASSETS		**3,172,146**	**3,017,878**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	16, 31	623	679
Due to banks and other financial institutions	24, 31	650,900	474,749
Customer accounts	25, 31	1,639,725	1,825,847
Debt securities issued	26	70,756	57,577
Current income tax liability		3,022	-
Deferred income tax liability	13	3,309	833
Other liabilities	27, 31	11,075	7,758
Subordinated loans	28, 31	334,901	262,165
Total liabilities		2,714,311	2,629,608
EQUITY:			
Share capital	29	377,140	313,009
Investments available for sale revaluation at fair value reserve		6,485	1,888
Retained earnings		74,210	73,373
Total equity		457,835	388,270
TOTAL LIABILITIES AND EQUITY		**3,172,146**	**3,017,878**

On behalf of the Management Board:

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27 February 2017
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BELGAZPROMBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Notes	Share capital	Investments available for sale revaluation at fair value reserve	Retained earnings	Total equity
31 December 2014		**313,009**	**(2,642)**	**15,322**	**325,689**
Comprehensive income					
Net profit		-	-	81,055	81,055
Other comprehensive income for the year, net of income tax					
Investments available for sale revaluation at fair value reserve					
Net change of fair value		-	5,244	-	5,244
Comprehensive income reclassified to income statement		-	(823)	-	(823)
Tax related to other comprehensive income	13	-	109	-	109
Total other comprehensive income for the year		-	4,530	-	4,530
Total comprehensive income for the year		**-**	**4,530**	**81,055**	**85,585**
Transactions with shareholders					
Dividends paid	29	-	-	(23,004)	(23,004)
Total transactions with shareholders		**-**	**-**	**(23,004)**	**(23,004)**
31 December 2015		**313,009**	**1,888**	**73,373**	**388,270**
Comprehensive income					
Net profit		-	-	95,651	95,651
Other comprehensive income for the year, net of income tax					
Investments available for sale revaluation at fair value reserve					
Net change of fair value		-	7,769	-	7,769
Comprehensive income reclassified to income statement		-	(1,878)	-	(1,878)
Tax related to other comprehensive income	13	-	(1,294)	-	(1,294)
Total other comprehensive income for the year		-	4,597	-	4,597
Total comprehensive income for the year		**-**	**4,597**	**95,651**	**100,248**
Transactions with shareholders					
Dividends paid	29	-	-	(30,683)	(30,683)
Increase of share capital	29	64,131	-	(64,131)	-
Total transactions with shareholders		**64,131**	**-**	**(94,814)**	**(30,683)**
31 December 2016		**377,140**	**6,485**	**74,210**	**457,835**

On behalf of the Management Board:

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V.D. Babaryka
27 February 2017
Minsk

Chief Accountant
I.A. Patapava
27 February 2017
Minsk

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit		95,651	81,055
Adjustments:			
Allowance for impairment losses on interest-bearing assets	6	42,698	97,609
Provision for other transactions	6	1,149	113
Net change in fair value of derivative financial instruments		(991)	(19,729)
Net change in fair value of precious metals		51	17
Revaluation of precious metals balance sheet items	10	(1,222)	-
Net change in fair value of securities at fair value through profit or loss		-	(6,983)
Effect of assets recognition at non-market rate		379	589
Depreciation of property and equipment, intangible assets and investment real estate		13,935	7,166
Loss/(gain) from sale of property, equipment and non-current assets held for sale		86	(288)
Accrual/(recovery) of payables to employees		836	(115)
Net interest income		(178,272)	(123,676)
Net change in accruals of commission and penalties		(547)	(1,466)
Profit on disposal of investments available for sale	11	(1,878)	(823)
Income tax expense	13	16,172	16,909
Foreign exchange differences, net	7	5,533	(12,734)
Cash flows from operating activities before changes in operating assets and liabilities		(6,420)	37,644
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum mandatory reserve deposit with the National Bank of the Republic of Belarus		2,980	(699)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions		66,834	(50,066)
Precious metals		80	(25)
Securities at fair value through profit or loss		76,926	(8,197)
Derivative financial instruments		47,810	120,045
Loans to customers		(128,989)	(154,370)
Other assets		(1,206)	(4,143)
Increase/(decrease) in operating liabilities:			
Loans from the National Bank of the Republic of Belarus		-	(9,619)
Due to banks and other financial institutions		212,462	(183,562)
Customer accounts		(251,296)	97,070
Other liabilities		4,665	(5,101)
Interest received		356,844	303,767
Interest paid		(168,537)	(177,937)
Income tax paid		(11,940)	(24,474)
Cash inflow/(outflow) from operating activities		200,213	(59,667)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian Rubles)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(25,422)	(61,644)
Proceeds on sale of property, equipment and intangible assets		562	690
Proceeds on sale of non-current assets held for sale		1,315	2,376
Purchase of investments available for sale		(1,110,330)	(845,476)
Proceeds on disposal of investments available for sale		979,373	640,108
Net cash outflow from investing activities		(154,502)	(263,946)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of subordinated loans		-	226,552
Proceeds from debt securities issued		59,587	37,990
Repayment of debt securities issued		(48,689)	(84 826)
Repayment of loans received from international financial institutions		(50,621)	(57,438)
Dividends paid	29	(30,683)	(23,004)
Net cash (outflow)/inflow from financing activities		(70,406)	99,274
NET DECREASE IN CASH AND CASH EQUIVALENTS		(24,695)	(224,339)
Effect of changes in foreign exchange rates on cash and cash equivalents		15,687	80,323
CASH AND CASH EQUIVALENTS, beginning of the year	14	283,959	427,975
CASH AND CASH EQUIVALENTS, end of the year	14	274,951	283,959

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
27 February 2017
Minsk

Chief Accountant
I.A. Patapava
27 February 2017
Minsk

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(in thousands of Belarusian Rubles unless otherwise stated)

1. ORGANIZATION

Belorussian-Russian Belgazprombank Joint Stock ("Belgazprombank" or the "Bank") initially named as "Bank Ekorazvitie" was established and registered with the National Bank of the Republic of Belarus (the "National Bank") as an open joint stock company in 1990. Subsequently, the Bank was renamed into "Bank Olymp". After acquisition of controlling interest by RAO "Gazprom" (Russian Federation) and CJSC "Gazprombank" (Russian Federation) the Bank was reorganized into an open joint stock company "Belgazprombank" and was registered by the National Bank of the Republic of Belarus on 28 November 1997.

The Bank conducts its business under the license for performing banking operations # 8 issued by the National Bank on 23 May 2013. The Bank accepts deposits from the public and organizations, grants loans, transfers payments in the Republic of Belarus and abroad, exchanges currencies, carries out operations with securities and provides other banking services to its corporate customers and individuals.

The registered office of the Bank is located at 60/2 Pritytsky St., Minsk, 220121, Republic of Belarus.

As at 31 December 2016 and 2015 the structure of the Bank's share capital was as follows:

Shareholders	**%**
PJSC "GAZPROM" (the Russian Federation)	49.66
Gazprombank (Joint-stock Company) (the Russian Federation)	49.66
JSC "Gazprom transgaz Belarus" (the Republic of Belarus)	0.50
State Committee on Property of the Republic of Belarus	0.18
Other	less than 0.01
Total	**100.00**

In 2014 sectoral sanctions of OFAC and the EU Council were introduced against some entities of the Russian Federation including Gazprombank (Joint-stock Company) and PJSC "GAZPROM". These sanctions apply to companies in which the interests of persons and entities that are currently included in sanction lists are 50% or more. Belgazprombank is not subject to any sanctions since the effective shares of PJSC "GAZPROM" and Gazprombank (Joint-stock Company) in the Bank currently amount to 49.66% each, i.e. less than 50%. The fact that the Bank is not subject to any sanctions is also referred to in the release of the rating agency Fitch Ratings as of 14 July 2016.

These financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 27 February 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Other basis of presentation criteria

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

These financial statements are presented in thousands of Belarusian rubles (“BYN thousand”), unless otherwise indicated, consistent with the denomination of the official currency held in the Republic of Belarus on July 1, 2016. Comparable data as at December 31, 2015 are presented in terms of denomination effect (in a ratio of 10,000 to one).

These financial statements have been prepared on a historical cost basis, except for certain non-cash items incurred up to 31 December 2014, which were recognized in accordance with the International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29), and certain assets that are recognizes at revalued value or fair value as at each reporting date as indicated below.

During the 2014 and prior years the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with IAS 29. Starting from 1 January 2015, the economy of the Republic of Belarus is no longer considered hyperinflationary, thus the value of non-monetary assets, liabilities and equity of the Bank presented in measuring units as at 31 December 2014, was used to form the opening balances as at 1 January 2015.

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

Fair value of assets and liabilities

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

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 (Note 32) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

When level of hierarchy as at the reporting date differs from the level that was previously assigned to assets or liabilities transfer into and out of the level occurs. The date of transfer is determined as the date of the event or change in circumstances that caused the transfer.

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

The Bank presents its balance sheet accounts broadly in order of liquidity. The analysis regarding recovery of financial assets or repayment of financial liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 34.

The principal accounting policies are set out below.

Recognition of interest income and expense

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

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

Once a financial asset or a group of similar financial assets has been written off (partly written off) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Recognition of expenses under REPO and reverse REPO agreements

Gain/loss on the sale on repurchase (“repo”) and reverse repurchase agreements (“reverse repo”) is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest rate method and the sale price when such instruments are sold to third parties. When the repo (reverse repo) is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income

Loan maintenance fees, together with the related direct costs, are recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized as services are rendered.

Recognition of dividend income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of lease income

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

Financial instruments

The Bank recognizes financial assets and liabilities in its balance sheet when it becomes a party to the contractual obligations of the financial instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

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

Financial asset and financial liability are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or corresponding interpretation, and is specifically disclosed in the accounting policies of the Bank.

Financial assets

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with the National Bank with original maturity within 90 days, due from banks with original maturity within 90 days, which may be freely converted to cash within a short period of time, except for guarantee deposits and other restricted balances.

Mandatory reserve deposit with the National Bank

Mandatory reserve deposit with the National Bank comprises mandatory reserve deposits with the National Bank which are not available to finance day to day operations of the Bank, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows

Financial assets measured at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss when the financial asset is either held for trading or is designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as “held for trading” if:

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

Financial assets measured at fair value through profit or loss are stated at fair value, with any remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 32.

Derivative financial instruments

The Bank uses the following derivative financial instruments: foreign currency forwards, forward securities contracts with open and fixed delivery date, precious metals swap contracts and exchange of deposits in different currencies with the National Bank (swap). These instruments are used by the Bank to manage its exposure to foreign exchange rate and price risks.

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

Available-for-sale financial assets

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

Bonds classified as available for sale, not quoted in an active market, are stated at fair value since, in the opinion of the Bank's management, their fair value can be reliably measured. Fair value is determined in the manner described in Note 32. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments available for sale revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest rate method, and foreign exchange translation differences, which are recognized in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments available-for-sale revaluation reserve is reclassified to profit or loss in the period of disposal or impairment.

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

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

Loans and receivables

Trade receivables, loans issued, and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements of financial assets ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its treasury management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified as due from banks and/or loans to customers.

The Bank enters into repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Belarus and other CIS countries, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only presented on the balance sheet if the risks and rewards of ownership are also transferred.

Impairment of financial assets

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

For equity investments classified as available for sale both quoted and not quoted in an active market, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization;
- disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Repayment of loans earlier written off is recognized in profit or loss upon receipt.

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

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-off of loans

Loans are written off against allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans are written off after management has exercised all possibilities available to collect amounts due to the Bank.

Reclassification of financial assets

In December 2014 the Bank reclassified separate non-derivative financial assets held for trading (part of "at fair value through profit or loss" category) into assets available for sale. Effective from 1 July 2009, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category into the "Available-for-sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is performed at the election of management, and is determined on an instrument by instrument basis.

Derecognition of financial assets

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

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

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

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

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

Derecognition of financial liabilities

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

Financial guarantee contracts

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

Financial guarantee contracts concluded by the Bank are recognized by the Bank as contingent liabilities and are subsequently measured at the higher of:

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

Leases

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

The Bank as the lessor

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

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

The Bank as lessee

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

Precious metals

Gold and other precious metals are recorded at fair value. To determine the fair value of assets denominated in precious metals the Bank uses the National Bank's bid prices effective as at the reporting date (considering their nominal in grams) which approximate fair values being discounted using London Bullion Market rates. To determine the fair value of liabilities denominated in precious metals and recorded in impersonal metal accounts the bank uses National Bank's of the Republic of Belarus accounting prices. Changes in the National Bank prices are recognized in net gain/(loss) on operations with precious metals.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss. Cost of property and equipment acquired before 1 January 2015 is restated for inflation.

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

	Average annual depreciation rate
Buildings and premises	2%
Computer equipment, furniture and other equipment	11%
Motor vehicles	14%

Properties under construction for production or administrative purposes are carried at cost restated for inflation, less any recognized impairment loss. Cost of construction includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed or ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property of the Bank includes a separate category of corporate collection of the works of art which are not subject to depreciation because of their unique nature and significant estimated useful lives.

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

Intangible assets

Intangible assets acquired separately

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

	Average annual amortization rate
Intangible assets	54%

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

Impairment of tangible and intangible assets

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

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

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

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

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at cost net of accumulated depreciation and recognized impairment loss. Cost of investment property acquired before 1 January 2015 is restated for inflation. Depreciation is calculated on a straight line basis over the useful life of the assets, which is 100 years.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

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

Deferred income tax

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is 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 income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and deferred income tax for the year

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

Operating taxes

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

Provisions

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

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

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

Provisions recognized by the Bank include provisions for unused vacations of employees.

Commitments and contingencies

Commitments and contingent liabilities are not recognized in the balance sheet but are disclosed in the financial statements unless the outflow of economic benefits is remote. Contingent assets are not recognized but disclosed in the financial statements when an inflow of economic benefits is probable.

Functional currency

The functional currency of these financial statements is the national currency of the Republic of Belarus – Belarusian Ruble.

Foreign currency

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items in a foreign currency that are measured at historical cost are not restated.

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

	31 December 2016	**31 December 2015**
USD/BYN	1.9585	1.8569
EUR/BYN	2.0450	2.0300
RUB/BYN	0.03244	0.025533

Collateral

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

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. The Bank classifies assets received through repossession under default loan agreements into this category, unless the Bank is going to use the repossessed assets in its investing and operating activities.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Operational segments and earnings per share

As at each reporting date the Bank assesses the necessity of presentation in its financial statements of disclosures required by IFRS 8 *Operational segments* ("IFRS 8") and IAS 33 *Earnings per share* ("IAS 33"). The management believes that debt securities issued, that are included in the quotation lists of the Belarusian Currency Stock Exchange, are not "traded in a public market" for the purposes of scope of IFRS 8 and IAS 33 application due to the following facts: placements of bonds of the Bank are carried out via public or private sale, or public sale at an agreed price, set by the securities issue resolution; subsequent transactions with the bonds on the stock exchange or over-the-counter market are rare and are conducted at agreed prices that are close to nominal value plus accrued interest income (current price); there are no requirements to present financial statements prepared in accordance with IFRS in the prospectus or to provide them to the stock exchange. Due to the factors described above disclosure of information in accordance with IFRS 8 and IAS 33 is not mandatory for the Bank.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

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

The Bank uses management's professional judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. The Bank uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

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

Management believes that the amount of allowances for impairment reasonably reflect the incurred impairment losses of loans and receivables based on the current economic condition of borrowers.

Measurement of fair value of financial derivatives

Derivative financial instruments representing foreign currency forwards and swaps of deposits nominated in different currencies with the National Bank do not have an active market and are measured using interest rates parity model. Interest rates on financial instruments denominated in the same currency and with relevant maturity period are used as the rates.

Derivative financial instruments representing forward contracts with securities with open and fixed delivery dates are measured at fair value, which is calculated as net result between fair value of the claim and obligation.

As the fair value of claims/commitments to receive/deliver the securities the following is used:

fair value of the security existing on the market and available, determined as the best bid price and the best ask price by the stock exchange (bidding process organizer) or leading banks (participants of the market).

Fair value of claims/commitments to receive/deliver cash is determined as cash flow, calculated based on the terms and conditions of the contract.

Derivative financial instruments representing swap contracts with precious metals are measured at fair value, which is calculated as net result between fair value of the claim and obligation.

Fair value of financial assets available for sale

As described in Note 32 for determination of fair value of certain financial instruments the Bank uses valuation techniques that take into account the inputs that are not based on observable market data. Note 32 provides details of the key assumptions used in determining the fair value of financial instruments, as well as a detailed analysis of the sensitivity of the estimates for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4. NEW STANDARDS AND INTEPRETATIONS NOT YET EFFECTIVE

The Bank has yet to adopt the following new and revised IFRS, issued and not yet effective:

Standards and Interpretations	**Effective for annual period beginning on or after**
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
Amendments to IAS 7 *Disclosure initiative*	1 January 2017
Amendments to IFRS 12 *Recognition of deferred tax assets for unrealised losses*	1 January 2017
Amendments to IFRS 2 *Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associate or joint venture*	The effective date has not yet been determined

IFRS 9 *Financial Instruments (2014)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 15 Revenue from contracts with customers

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

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

The Bank has completed an initial review of the potential impact of the adoption of IFRS 15 on its consolidated financial statements. This focused on a review of fees and commission income.

The Bank earns fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services (see Note 9):
- Settlement and cash operations with clients;
- Bank payment card operations;
- Documentary operations;
- Foreign exchange operations;
- Settlements with banks and other.

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

IFRS 16 Leases

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

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

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

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

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

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

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

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

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

Amendments to IAS 7 Disclosure initiative

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

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

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

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

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

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

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

Other changes

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

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

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

5. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income:		
Interest income on financial assets recorded at amortized cost:		
Interest income on impaired assets	280,195	253,649
Interest income on unimpaired assets	10,535	10,865
Interest income on assets at fair value	58,670	46,332
Total interest income	**349,400**	**310,846**
Interest income on financial instruments recorded at amortized cost:		
Interest on loans to customers	280,195	253,649
Interest on due from banks and other financial institutions	9,715	10,229
Other interest income	820	636
Total interest income on financial instruments recorded at amortized cost	290,730	264,514
Interest income on financial instruments at fair value		
Interest on investments available for sale	55,330	39,880
Interest on securities at fair value through profit or loss	3,340	6,452
Total interest income on financial instruments at fair value	58,670	46,332
Interest expense:		
Interest expense on financial instruments recorded at amortized cost	171,128	187,170
Total interest expense	**171,128**	**187,170**
Interest on financial instruments recorded at amortized cost:		
Interest on customer accounts	119,242	133,798
Interest on deposits from banks and other financial institutions, on loans from the National Bank	22,963	27,422
Interest on subordinated loans	24,578	20,704
Interest on debt securities issued	4,305	5,151
Other interest expense	40	95
Total interest expense on financial liabilities recorded at amortized cost	**171,128**	**187,170**
Net interest income before allowance for impairment losses on interest bearing assets	**178,272**	**123,676**

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

	Loans to customers
31 December 2014	**39,184**
Provision	97,609
Write-off of assets	(23,443)
31 December 2015	**113,350**
Provision	42,698
Write-off of assets	(37,015)
31 December 2016	**119,033**

The movements in other provisions were as follows:

	Other assets	Guarantees and other contingencies	Total
31 December 2014	**612**	**940**	**1,552**
Provision/(recovery) of allowance for impairment	689	(576)	113
31 December 2015	**1,301**	**364**	**1,665**
Provision of allowance for impairment	827	322	1,149
31 December 2016	**2,128**	**686**	**2,814**

Allowance for impairment losses on assets are deducted from corresponding assets (Note 23). Provisions for guarantees and other contingent liabilities are recorded in other liabilities (Note 27).

7. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Trading operations, net	6,187	32,457
Foreign exchange differences, net	(5,533)	12,734
Total net foreign exchange gain	**654**	**45,191**

8. NET GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on operations with financial instruments at fair value through profit or loss comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Net gain on derivative financial instruments	43,508	73,010
Net gain on securities at fair value through profit or loss	1,315	8,252
Net gain on operations with financial instruments at fair value through profit	**44,823**	**81,262**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission income:		
Settlement and cash operations with clients	24,315	22,600
Bank payment card operations	13,944	13,692
Documentary operations	1,281	1,580
Foreign exchange operations	965	3,280
Settlements with banks	77	12
Other	489	356
Total fee and commission income	**41,071**	**41,520**
Fee and commission expense:		
Bank payment card operations	3,759	3,655
Legal support of banking operations	2,037	1,510
Maintenance of bank accounts	900	702
Foreign exchange operations	397	482
Operations with securities	312	332
Payments accepted for the bank	235	247
Documentary operations	120	97
Other	265	29
Total fee and commission expense	**8,025**	**7,054**

10. NET GAIN ON OPERATIONS WITH PRECIOUS METALS

Net gain on operations with precious metals comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Financial result from operations with precious metals	383	619
The revaluation of balance sheet items in precious metals	1,222	-
Total net gain on operations with precious metals	**1,605**	**619**

11. OTHER INCOME

Other income comprises:

	Year ended 31 December 2016	Year ended 31 December 2015
Net gain on operations with investments available for sale	1,878	823
Fines and penalties	1,690	2,449
Settlement of tax payments	1,112	275
Lease payments	627	184
Income from participation in sales promotions	133	72
Dividends	83	45
Gain from sale of property, equipment and non-current assets held for sale	-	288
Other	274	34
Total other income	**5,797**	**4,170**

12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2016	Year ended 31 December 2015
Staff costs	45,285	36,387
Depreciation and amortization expense	13,931	7,162
Obligatory social contributions	11,193	9,058
Expenses for services of automated interbank and international settlement system	8,385	6,476
Remuneration to the members of the Board of Directors and Revision Committee	5,625	4,217
Contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	5,622	6,325
Expenses on maintenance of banking software	4,748	3,159
Stationery and office expenses	4,372	4,485
Rent and property and equipment maintenance	3,007	3,685
Charity and sponsorship expenses	2,733	3,286
Taxes, other than income tax	2,373	1,615
Insurance expenses	2,264	2,079
Advertising expenses	1,831	1,591
Communication expenses	1,145	1,024
Information and consulting services	1,047	994
Security expenses	999	884
Vehicles maintenance and fuel expenses	647	659
Other	4,832	6,175
Total operating expenses	**120,039**	**99,261**

13. INCOME TAX

The Bank measures and records its current income tax payable in accordance with the tax regulations of the Republic of Belarus where the Bank operates. These regulations may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Major sources of non-deductible expenses include non-deductible payments to employees, some insurance and charity payments. Major amounts of non-taxable income relate to operations with securities issued by the Belarusian government, companies and banks.

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2016 and 2015 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax book bases' differences for certain assets and liabilities.

The Bank provides for current income tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the periods ended 31 December 2016 and 2015 tax rate for the Bank was 25%.

Tax effect of temporary differences and movement of deferred taxes as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	Changes in deferred taxes recognized in profits or losses	Changes in deferred taxes recognized in other comprehensive income	31 December 2015	Changes in deferred taxes recognized in profits or losses	Changes in deferred taxes recognized in other comprehensive income	31 December 2014
Other assets	1,669	765	-	904	352	-	552
Other liabilities	264	119	-	145	(27)	-	172
Debt securities issued	27	27	-	-	(34)	-	34
Precious metals	11	12	-	(1)	5	-	(6)
Non-current assets available for sale	-	-	-	-	(23)	-	23
Investment property	(76)	1	-	(77)	1	-	(78)
Derivative financial instruments	(383)	(375)	-	(8)	(1,873)	-	1,865
Due from banks and other financial institutions	(468)	(393)	-	(75)	188	-	(263)
Due to banks and other financial institutions	(516)	(127)	-	(389)	(33)	-	(356)
Property, equipment and intangible assets	(779)	55	-	(834)	1,501	-	(2,335)
Loans to customers	(892)	(1,253)	-	361	4,607	-	(4,246)
Provisions for guarantees, letters of credit and other off-balance sheet operations	(971)	(13)	-	(958)	(419)	-	(539)
Investments available for sale	(1,195)	-	(1,294)	99	733	109	(743)
Deferred tax liabilities	**(3,309)**	**(1,182)**	**(1,294)**	**(833)**	**4,978**	**109**	**(5,920)**

A reconciliation of income tax expense and accounting profit for the years ended 31 December 2016 and 2015 is presented below:

	Year ended 31 December 2016	Year ended 31 December 2015
Profit before tax	111,823	97,964
	25,00%	25,00%
Tax at the statutory tax rate	27,956	24,491
Tax effect of permanent differences:		
Tax effect of non-taxable income and other deductions	(18,978)	(12,693)
Tax effect of non-deductible expenses	3,082	3,528
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	-	(1,303)
Tax effect of other permanent differences	4,112	2,886
Income tax expense	**16,172**	**16,909**
Current income tax expense	14,990	21,887
Deferred income tax benefit recognized in profit or loss	1,182	(4,978)
Income tax expense	**16,172**	**16,909**

14. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Correspondent accounts and demand deposits	115,384	92,419
Cash	74,294	65,068
Cash at the correspondent accounts in the National Bank	56,069	126,472
Deposits with banks and other financial institutions with original maturity within 90 days	29,204	-
Total cash and cash equivalents	**274,951**	**283,959**

15. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss comprise the following trading securities:

	Interest to nominal	31 December 2016	31 December 2015
Bonds:			
Eurobonds of the Republic of Belarus	8.95%	-	53,460
Federal loan bonds issued by Ministry of Finance of the Russian Federation	6.8%	-	16,250
Bonds of Russian Banks	12.1%	-	3,111
Total securities at fair value through profit or loss		**-**	**72,821**

As at 31 December 2015 securities at fair value through profit or loss, represented by the eurobonds of the Republic of Belarus, amounting to BYN 20,300 thousands, were pledged as collateral for one of the loans due to banks (Note 24).

In accordance with the Amendments to IAS 39 Financial Instruments: Recognition and Measurement (paragraph 50B) and IFRS 7 Financial instruments: Disclosures dated 28 October 2008 the Bank decided to reclassify the eurobonds issued by residents of the Russian Federation from assets at fair value through profit or loss to the investments available for sale on 20 December 2014.

The reclassification was performed due to the factors set forth below, which were classified by the Bank as rare (unusual) events that are unlikely to reoccur in the foreseeable future.

In the second half of 2014 the state of the Russian economy significantly deteriorated affected by escalation of the conflict in Ukraine and imposition of sanctions on a number of residents of the Russian Federation, as well as by 50% decrease in oil prices.

The increasing internal economic problems in combination with limited access to external loan market led to significant outflow of foreign investments from the country, devaluation of Russian Ruble, reduction of foreign exchange reserves and caused inflation processes and drop in GDP.

The existing economic situation had a significant negative impact on the stability of the banking sector: increase in credit risk and doubtful debts, drop in profitability, formation of the need for additional provisioning for loan losses and for additional capitalization (including system-important banks).

The above trends gave rise to decrease in the sovereign ratings of the Russian Federation and a number of residents by the largest international rating agencies, which in combination with other factors significantly affected the evaluation of the financial state of both Russian banks and the Russian Federation on the whole.

The Bank qualified the assets covered by the specified amendments as assets in respect of which the intention for resale in near future was definitely changed and classified them as available for sale.

The Bank evaluated whether there was an active market for each security that qualified for possible reclassification. On the basis of this evaluation the securities were reclassified into “investments available for sale” category from the date when the market for the specified securities started demonstrating certain signs of inactivity. All securities were reclassified between the categories at their fair value effective as at the reclassification date. The fair value was estimated on the basis of various measurement models including mathematic models.

The information on the reclassification carried out and about the value of the financial assets on reclassification date and at subsequent reporting dates is specified below. Carrying value of financial assets corresponded to fair value on the said dates:

	Fair value at reclassification date	Fair value at 31 December 2014	Fair value at 31 December 2015	Fair value at 31 December 2016
Securities at fair value through profit or loss	(47,283)	-	-	-
Investments available for sale (Note 19)	47,283	51,297	80,143	80,891

During the year ended 31 December 2016 the Bank sold part of securities of Russian issues that were classified as “Investments available for sale” in 2014, with the value at the date of disposal of BYN 10,132 thousand. The fair value of these securities at the time of reclassification amounted to BYN 4,843 thousand. Unrealised part of securities of Russian issues reclassified in 2014 as at 31 December 2016 amounts to BYN 80,891 thousand (Note 19).

The approaches to determination of the fair value of the reclassified investments available for sale and their analysis by fair value hierarchy are presented in Note 32.

16. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2016, derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	**Liabilities**
Foreign currency forward contracts:			
USD/EUR	USD 65,328,070	1,121	-
RUB/EUR	RUB 960,676,500	408	-
RUB/USD	RUB 244,805,000	89	-
BYN/USD	BYN 981,500	2	-
USD/RUB	USD 1,000,000	-	(29)
BYN/RUB	BYN 8,050,000	-	(59)
Total foreign currency forward contracts		**1 620**	**(88)**

		Fair value	
		Assets	**Liabilities**
Precious metals swap contracts:	**Nominal amount (in units of placed currency)**		
Gold(A98)/BYN	Gold(A98) 161,630	8	(535)
Total metals swap contracts		**8**	**(535)**

As at 31 December 2015 derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	**Liabilities**
Foreign currency forward contracts:			
RUB/EUR	RUB 3,088,526,360	220	-
EUR/USD	EUR 41,000,000	36	(5)
RUB/USD	RUB 1,273,383,200	14	(259)
USD/JPY	USD 15,003,345	4	(5)
JPY/USD	JPY 1,806,610,000	5	(2)
USD/GBP	USD 7,413,500	3	-
GBP/USD	GBP 5,000,000	-	(3)
USD/EUR	USD 99,471,200	-	(52)
Total foreign currency forward contracts:		**282**	**(326)**

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency swap contracts:			
EUR/BYN	EUR 30,709,398	48,282	-
Total foreign currency swap contracts		**48,282**	**-**

	Contractual amount of purchased securities)	Fair value	
		Assets	Liabilities
Forward contracts on purchase of securities with fixed delivery date:			
Bonds issued by the National Bank of the Republic of Belarus	USD 10,084,700	-	(353)
Total forward contracts on purchase of securities with fixed delivery date		**-**	**(353)**

As at 31 December 2015 derivative financial instruments included foreign currency forward and swap contracts with the National Bank with the fair value of BYN 48,282 thousands (assets).

17. DUE FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS, BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from the National Bank of the Republic of Belarus, banks and other financial institutions are represented as follows:

	31 December 2016	31 December 2015
Mandatory reserve deposit with the National Bank of the Republic of Belarus	7,394	10,374
Funds pledged as a collateral	1,714	4,425
Funds provided under repurchase agreement	-	55,220
Time deposits with original maturity over 90 days	-	2,043
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**9,108**	**72,062**

The transactions involving provision of REPO funds, with outstanding balances as of 31 December 2015, were closed in 2016 in accordance with contractual maturities.

18. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2016	31 December 2015
Issued loans	2,020,605	1,872,433
Net investments in finance lease	30,403	34,364
	2,051,008	1,906,797
Allowance for impairment losses	(119,033)	(113,350)
Total loans to customers	**1,931,975**	**1,793,447**

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2016 and 2015 are disclosed in Note 6.

The table below summarizes the information on the loans by type of the collateral, based on the carrying value of the assets rather than on the collateral fair value:

	31 December 2016	31 December 2015
Loans collateralized by real estate and rights thereon	1,012,685	901,167
Loans collateralized by equipment and rights thereon	270,467	231,628
Loans collateralized by liens over receivables	203,156	250,445
Loans collateralized by inventories	182,078	204,783
Loans collateralized by insurance of credit risk exposure	85,767	62,312
Loans collateralized by guarantees of legal entities	19,179	1,313
Loans collateralized by guarantees of individuals	15,098	20,466
Loans collateralized by securities	7,205	1,001
Loans collateralized by cash of guarantee deposit	6,494	11,426
Loans collateralized by guarantees of state authorities	-	2,400
Unsecured loans and loans collateralized by other and mixed types of collateral	248,879	219,856
	2,051,008	1,906,797
Less allowance for impairment losses	(119,033)	(113,350)
Total loans to customers	**1,931,975**	**1,793,447**

	31 December 2016	31 December 2015
Analysis by sector:		
Trade	492,051	521,273
Chemicals and petrochemicals	226,006	191,756
Retail portfolio	189,436	142,973
Metallurgy	135,688	140,354
Food industry	123,512	116,214
Oil industry	101,777	118,325
Light industry	99,049	50,976
Investments in real estate	98,682	120,822
Machinery construction	88,737	103,557
Gas transportation	84,573	29,799
Financial and insurance services	82,444	44,866
Other industry	78,633	85,203
Construction	48,080	54,736
Transport	47,697	43,751
Energetics	47,234	6,042
Agriculture	22,205	16,376
Timber industry	20,186	35,288
Media business	4,613	12,143
Other	60,405	72,343
	2,051,008	1,906,797
Less allowance for impairment losses	(119,033)	(113,350)
Total loans to customers	**1,931,975**	**1,793,447**

As at 31 December 2016 the Bank provided loans to seven customers totaling BYN 511,665 thousands before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2015 the Bank provided loans to nine customers totaling BYN 537,296 thousands before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

All loans were granted to companies operating in the Republic of Belarus, representing significant geographical concentration in one region, which is characteristic for the whole Belarusian banking system.

Retail portfolio comprises the following products:

	31 December 2016	31 December 2015
Bank cards	101,009	85,056
Loans on real estate	45,199	29,000
Delay consumer loans	22,337	11,545
Car loans	14,086	8,747
Consumer loans	6,473	8,286
Other	332	339
	189,436	142,973
Allowance for impairment losses	(9,309)	(7,915)
Total loans to individuals	**180,127**	**135,058**

Delay consumer loans represent a program according to which individuals pay by installments for the consumer goods purchased in the chain of stores participating in the program.

Analysis of loans and allowances for impairment losses by class of loans and impairment assessment method as at 31 December 2016 and 2015 is presented in the following table:

As at 31 December 2016	Loans before allowance for impairment losses	Allowance for impairment	Loans less allowance for impairment losses	Allowance for impairment to gross loans before allowance for impairment losses,%
Loans determined to be impaired collectively				
Undue	932,685	23,809	908,876	2.55
Overdue:	54,500	11,822	42,678	21.69
Less than 30 days	25,652	5,769	19,883	22.49
from 31 to 60 days	2,882	294	2,588	10.20
from 61 to 90 days	3,537	277	3,260	7.83
from 91 to 180 days	5,603	1,095	4,508	19.54
More than180 days	16,826	4,387	12,439	26.07
Total loans determined to be impaired collectively	**987,185**	**35,631**	**951,554**	**3.61**
Loans determined to be impaired individually				
Undue	1,053,319	72,898	980,421	6.92
Overdue:	10,504	10,504	-	100.00
Less than 30 days	-	-	-	-
from 31 to 60 days	-	-	-	-
from 61 to 90 days	-	-	-	-
from 91 to 180 days	-	-	-	-
More than180 days	10,504	10,504	-	100.00
Total loans determined to be impaired individually	**1,063,823**	**83,402**	**980,421**	**7.84**
	2,051,008	**119,033**	**1,931,975**	**5.80**

As at 31 December 2015	Loans before allowance for impairment losses	Allowance for impairment	Loans less allowance for impairment losses	Allowance for impairment to gross loans before allowance for impairment losses,%
Loans determined to be impaired collectively				
Undue	898,994	17,324	881,670	1.93
Overdue:	78,876	19,677	59,199	24.95
Less than 30 days	21,583	323	21,260	1.50
from 31 to 60 days	20,793	351	20,442	1.69
from 61 to 90 days	4,396	187	4,209	4.25
from 91 to 180 days	9,094	3,380	5,714	37.17
More than180 days	23,010	15,436	7,574	67.09
Total loans determined to be impaired collectively	**977,870**	**37,001**	**940,869**	**3.78**

Loans determined to be impaired individually				
Undue	907,782	55,204	852,578	6.08
Overdue:	21,145	21,145	-	100.00
Less than 30 days	-	-	-	-
from 31 to 60 days	-	-	-	-
from 61 to 90 days	-	-	-	-
from 91 to 180 days	4,302	4,302	-	100.00
More than180 days	16,843	16,843	-	100.00
Total loans determined to be impaired individually	**928,927**	**76,349**	**852,578**	**8.22**
	1,906,797	**113,350**	**1,793,447**	**5.94**

The components of net investment in finance lease as at 31 December 2016 and 2015 are as follows:

	31 December 2016	**31 December 2015**
Less than one year	12,579	13,560
From one year to five years	44,683	49,280
More than 5 years	-	7,079
Minimum payments on financial lease	57,262	69,919
Less: unearned finance income	(26,859)	(35,555)
Net investments in finance lease before allowance for impairment	**30,403**	**34,364**
Allowance for impairment	(4,000)	(5,783)
Total accounts receivable under finance leases	**26,403**	**28,581**
Current portion	6,753	4,953
Long-term portion	23,650	29,411
Net investments in finance lease before allowance for impairment	**30,403**	**34,364**
Allowance for impairment	(4,000)	(5,783)
Net investments in finance lease	**26,403**	**28,581**

As at 31 December 2016 the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale and investment property comprised BYN 186 thousands, BYN 37,942 thousands and BYN 454 thousands, respectively.

As at 31 December 2015 the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale and investment property comprised BYN 188 thousands, BYN 2,232 thousands and BYN 458 thousands, respectively.

19. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest rate to nominal	31 December 2016	Interest rate to nominal	31 December 2015
Short-term bonds issued by the National Bank of the Republic of Belarus in foreign currency	4.42%-8.41%	485,976	8.05%-8.53%	251,638
Long-term government bonds in foreign currency	6.9%-7.15%	114,109	6.85%-7.5%	178,188
Bonds issued by Russian issuers	4.77%-10.2%	80,891	4.77%-10.2%	80,143
Short-term bonds issued by the National Bank of the Republic of Belarus, BYN	11.92%-12.26%	34,861	-	-
Bonds issued by Belarusian banks, BYN	18.0%	23,763	25.0-27.0%	23,826
Bonds issued by Belarusian banks in foreign currency	-	-	6.0%	35,763
Long-term governmental bonds, BYN	-	-	26.0%	10,804
Other unquoted equity instruments		578		56
Total investments available for sale		**740,178**		**580,418**

As at 31 December 2016 and 2015 securities available for sale, represented by the bonds issued by Russian issuers, amounting to BYN 51,043 and 10,247 thousands, were pledged as collateral for one of the loans due to banks (Note 24).

Eurobonds issued by Russian issuers in amount of BYN 80,891 thousand were reclassified from the category of assets measured at fair value through profit or loss into the category of investments available for sale (Note 15). Income from changes of fair value of these financial assets, recognized in other comprehensive income for the period ended 31 December 2016, amounted to BYN 1,036 thousand and BYN 5,755 thousand, respectively. Loss from the change of fair value recognized in other comprehensive income for the period ended 31 December 2015 amounted to BYN 194 thousand.

20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings and premises	Computer equipment, furniture and other equipment	Vehicles	Corporate collection of art works	Investments into property, equipment and intangible assets	Intangible assets	Total
Initial cost, restated for hyperinflation effect							
31 December 2014	24,320	27,112	2,961	6,897	26,397	13,297	100,984
Additions	-	-	-	-	67,067	-	67,067
Transfers among categories	39,210	11,936	859	3,829	(66,079)	10,245	-
Disposals	(140)	(742)	(478)	(235)	-	(232)	(1,827)
31 December 2015	63,390	38,306	3,342	10,491	27,385	23,310	166,224
Additions	-	-	-	-	24,756	-	24,756
Transfers among categories	7,924	18,655	471	3,879	(40,358)	9,429	-
Disposals	(129)	(1,102)	(193)	-	-	(250)	(1,674)
31 December 2016	71,185	55,859	3,620	14,370	11,783	32,489	189,306
Accumulated depreciation, restated for hyperinflation effect							
31 December 2014	3,627	13,384	1,372	-	-	6,310	24,693
Charge for the period	602	3,672	399	-	-	2,489	7,162
Eliminated on disposal	(80)	(639)	(474)	-	-	(232)	(1,425)
31 December 2015	4,149	16,417	1,297	-	-	8,567	30,430
Charge for the period	994	6,729	465	-	-	5,743	13,931
Eliminated on disposal	(117)	(791)	(193)	-	-	(215)	(1,316)
31 December 2016	5,026	22,355	1,569	-	-	14,095	43,045
Net carrying value							
31 December 2016	**66,159**	**33,504**	**2,051**	**14,370**	**11,783**	**18,394**	**146,261**
31 December 2015	**59,241**	**21,889**	**2,045**	**10,491**	**27,385**	**14,743**	**135,794**

21. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2016 and 31 December 2015 non-current assets held for sale included property (real estate, motor vehicle, equipment), that had been transferred to the Bank to repay debt on loans or obtained by the Bank through foreclosure of leasing items in the amounts of BYN 37,942 thousands and BYN 2,232 thousands, respectively.

As at 31 December 2016 the management of the Bank intends to sell the property classified as non-current assets held for sale. The Bank plans to complete sale transactions within next 12 months.

22. INVESTMENT PROPERTY

As at 31 December 2016 and 31 December 2015, investment property included two buildings with a total carrying amount of BYN 454 thousands and BYN 458 thousands which were reclassified from non-current assets held for sale and are currently leased out by the Bank under operating lease.

Movements in the investment property are disclosed below:

31 December 2014	**462**
Depreciation charge	(4)
31 December 2015	**458**
Depreciation charge	(4)
31 December 2016	**454**

As at 31 December 2016 and 31 December 2015, operating lease income comprised investment property rental income of BYN 143 thousands and BYN 115 thousands, respectively.

23. OTHER ASSETS

Other assets comprise:

	31 December 2016	31 December 2015
Other financial assets:		
Commission income and fines accrued	4,991	4,444
Settlements on Bank payment cards	3,354	2,988
Receivables reclaimable due to termination of joint venture agreement	1,107	1,107
Receivables for sale of non-current assets held for sale	876	64
Other debtors	2,625	2,975
Allowance for impairment losses	(2,128)	(1,301)
Total other financial assets	**10,825**	**10,277**
Other non-financial assets:		
Taxes recoverable and prepaid taxes other than income tax	7,636	9,517
Prepayments for property, equipment and other assets	5,793	4,388
Prepaid expenses and other non-financial assets	4,575	2,648
Inventories in stock	360	674
Total other assets	**29,189**	**27,504**

Movements in allowance for impairment losses on other assets for the years ended 31 December 2016 and 2015 are disclosed in Note 6.

24. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2016	31 December 2015
Loans from banks and non-banking financial institutions	444,918	243,419
Loans from international financial organizations	141,682	192,983
Correspondent and demand accounts of other banks	64,300	38,347
Total due to banks and other financial institutions	**650,900**	**474,749**

As at 31 December 2016 due to banks and other financial institutions included loans from two banks totaling BYN 354,144 thousands, that individually exceeded 10% of the Bank's equity, which represents a significant concentration (54% from the total amount).

As at 31 December 2015 due to banks and other financial institutions included loans from two banks totaling BYN 315,446 thousands, that individually exceeded 10% of the Bank's equity, which represents a significant concentration (66% from the total amount).

As at 31 December 2016 and 2015 two of the loans due to banks are collateralized by the securities in total amount BYN 51,043 and 30,547 thousands, respectively (Notes 15, 19).

25. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2016	**31 December 2015**
Term deposits	1,346,328	1,327,565
Current/settlement accounts and demand deposits	293,397	498,282
Total customer accounts	**1,639,725**	**1,825,847**

As at 31 December 2016 customer accounts totaling BYN 184,082 thousands (11% of the total) comprised the balances of accounts of five customers, respectively, which represented significant concentration.

As at 31 December 2015 customer accounts totaling BYN 643,314 thousands (35% of the total) comprised the balances of accounts of four customers, respectively, which represented significant concentration.

As at 31 December 2016 and 31 December 2015, customer accounts of BYN 14,238 thousands and BYN 22,745 thousands, respectively, were held as collateral against letters of credit, guarantees and loans issued by the Bank.

Analysis by sector:	**31 December 2016**	**31 December 2015**
Individuals	1,026,212	876,163
Machinery construction	122,275	64,014
Trade	95,571	84,495
Gas transportation	93,986	473,302
Financial and insurance services	88,812	67,113
Construction	55,438	36,050
Transport	24,879	17,277
Investments in real estate	17,523	7,295
Other production	14,752	41,734
Oil industry	12,444	84,352
Chemicals and petrochemicals	10,299	5,687
Agriculture	9,190	6,228
Communications	8,019	598
Metallurgy industry	6,204	773
Food industry	4,810	8,841
Timber industry	4,618	3,310
Media business	4,036	2,819
Light industry	3,750	1,904
Energetics	2,867	387
Other	34,040	43,505
Total customer accounts	**1,639,725**	**1,825,847**

26. DEBT SECURITIES ISSUED

Debt securities issued are represented by bonds held by individuals and legal entities.

	31 December 2016	31 December 2015
Bonds issued by the Bank and held by private individuals	54,802	26,389
Bonds issued by the Bank and held by legal entities	15,954	31,188
Total debt securities issued	**70,756**	**57,577**

27. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2016	31 December 2015
Other financial liabilities		
Settlements on other banking operations and accrued expenses	3,717	1,802
Settlements for property and equipment and other assets acquired	880	877
Provision for guarantees and other contingent liabilities	686	364
Total other financial liabilities	**5,283**	**3,043**
Other non-financial liabilities:		
Compensation payable to employees	3,547	2,711
Payables to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	1,523	1,309
Taxes payable other than income tax	557	576
Prepayments received	3	-
Other non-financial liabilities	162	119
Total other liabilities	**11,075**	**7,758**

Movements in provision for guarantees and other contingent liabilities for the years ended 31 December 2016 and 2015 are disclosed in Note 6.

28. SUBORDINATED LOANS

	Currency	Maturity	Interest rate	31 December 2016	31 December 2015
The subordinated loan from “Gazprombank” (Joint-stock Company)	Russian rubles	14 January 2022	8.25%	174,084	135,588
The subordinated loan from PJSC “GAZPROM”	Russian rubles	17 January 2022	8.25%	160,817	126,577
Total subordinated loans				**334,901**	**262,165**

Subordinated loans were attracted in January 2015.

Payments on this debt are subordinated to repayments of the Bank's liabilities to all other creditors.

29. SHARE CAPITAL

As at 31 December 2016, authorized, issued and fully paid capital of the Bank consisted of 1,893,177,880,000 ordinary shares and 393,220,000 preference shares with par value of BYN 0,0001 each (at historical cost). As at 31 December 2015 authorized, issued and fully paid capital of the Bank consisted of 1,252,008,799,649 ordinary shares and 260,044,863 preference shares with par value of BYN 0,0001 each (at historical cost, taking into account denomination). Hyperinflation effect accumulated since 31 December 2014 amounts to BYN 187,783 thousands.

As at 31 December 2016, the Bank purchased 400 ordinary shares and 100 preferred shares with par value of BYN 0.0001 each.

In the year ended 31 December 2016, the general meeting of shareholders of the Bank adopted a resolution on increase of the share capital by issuing 641,562,300,351 shares of ordinary stock and 133,175,137 shares of preferred stock with par value of BYN 0.0001 each. The share capital was increased out of the Bank's retained earnings.

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meetings, but which may not be less than 1% of par value. The decision on payment of dividends is made on the General Meeting of Shareholders upon the recommendation of the Board of Directors. The Bank has no obligation to redeem preference shares, except for the cases provided in the legislation of the Republic of Belarus, as well as cases of voluntary assumption of such obligations.

During the period ended 31 December 2016, the Bank declared and paid dividends for 2015 on ordinary and preference shares in the amount of BYN 30,683 thousands.

During the period ended 31 December 2015, the Bank declared and paid dividends for 2014 on ordinary and preference shares in the amount of BYN 23,004 thousands.

30. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank becomes a party to financial instruments with off-balance sheet risks for the purpose of meeting the needs of its customers. These instruments, being susceptible to various degrees of credit risk, are not recognized in the balance sheet.

The Bank's maximum exposure to credit risk on contingent liabilities and loan commitments in the case of other party's failure to execute their obligations and impairment of all counterclaims, collateral or security, is represented by the contractual amounts of those instruments.

As at 31 December 2016 and 31 December 2015, the nominal or contract value of contingent liabilities and loan commitments were as follows:

	31 December 2016	31 December 2015
Contingent liabilities and loan commitments:		
Commitments on loans and unused credit lines, cancellable	459,808	284,556
Guarantees issued and similar commitments	70,239	77,159
Letters of credit, not covered by cash	68,284	1,603
Letters of credit, covered by cash	967	375
Total contingent liabilities and loan commitments	**599,298**	**363,693**

Allowance for guarantees and other contingent liabilities are included in other liabilities (Note 27).

Legal proceedings – In the normal course of business, customers and counterparties can claim against the Bank. Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

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

Legislation **-** Certain provisions of Belarusian business and tax legislation in particular are subject to varying interpretations and may be applied inconsistently. In addition, interpretations made by

Management may be different from official interpretations and compliance with law may be challenged by the authorities. As a result, the Bank may be subject to additional tax payments and fines and other preventive actions. Management of the Bank believes that the Bank made all required tax and other payments and no additional provisions are needed in these financial information. A tax period remains open for review by the tax authorities in subsequent periods.

Operating environment – in 2016, global economic development was uneven. China's GDP, largely due to increased government spending, continued to show substantial growth, increased over the past year by 6.7%. Eurozone economy grew by 1.7% in 2016, but still needs a policy of quantitative easing to stimulate the rate of inflation, reducing unemployment, intensification of production and domestic consumption. Also in Europe, it marks an increase of centrifugal processes, as well as an increase in social tension due to the dissatisfaction of the migration policy. Key US macroeconomic indicators showed steady growth, allowing the FED to begin a gradual tightening of monetary policy. The Russian economy has experienced a process of stabilization due to the increase in energy prices, a decrease in the level of inflation and depreciation of the ruble volatility. However, the overall macroeconomic situation in Russia remains negative, which is caused by uncertainty in the commodities market, internal imbalances and sectoral sanctions related to the conflict in Ukraine.

Sanctions against the residents of the Russian Federation often affect the interests of Belarusian entrepreneurs because of the close integration of the economies. However, according to the current definition of sectoral sanctions from the EU and the USA implemented against the main shareholders of PJSC “GAZPROM” and Gazprombank (Joint-stock Company) have no impact on Belgazprombank.

The Bank in its business activities conducts a number of transactions with residents of the Russian Federation, as well as residents of the Republic of Belarus, that experience a negative impact on their financial and economic activities from the residents of the Russian Federation. However, the Bank is following a prudent policy, maintaining sufficient financial stability cushion to absorb external shocks.

The main threats to the operating environment associated with the implementation of the accumulated credit risk in the deteriorating financial situation of the real sector and the decline in business activity, as well as the high level of dollarization.

At the same time the majority of the financial stability indicators show a positive trend, in general providing a balanced functioning of the national economy. The monetary policy conducted in the Republic of Belarus in 2016, together with measures to optimize domestic demand, have reduced inflationary pressures, thus decreasing inflation rate to 10.6%. There is a gradual reduction of interest rates resulting from lower refinancing rate and smaller size of the risk premium. Preservation of positive real interest rates and stabilization of the foreign exchange market increase attractiveness of savings in the national currency, helping to reduce the level of dollarization of the economy.

31. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and related parties are disclosed below:

	For the period ended 31 December 2016		For the period ended 31 December 2015	
	Transactions with related parties	Total category as per financial information caption	Transactions with related parties	Total category as per financial information caption
Interest income	**1,656**	**349,400**	**9,245**	**310,846**
– shareholders	107		288	
– entities under common control	1,301		8,715	
– key management personnel	248		242	
Interest expenses	**(74,974)**	**(171,128)**	**(77,459)**	**(187,170)**
– shareholders	(37,592)		(31,530)	
– entities under common control	(36,829)		(45,227)	
– key management personnel	(553)		(702)	
Allowance for impairment of interest-bearing assets	**(6)**	**(42,698)**	**(9)**	**(97,609)**
- key management personnel	(6)		(9)	
Net gain/(loss) from financial instruments at fair value through profit or loss	**22,181**	**44,823**	**(1,220)**	**81,262**
– shareholders	21,005		(1,987)	
– entities under common control	1,176		767	
Fee and commission income	**1,311**	**41,071**	**2,306**	**41,520**
– shareholders	1		11	
– entities under common control	1,306		2,295	
– key management personnel	4		-	
Fee and commission expense	**(107)**	**(8,025)**	**(462)**	**(7,054)**
– shareholders	(56)		(298)	
– entities under common control	(51)		(164)	
Other income	**147**	**5,797**	**117**	**4,170**
– entities under common control	147		117	
Operating expenses	**(13,895)**	**(120,039)**	**(11,807)**	**(99,261)**
– entities under common control	(1,257)		(1,734)	
– key management personnel	(12,638)		(10,073)	

The balance sheet as at 31 December 2016 and 31 December 2015 included the following amounts which arose due to transactions with related parties:

	31 December 2016		31 December 2015	
	Related party balances	**Total category as per financial information caption**	**Related party balances**	**Total category as per financial information caption**
Cash and cash equivalents	**85,707**	**274,951**	**14,340**	**283,959**
– shareholders	71,110		1,335	
– entities under common control	14,597		13,005	
Securities at fair value through profit or loss	**-**	**-**	**19,362**	**72,821**
- entities under common control	-		19,362	-
Derivative financial instruments, asset	**665**	**1,628**	**135**	**48,564**
– entities under common control	665		135	
Loans to customers before allowance for impairment	**845**	**2,051,008**	**831**	**1,906,797**
– entities under common control	12		14	
– key management personnel	833		817	
Allowance for impairment	**(23)**	**(119,033)**	**(17)**	**(113,350)**
– key management personnel	(23)		(17)	
Investments available for sale	**59,536**	**740,178**	**96,682**	**580,418**
– entities under common control	59,536		96,682	
Other assets	**128**	**29,189**	**120**	**27,504**
– entities under common control	108		120	
– key management personnel	20		-	
Derivative financial instruments, liabilities	**-**	**623**	**188**	**679**
– shareholders	-		188	
Due to banks and other financial institutions	**358,006**	**650,900**	**177,052**	**474,749**
– shareholders	245,995		158,283	
– entities under common control	112,011		18,769	
Customer accounts	**233,430**	**1,639,725**	**570,357**	**1,825,847**
– entities under common control	220,578		561,457	
– key management personnel	12,852		8,900	
Other liabilities	**751**	**11,075**	**675**	**7,758**
– shareholders	234		380	
– entities under common control	193		100	
– key management personnel	324		195	
Subordinated loans	**334,901**	**334,901**	**262,165**	**262,165**
– shareholders	334,901		262,165	
Contingent liabilities	**2,647**	**599,298**	**2,787**	**363,693**
– entities under common control	2,121		2,358	
– key management personnel	526		429	

For the years ended 31 December 2016 and 31 December 2015 key management personnel remuneration consisted of short-term benefits.

The ultimate controlling party of the Bank is PJSC “GAZPROM”, a controlling stake of which belongs to the Government of the Russian Federation.

Transactions with related parties were performed on an arm's length basis.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with IFRS, the fair value is determined based on the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying value of financial assets and liabilities in the following table approximates their fair value:

	31 December 2016		31 December 2015	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	274,951	274,951	283,959	283,959
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	9,108	9,108	72,062	72,062
Loans to customers	1,931,975	1,931,975	1,793,447	1,793,447
Other financial assets	10,825	10,825	10,277	10,277
Due to banks and other financial institutions	650,900	650,900	474,749	474,749
Customer accounts	1,639,725	1,639,725	1,825,847	1,825,847
Debt securities issued	70,756	70,302	57,577	58,130
Other financial liabilities	5,283	5,283	3,043	3,043
Subordinated loans	334,901	317,801	262,165	262,165

For financial assets and liabilities carried at amortized cost, with short maturities (less than 3 months) it is assumed that the carrying amounts approximates fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Due from the National Bank of the Republic of Belarus, banks and other financial institutions

The fair value of term deposits in banks, according to management, is not significantly different from the carrying value as all deposits are placed with a floating interest rate or a fixed interest rate, which corresponds to the market.

Loans to customers

Loans to customers have both floating and fixed interest rates. As there is no active secondary market for such loans and advances in the Republic of Belarus, reliable market value of this portfolio is not available.

The fair value of loans with floating rates, according to management, approximates their carrying value.

For loans with fixed rates, there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of loans with a fixed rate does not materially differ from their carrying value.

Due to banks and other financial institutions

Loans from banks and other financial institutions have both floating and fixed interest rates.

The fair value of borrowed funds at floating interest rates, according to management, approximates their carrying value.

For the majority of loans with fixed-rate, maturities do not exceed one year. Due to these factors, the fair value of loans with fixed rates does not materially differ from their carrying value.

Customer accounts

Customer deposits have both floating and fixed interest rates.

The fair value of deposits with floating rates, according to management, approximates their carrying value

For deposits with fixed rates there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of deposits with fixed rates does not materially differ from their carrying value.

Debt securities issued

The fair value of debt securities issued which are recognized at amortized cost is calculated as the present value of cash flows using the prevailing market rates for instruments with similar characteristics. The inputs relate to Level 2 of the hierarchy of fair value.

Subordinated loans

The fair value of subordinated debt, loans which are carried at amortized cost is calculated as the present value of cash flows using the relevant rate for these instruments at the reporting date

The fair value of financial assets and financial liabilities of the Bank recognized at fair value on an ongoing basis

Some financial assets and financial liabilities of the Bank are recorded at fair value at the end of each reporting period. The table below provides information on how the fair value of these financial assets and financial liabilities is determined (including valuation techniques used, and the inputs).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2016	31 December 2015				
Derivative financial instruments (assets) (Note 16)	1,620	282	Level 2	Discounted cash flow. Future cash flows are estimated using interest rates parity model. The rates for short-term interbank placements nominated in the relevant currency and with relevant maturity periods are applied as rates for the model.	Not applicable	Not applicable
Derivative financial instruments (assets) with the National bank of the Republic of Belarus (Note 16)	-	48,282	Level 3	Discounting cash flows. Future cash flows are estimated using interest rates parity model. Rates for foreign currencies used to calculate, are defined on the basis of risk-free interest rates for instruments in the relevant currency with a significant adjustment to the risk of default based on the rating of the counterparty. The rates for the Belarusian ruble are defined as the average rate for financial instruments with relevant maturity period and type of counterparty.	The average rate of return similar by maturity, currency, counterparty varies from 6.0% to 9.0%, in Belarusian rubles - from 26% to 39%	The higher the rate of return on the foreign currency, the lower is the fair value.
Precious metals derivatives (assets) (Note 16)	8	-	Level 2	The net result between the fair value of the claim for cash / precious metals and obligations to supply / payment for precious metals / cash. The fair value of claims / liabilities for precious metals is the corresponding price of the precious metal, set by the National Bank of the Republic of Belarus. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities for the cash flows/supply of funds.	Not applicable	Not applicable
Securities at fair value through profit or loss (Note 15)	-	72,821	Level 2	Buyer’s quotes in an inactive market	Not applicable	Not applicable
The securities reclassified to investments available for sale (Note 19)	80,891	80,143	Level 2	Buyer’s quotes in an inactive market	Not applicable	Not applicable

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2016	31 December 2015				
Other investments available-for-sale, net of equity investments (Note 19)	658,709	500,219	Level 2	Discounted cash flow. Rates are defined as the rates for financial instruments with similar level of risk, nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable
Derivative financial instruments (liabilities) (Note 16)	88	326	Level 2	Discounted cash flow. Future cash flows are estimated using interest rates parity model. Rates are defined as the sovereign risk rates for financial instruments nominated in the relevant currency and with relevant maturity periods	Not applicable	Not applicable
Precious metals derivatives (liabilities) (Note 16)	535	-	Level 2	The net result of the fair value of the claim for the cash funds / precious metals and liability for supply / payment of precious metals / funds. The fair value of claims / liabilities for precious metals is the corresponding price of the precious metal, set by the National Bank of the Republic of Belarus. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities to the cash flows/ supply of funds.	Not applicable	Not applicable
Derivatives with securities (liabilities) (Note 16)	-	353	Level 2	The net result between the fair value of the claim for the cash/securities and obligations for supply/payment of securities/cash. Discounted cash flows are taken as the fair value of claims/ liabilities for the securities. Rates for financial instruments with a similar level of risk, denominated in the same currency and with relevant period of maturity are accepted as the rates. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities to the cash flows/ supply of funds.	Not applicable	Not applicable

The following table provides the total amount of profit and loss for the period recognized in statement of profit or loss and other comprehensive income for financial assets of Level 3, which are measured at fair value:

	Derivatives
31 December 2015	**48,282**
Gain recognized in the statement of profit and loss including	8,418
realized gains	8,418
Execution of derivatives	(56,700)
31 December 2016	**-**

The following table provides the total amount of profit and loss for the period ended 31 December 2015 recognized in statement of profit or loss and other comprehensive income for financial assets of Level 3, which are measured at fair value:

	Derivatives
31 December 2014	**144,063**
Gain recognized in the statement of profit and loss including:	69,609
realized gains	49,671
unrealized gains	19,938
Execution of derivatives	(165,390)
31 December 2015	**48,282**

33. CAPITAL MANAGEMENT

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel II):

	31 December 2016	**31 December 2015**
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	377,140	313,009
Retained earnings	74,210	73,373
Total Tier 1 capital	**451,350**	**386,382**
Subordinated loan	225,675	193,191
Investments available for sale fair value revaluation reserve	6,485	1,888
Total regulatory capital	**683,510**	**581,461**
Risk-weighted assets	3,488,072	3,197,339
Capital ratios:		
Tier 1 capital	13%	12%
Total equity	20%	18%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain ratios of Tier 1 capital (4%) and total capital (8%) to total risk weighted assets.

The Bank manages its capital to ensure compliance with legislation requirements and ability to continue as a going concern while maximizing the return to shareholders through the optimization of the debt to equity ratio of the Bank.

The Bank's management 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 quantified assessment of the risks it undertakes (risk-weighted assets). The Bank`s management estimates the amount of capital required to achieve strategic objectives and the planned increase of assets, as well as optimal balance between profitability and capital adequacy, considering requirements of the shareholders, partners of the Bank and regulatory institutions. The Bank performs analysis of risk factors, that influence the Bank's capital, and optimizes these risks by means of a balanced funding policy.

The National Bank of the Republic of Belarus sets and controls performance of the following requirements to the regulatory capital of the Bank calculated based on the financial information prepared in accordance with the legislation of the Republic of Belarus:

Ratio of Tier 1 fixed capital to risk weighted assets - 4.5% (based on conservation buffer 5.125%);

Ratio of Tier 1 capital to risk weighted assets - 6% (based on conservation buffer 6.625%);

Ratio of regulatory capital of the Bank to risk weighted assets - 10% (based on conservation buffer 10.625%);

During the reporting period the Bank ensured compliance with all external regulatory requirements in relation to capital.

34. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's business. The Bank manages risks in the course of the constant process of identification, evaluation and observation, by establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as stock prices. The Bank is also subject to operational risks, risks of loss of business reputation.

Risk management structure

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors ensures general organization of the risk management system, exclusion of the conflicts of interest and conditions to its occurrence in the risk management process. The Board of Directors approves the risk management system development strategy and the Risk Management Policies of the Bank, determines the maximum risk exposure in the form of risk appetite which is defined as an acceptable (safe) risk level for ensuring the financial reliability and long-term operation of the Bank on the basis of the strategy, nature, scope and complexity of the types of activity and the financial position. The Risk Committee of the Board of Directors bears responsibility for creating an effective risk management system of the Bank, ensuring the appropriate level of financial reliability and information security, ensuring compliance of the Bank's risk profile with the strategic characteristics of its activity, exercising control over the compliance with the established restrictions (limits) according to the Bank's risk level (including the risk appetite). The Management Board organizes the Bank's risk management system and ensures that the Bank performs the objectives and goals set forth by the Board of Directors in the relevant sphere. The Management Board approves regulations on the management of certain risk types that are developed to implement the Strategy and in compliance with the Risk Management Policies sets forth the procedure and the frequency with which risk reports are provided to the governing bodies, collective bodies of the Bank. The Management Board bears responsibility for the operating effectiveness of the risk management system, for the maintenance of adequate risk profile of the Bank. Committees implement the certain risk type management policy, set limits and restrictions for certain types of banking operations, financial instruments or operators, exercise control over prescribed risk levels and carry out activities aimed at minimizing negative risks impact on the Bank's activities. Within the authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee make decisions on operations exposed to risks.

Risk Management Department coordinates the risk management process, develops techniques to assess the level of credit, market, operational, liquidity risks, regularly assesses and monitors the specified risks and aggregated risk of the Bank, performs risk stress testing, carries out independent expert review of the credit transactions within the prescribed authority and prepares risk reports for the management of the Bank, shareholders and stakeholders of the Bank. Risk Management Department is independent from subordination to the risk-generating units (officers) of the Bank, which allows to ensure the provision of complete and accurate information on risk profile of the Bank to the management of the Bank.

Within the internal control system Internal Audit Department assesses whether methodology and procedures on risk management are fully and effectively implemented, assesses the management effectiveness of certain types of risks and the risk management system of the Bank as a whole.

Departments of the Bank (individual officers) are responsible for risk identification for the lines of business, development and implementation of measures for minimization and operational control over risks related to their operation within the given authority.

As a part of risk management measures the Bank provides employees with powers of attorney which define authority levels that do not require approval of management bodies of the Bank.

Systems of risk evaluation and communication

The Bank's risks are evaluated based on probabilistic quantitative methods establishing in monetary equivalent the maximum threshold of possible loss which will not be exceeded with a certain level of probability. The Bank also simulates the "stress scenarios" which will take place in case unlikely events occur.

Risk monitoring and control are mainly based on comparison of calculated indicators with the limits set by the Bank. The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum aggregate risk, which should not exceed the equity of the Bank.

The management bodies of the Bank make decisions aimed at optimization of risk levels and also set limits on maximum risk for particular activities. They also set maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits for divisions of the Bank on certain active and passive operations, interest rate level associated with them, limits on active operations with financial institutions, limits on operations with securities, industry limits of credit risk. Credit Committees approve aggregate limits and sub-limits on certain types of active transactions with corporate clients and the terms for financing.

The Management Board distributes and approves maximum risk for various banking activities in accordance with strategic priorities and analysis of the existing trends in the Bank and their possible future changes submitted by Risk Management Department.

Regional offices must adhere to the principles of risk management accepted by the Bank. Control over compliance with the set limits is performed on an on-going basis. Such control is performed by the employees who execute banking transactions in an ordinary course of business, by the Internal Control and Audit Department in the course of audits, by Risk Management Department in the course of risk evaluation and monitoring, by the Reporting Department and during preparation of reports on prudential financial statements. External control is carried out by the Revision Commission of the Bank.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. The information together with relevant commentary is submitted to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank, committees of the Bank responsible for management of certain risks control, and to the managers of departments of the Bank. The reports contain information on the Bank's risk profile, risk appetite, the levels of aggregate risk and certain risk types, major factors influencing these levels and changes in risk level. The Management Board receives a detailed quarterly report on risks with the information necessary for risks evaluation and decision-making.

The system of risk reporting implemented in the Bank enables access of all departments to the accurate information which is required for the management decisions.

Excessive risk concentrations

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

In order to avoid excessive risk concentration the Bank's policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolios, including by the types of active operations, industries, the sources of their resources, currency types.

Credit risk

Credit risk is the risk that the Bank will incur losses in case its clients or counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring compliance with the credit limits set.

Credit risk is managed in three directions: credit risk management over lending to corporate clients, credit risk management of the operations with retail customers, credit risk management over operations with financial institutions.

Levels of credit risk assumed are managed by the following procedures:

• Segregation of duties between authorized management bodies in decision-making process;
• Limits setting for operations with the purpose of credit risk minimization;
• Regular analysis of debtors' financial position and their ability to meet credit obligations;
• Requirement of collateral for credit operations in order to limit risk exposure;
• Constant monitoring of the level and status of the risks taken and preparation of appropriate risk reports to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank and other stakeholders;
• Evaluating and ensuring capital adequacy necessary for coverage of risks taken by the Bank in the course of business;
• Ongoing internal control over adherence to the policies regulating operations, risks assessment and management carried out by the Internal Control and Audit Department.

Off-balance sheet credit commitments represent unused portions of credit in the form of credit lines, guarantees and unsecured letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. In relation to credit risk associated with off-balance sheet financial instruments the Bank potentially carries loss which equals to total amount of unused credit lines. However, the probable amount of loss is less than total amount of unused credit lines since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to loans, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

The Bank implemented credit risk escalation procedure for the purpose of early identification and control over credit risks.

The Bank assesses a credit risk on the basis of qualitative and quantitative characteristics of the risk. The qualitative assessment of credit risk by separate transactions is carried out while analyzing the financial statements and non-financial information about the customer (goodwill, competitive position, transparency of the ownership structure, etc.) in interconnection with the required transaction parameters both when credit experts prepare economic report on the possibility to carry out transactions and when the employees of Risk Management Department carry out independent expert review of the credit transaction risk assessment. The assessment of the quality of credit portfolio is performed on the basis of set credit risk indicators. The Bank carries out quarterly credit risk quantitative evaluation, which is based on the assessment of the probability of the events leading to risk and assessment of potential losses. The results of evaluation are submitted to the credit committees and are the basis for amendments of the credit policy.

Maximum credit risk exposure

For financial assets recognized on the balance sheet the maximum exposure to credit risk equals to a carrying value of those assets, net of allowance for impairment losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, less provisions made for losses on these instruments.

The maximum amount of credit risk of the Bank may vary depending on individual risks of different assets and general market risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities.

	31 December 2016 Maximum credit risk exposure	31 December 2015 Maximum credit risk exposure
Cash and cash equivalents (less cash on hand)	200,657	218,891
Securities at fair value through profit or loss	-	72,821
Derivative financial instruments	1,628	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	9,108	72,062
Loans to customers	1,931,975	1,793,447
Investments available for sale (less unquoted equity investments)	739,600	580,362
Other financial assets	10,825	10,277
Guarantees issued and similar contingencies	52,317	61,425
Letters of credit not covered by cash	67,835	1,593
Total	**3,013,945**	**2,859,442**

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA.

The sovereign credit rating in foreign currency of the Republic of Belarus according to the international rating agency Standard & Poor's in 2016 and 2015 corresponded to level B-.

The following table presents Bank's financial assets by counterparties' credit ratings given by internationally regarded agencies (for government bodies – by country sovereign credit ratings):

	A	BBB	BB	Below BB	Not rated	31 December 2016 Total
Cash and cash equivalents (less cash on hand)	10,103	6,200	110,233	70,381	3,740	200,657
Derivative financial instruments, assets	-	-	1,564	54	10	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	7,394	1,714	9,108
Loans to customers	-	-	-	-	1,931,975	1,931,975
Investments available for sale (less unquoted equity investments)	-	59,537	21,354	658,709	-	739,600
Other financial assets	214	-	-	1,720	8,891	10,825
Total financial assets	**10,317**	**65,737**	**133,151**	**738,258**	**1,946,330**	**2,893,793**

	A	BBB	BB	Below BB	Not rated	31 December 2015 Total
Cash and cash equivalents (less cash)	17,532	23,880	18,643	155,270	3,566	218,891
Securities at fair value through profit or loss	-	16,250	3,111	53,460	-	72,821
Derivative financial instruments, assets	-	-	183	48,381	-	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	4,425	-	-	67,637	-	72,062
Loans to customers	-	-	-	-	1,793,447	1,793,447
Investments available for sale (less unquoted equity investments)	-	52,005	28,138	500,219	-	580,362
Other financial assets	1,225	-	-	1,586	7,466	10,277
Total financial assets	**23,182**	**92,135**	**50,075**	**826,553**	**1,804,479**	**2,796,424**

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Belarus. The exposure to credit risk is monitored on a regular basis to ensure the compliance of credit limits and creditworthiness according to the Bank's risk management policy.

The carrying value of impaired loans to customers is disclosed in Note 18. As at 31 December 2016 and 2015 other financial assets comprised impaired assets in the amount of and BYN 886 thousands and BYN 1,269 thousands, respectively. As at 31 December 2016 and 2015 the Bank had no past due but not impaired financial assets.

Collateral

A major portion of loans is either collateralized or secured with guarantees from institutions or individuals. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are regularly updated regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 18.

Monitoring of the market value of collateral is performed on a regular basis, its results are reported to the management of the Bank. If necessary, borrowers are requested to provide additional collateral in accordance with the underlying agreement.

Geographical concentration

The Bank regularly controls the risk associated with changes in legislation, economic development and financial sphere of countries, where the Bank's counterparties reside, and assesses its impact on the activities of the Bank (Note 30). This approach is aimed at minimization of possible losses from investment climate changes in the respective countries. The Assets and Liabilities Management Committee manages country risks of the Bank.

The geographical concentration of financial assets and liabilities is set out below:

	Belarus	CIS countries	OECD countries	Other countries	31 December 2016 Total
FINANCIAL ASSETS					
Cash and cash equivalents	146,986	108,529	18,867	569	274,951
Derivative financial instruments, assets	10	1,564	54	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	7,394	-	1,714	-	9,108
Loans to customers	1,931,910	47	10	8	1,931,975
Investments available for sale	659,267	80,891	20	-	740,178
Other assets	10,584	27	214	-	10,825
TOTAL FINANCIAL ASSETS	**2,756,151**	**191,058**	**20,879**	**577**	**2,968,665**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	594	29	-	-	623
Due to banks and other financial institutions	78,323	345,625	226,952	-	650,900
Customer accounts	1,498,013	34,203	81,383	26,126	1,639,725
Debt securities issued	70,756	-	-	-	70,756
Other liabilities	4,485	524	256	18	5,283
Subordinated loan	-	334,901	-	-	334,901
TOTAL FINANCIAL LIABILITIES	**1,652,171**	**715,282**	**308,591**	**26,144**	**2,702,188**
OPEN POSITION	**1,103,980**	**(524,224)**	**(287,712)**	**(25,567)**	

	Belarus	CIS countries	OECD countries	Other countries	31 December 2015 Total
FINANCIAL ASSETS					
Cash and cash equivalents	221,831	17,611	42,439	2,078	283,959
Securities at fair value through profit or loss	53,460	19,361	-	-	72,821
Derivative financial instruments, assets	48,282	282	-	-	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	67,637	-	4,425	-	72,062
Loans to customers	1,793,364	72	-	11	1,793,447
Investments available for sale	500,255	80,143	20	-	580,418
Other assets	9,968	11	292	6	10,277
TOTAL FINANCIAL ASSETS	**2,694,797**	**117,480**	**47,176**	**2,095**	**2,861,548**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	188	133	-	358	679
Due to banks and other financial institutions	19,163	181,333	242,267	31,986	474,749
Customer accounts	1,688,267	43,890	64,937	28,753	1,825,847
Debt securities issued	57,577	-	-	-	57,577
Other liabilities	2,124	706	141	72	3,043
Subordinated loan	-	262,165	-	-	262,165
TOTAL FINANCIAL LIABILITIES	**1,767,319**	**488,227**	**307,345**	**61,169**	**2,624,060**
OPEN POSITION	**927,478**	**(370,747)**	**(260,169)**	**(59,074)**	

Liquidity Risk

Liquidity risk is the risk that the Bank will have problems in performing its financial obligations involving settlements in cash or other financial asset.

A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization process and appointed officers responsible for certain stages of risk management.

The management manages assets and liabilities by taking into account liquidity, risk of simultaneous withdrawal and daily monitoring of future cash flows. The process comprises evaluation of expected cash flows, availability of high-quality collateral, which may be used for obtaining additional funds if required. Short-term liquidity is managed by the Treasury of the Bank, which carries out operations on the money market for the purpose of current liquidity maintenance and future cash flows optimization.

The Bank holds a diversified assets portfolio that can be realized in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in cash funds. Besides, in accordance with the legislation, the Bank has an obligatory reserve deposit with the National Bank. The amount of the deposit depends on the level of deposits attracted from clients.

The following tables present the analysis of liquidity and interest-rate risks which discloses term to maturity, calculated for non-discounted cash flows on financial liabilities (principal and interest) at the earliest date when the Bank will be liable to redeem the liability. The amounts disclosed in these tables do not reconcile to the amounts recorded in the balance sheet as the presentation below includes maturity analysis of financial liabilities, that comprise total undiscounted remaining contractual payments (including interest payments).

	Up to 1 month	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**31 December 2016 Total**
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	182,931	43,896	177,954	299,291	59	704,131
Customer accounts	306,041	211,400	300,278	567,360	306,156	1,691,235
Debt securities issued	3,665	277	9,448	63,396	-	76,786
Subordinated loans	13,267	-	13,231	106,903	335,302	468,703
Total interest bearing financial liabilities	**505,904**	**255,573**	**500,911**	**1,036,950**	**641,517**	**2,940,855**
Due to banks and other financial institutions	12,002	-	-	-	-	12,002
Customer accounts	120,240	2,218	6,933	-	-	129,391
Other financial liabilities	4,980	154	82	67	-	5,283
Guarantees issued and similar contingencies	52,317	-	-	-	-	52,317
Letters of credit, not covered by cash	58,520	171	450	8,694	-	67,835
TOTAL FINANCIAL LIABILITIES	**753,963**	**258,116**	**508,376**	**1,045,711**	**641,517**	**3,207,683**
Derivative financial liabilities						**623**
Inflow	12,137	841	6,691	-	-	-
Outflow	(12,344)	(1,004)	(7,135)	-	-	-
Total net cash flows from derivatives	**(207)**	**(163)**	**(444)**	**-**	**-**	**-**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2015 Total
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	34,227	28,994	192,144	273,809	4,821	533,995
Customer accounts	494,186	197,567	604,153	333,748	346,945	1,976,599
Debt securities issued	1,312	153	50,740	5,401	-	57,606
Subordinated loans	9,012	-	10,443	84,141	284,824	388,420
Total interest bearing financial liabilities	**538,737**	**226,714**	**857,480**	**697,099**	**636,590**	**2,956,620**
Due to banks and other financial institutions	6,386	-	-	-	-	6,386
Customer accounts	92,068	-	-	-	-	92,068
Other financial liabilities	2,795	72	176	-	-	3,043
Guarantees issued and similar contingencies	61,425	-	-	-	-	61,425
Letters of credit, not covered by cash	1,593	-	-	-	-	1,593
TOTAL FINANCIAL LIABILITIES	**703,004**	**226,786**	**857,656**	**697,099**	**636,590**	**3,121,135**
Derivative financial liabilities						**679**
Inflow	270,823	-	18,726	-	-	-
Outflow	(271,000)	-	(18,680)	-	-	-
Total net cash flows from derivatives	**(177)**	**-**	**46**	**-**	**-**	**-**

The following table presents an analysis of liquidity risk based on carrying values of financial assets and liabilities based on their expected maturity. Management estimates expected maturity of financial assets and liabilities based on historical data analysis, existence of an active market and other factors affecting the period of assets and liabilities realization/settlement.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Past due	Maturity undefined	31 December 2016 Total
FINANCIAL ASSETS								
Cash and cash equivalents	120,370	-	-	-	-	-	-	120,370
Securities at fair value through profit or loss	-	-	-	-	-	-	-	-
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	1,714	1,714
Loans to customers	130,066	355,840	638,422	712,661	82,165	12,821	-	1,931,975
Investments available for sale	77,120	162,567	322,368	103,356	74,189	-	-	739,600
Total interest bearing financial assets	**327,556**	**518,407**	**960,790**	**816,017**	**156,354**	**12,821**	**1,714**	**2,793,659**
Cash and cash equivalents	154,581	-	-	-	-	-	-	154,581
Derivative financial instruments, assets	1,624	1	3	-	-	-	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	7,394	7,394
Investments available for sale	-	-	-	-	-	-	578	578
Other financial assets	3,802	186	369	315	-	1,052	5,101	10,825
TOTAL FINANCIAL ASSETS	**487,563**	**518,594**	**961,162**	**816,332**	**156,354**	**13,873**	**14,787**	**2,968,665**
FINANCIAL LIABILITIES								
Due to banks and other financial institutions	182,849	39,054	161,161	255,782	52	-	-	638,898
Customer accounts	183,752	202,264	267,882	467,273	272,478	-	116,685	1,510,334
Debt securities issued	3,665	79	6,385	60,627	-	-	-	70,756
Subordinated loans	13,267	-	-	-	321,634	-	-	334,901
Total interest bearing financial liabilities	**383,533**	**241,397**	**435,428**	**783,682**	**594,164**	**-**	**116,685**	**2,554,889**
Due to banks and other financial institutions	12,002	-	-	-	-	-	-	12,002
Customer accounts	43,636	2,218	6,933	-	-	-	76,604	129,391
Derivative financial instruments, liabilities	193	153	277	-	-	-	-	623
Other financial liabilities	4,512	154	82	67	-	-	468	5,283
TOTAL FINANCIAL LIABILITIES	**443,876**	**243,922**	**442,720**	**783,749**	**594,164**	**-**	**193,757**	**2,702,188**
Liquidity gap	43,687	274,672	518,442	32,583	(437,810)			
Interest sensitivity gap	(55,977)	277,010	525,362	32,335	(437,810)			
Cumulative interest sensitivity gap	(55,977)	221,033	746,395	778,730	340,920			
Cumulative interest sensitivity gap as a percentage of total financial assets	(1.9%)	7.4%	25.1%	26.2%	11.5%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Past due	Maturity undefined	31 December 2015 Total
FINANCIAL ASSETS								
Cash and cash equivalents	81,321	-	-	-	-	-	-	81,321
Securities at fair value through profit or loss	72,821	-	-	-	-	-	-	72,821
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	37,718	19,545	-	-	-	4,425	61,688
Loans to customers	114,118	279,405	586,037	753,380	49,300	11,207	-	1,793,447
Investments available for sale	2,998	67,466	328,216	94,820	86,862	-	-	580,362
Total interest bearing financial assets	**271,258**	**384,589**	**933,798**	**848,200**	**136,162**	**11,207**	**4,425**	**2,589,639**
Cash and cash equivalents	202,638	-	-	-	-	-	-	202,638
Derivative financial instruments, assets	282	-	48,282	-	-	-	-	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	10,374	10,374
Investments available for sale	-	-	-	-	-	-	56	56
Other financial assets	4,214	1	-	172	-	860	5,030	10,277
TOTAL FINANCIAL ASSETS	**478,392**	**384,590**	**982,080**	**848,372**	**136,162**	**12,067**	**19,885**	**2,861,548**
FINANCIAL LIABILITIES								
Due to banks and other financial institutions	33,153	26,130	175,053	230,375	3,652	-	-	468,363
Customer accounts	188,763	183,079	559,882	213,867	292,099	-	296,089	1,733,779
Debt securities issued	1,312	151	50,719	5,395	-	-	-	57,577
Subordinated loans	9,012	-	-	-	253,153	-	-	262,165
Total interest bearing financial liabilities	**232,240**	**209,360**	**785,654**	**449,637**	**548,904**	**-**	**296,089**	**2,521,884**
Due to banks and other financial institutions	6,386	-	-	-	-	-	-	6,386
Customer accounts	20,710	-	-	-	-	-	71,358	92,068
Derivative financial instruments, liabilities	326	-	353	-	-	-	-	679
Other financial liabilities	2,795	72	176	-	-	-	-	3,043
TOTAL FINANCIAL LIABILITIES	**262,457**	**209,432**	**786,183**	**449,637**	**548,904**	**-**	**367,447**	**2,624,060**
Liquidity gap	215,935	175,158	195,897	398,735	(412,742)			
Interest sensitivity gap	39,018	175,229	148,144	398,563	(412,742)			
Cumulative interest sensitivity gap	39,018	214,247	362,391	760,954	348,212			
Cumulative interest sensitivity gap as a percentage of total financial assets	1.4%	7.5%	12.7%	26.6%	12.2%			

For the following categories of financial assets and financial liabilities the expected periods differ from the contractual ones.

Securities at fair value through profit and loss – the expected period of sale of the securities at fair value through profit and loss reported as at 31 December 2015 was determined by the management as less than 1 month as far as there is active market where these securities may be sold within a short period of time.

Customer accounts – the Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationship, this amount is estimated using statistical methods based on historical data of fluctuations on customer accounts balances during 90 days before the reporting date, thus, such stable customer deposits are included in the category "Maturity undefined".

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2016 and 2015:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Past due	Maturity undefined	31 December 2016 Total
Securities at fair value through profit or loss, interest bearing	-	-	-	-	-	-	-	-
Customer accounts, interest bearing	300,437	202,264	267,882	467,273	272,478	-	-	1,510,334
Customer accounts, non-interest bearing	120,240	2,218	6,933	-	-	-	-	129,391
Liquidity gap, considering contractual maturity	(149,602)	274,672	518,442	32,583	(437,810)			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Past due	Maturity undefined	31 December 2015 Total
Securities at fair value through profit or loss, interest bearing	-	-	3,111	69,710	-	-	-	72,821
Customer accounts, interest bearing	484,852	183,079	559,882	213,867	292,099	-	-	1,733,779
Customer accounts, non-interest bearing	92,068	-	-	-	-	-	-	92,068
Liquidity gap, considering contractual maturity	(224,333)	175,158	199,008	468,445	(412,742)			

The Bank expects that not all contingent or contractual liabilities will require settlement before maturity. The Management of the Bank believes that it will be able to sell its liquid assets to settle liabilities on customer accounts in case of demand for repayment before maturity. Beside that the Management of the Bank believes that if the financing from its counteragent banks decreases the Bank will get support from the shareholders by extending credit line limit to maintain liquidity.

Term deposits of individuals are included in customer accounts. Under the amendments to the legislation of the Republic of Belarus regarding deposits attracted by the Bank starting from the 12 November 2015 the Bank is required to return the attracted amounts of deposits from individuals under revocable deposits upon request of the individual, at the same time there are no obligations to early repayment of long-term deposits.

For the purpose of early identification and control over liquidity risk the Bank implemented liquidity risk escalation procedure and developed a plan for business continuity and restoration of its operations in case of a crisis situation (liquidity crisis).

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its claims and obligations which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits.

Market risk includes interest-rate risk, currency risk.

Interest-rate risk

Interest-rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate and net interest income will change because of changes in interest rates. This risk arises due to cumulative misbalance of terms and rate types of the interest bearing assets and liabilities, as well as due to high sensitivity to changes in the interest rates on debt instruments acquired for the purpose of receiving revenues from their resale.

Interest-rate risk is managed by a collective body – The Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank’s operating departments, within which they can operate, and ensures control over the risk of interest rate margin change by monitoring the gap between interest bearing assets and liabilities. The Bank monitors its current financial performance on continuing basis, estimates interest rate sensitivity and its effect on profit and equity.

The effect of interest rate changes on Bank's comprehensive income is evaluated based on the amounts of financial assets and liabilities with variable interest rates, as well as on amounts of assets carried at fair value with fixed interest rate as at reporting date. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature. The estimation follows from the assumption that the Bank's portfolio structure does not change and is based on "the reasonably possible changes in risk variables". The level of these changes is determined by the management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank's comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve including all assets and liabilities, the shift was estimated to be equal to 1 percentage points for all financial instruments disregarding of their nominal currency. In addition, it was assumed that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period. All other variables were held constant.

	31 December 2016		**31 December 2015**	
	Interest rate 1%	**Interest rate - 1%**	**Interest rate 1%**	**Interest rate - 1%**
Impact on profit before taxation				
Assets				
Cash and cash equivalents	1,154	(1,154)	780	(780)
Securities at fair value through profit or loss	-	-	(1,626)	1,626
Derivative financial instruments, assets	37	(37)	(173)	175
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	434	(434)
Loans to customers	13,679	(13,679)	14,082	(14,082)
Investments available for sale	3,190	(3,190)	1,988	(1,988)
Liabilities				
Due to banks and other financial institutions	(3,684)	3,684	(2,863)	2,863
Customer accounts	(5,761)	5,761	(8,711)	8,711
Debt securities issued	(15)	15	(57)	57
Impact on profit before taxation	8,600	(8,600)	3,854	(3,852)
Impact on other comprehensive income				
Investments available for sale	(9,204)	9,431	(11,049)	11,473
Impact on comprehensive income after taxation	(1,661)	1,888	(7,377)	7,803

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's financial position and cash flows are exposed to foreign currency exchange rate fluctuations.

Asset and Liability Management Committee manages the currency risk by defining the open currency position on the basis of the estimated devaluation of the national currency and other macroeconomic indicators. The Treasury Department performs daily control over the open currency position of the Bank to ensure its compliance with the limits.

The Bank performs quantitative assessment of the currency risk using Value-at-Risk model. The assessment results are regularly reported to the management and are used for management decisions.

The Bank's exposure to currency risk is as follows:

	BYN	USD 1USD= BYN 1.9585	EUR 1EUR= BYN 2.0450	RUB 1RUB= BYN 0.03244	Other currencies	31 December 2016 Total
FINANCIAL ASSETS						
Cash and cash equivalents	31,034	49,538	81,576	112,043	760	274,951
Derivative financial instruments, assets	1,628	-	-	-	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	7,394	1,714	-	-	-	9,108
Loans to customers	489,985	618,334	607,475	216,181	-	1,931,975
Investments available for sale	59,202	630,791	50,185	-	-	740,178
Other financial assets	8,255	2,036	339	195	-	10,825
TOTAL FINANCIAL ASSETS	**597,498**	**1,302,413**	**739,575**	**328,419**	**760**	**2,968,665**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	623	-	-	-	-	623
Due to banks and other financial institutions	40,436	284,973	312,863	12,628	-	650,900
Customer accounts	253,111	1,065,467	277,075	32,047	12,025	1,639,725
Debt securities issued	-	57,647	13,109	-	-	70,756
Other financial liabilities	3,631	263	928	461	-	5,283
Subordinated loans	-	-	-	334,901	-	334,901
TOTAL FINANCIAL LIABILITIES	**297,801**	**1,408,350**	**603,975**	**380,037**	**12,025**	**2,702,188**
CURRENCY POSITION	**299,697**	**(105,937)**	**135,600**	**(51,618)**	**(11,265)**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts:

	BYN	USD 1USD= BYN 1.9585	EUR 1EUR= BYN 2.0450	RUB 1RUB= BYN 0.03244	Other currencies	31 December 2016 Total
Claims on derivative financial instruments and spot contracts	9,032	129,903	-	39,106	11,671	189,712
Liabilities on derivative financial instruments and spot contracts	(4,530)	(16,047)	(158,128)	(10,102)	-	(188,807)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**4,502**	**113,856**	**(158,128)**	**29,004**	**11,671**	
TOTAL CURRENCY POSITION	**304,199**	**7,919**	**(22,528)**	**(22,614)**	**406**	

	BYN	USD	EUR	RUB	Other currencies	31 December 2015 Total
		1USD= BYN 1.8569	1EUR= BYN 2.0300	1RUB= BYN 0.025533		
FINANCIAL ASSETS						
Cash and cash equivalents	147,848	53,069	50,474	32,074	494	283,959
Securities at fair value through profit or loss	-	53,460	-	19,361	-	72,821
Derivative financial instruments, assets	48,564	-	-	-	-	48,564
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	10,373	59,646	-	2,043	-	72,062
Loans to customers	377,050	676,594	596,676	143,127	-	1,793,447
Investments available for sale	34,687	545,731	-	-	-	580,418
Other financial assets	8,042	1,677	396	162	-	10,277
TOTAL FINANCIAL ASSETS	**626,564**	**1,390,177**	**647,546**	**196,767**	**494**	**2,861,548**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	326	353	-	-	-	679
Due to banks and other financial institutions	23,591	240,953	209,672	533	-	474,749
Customer accounts	273,583	1,175,423	326,041	50,787	13	1,825,847
Debt securities issued	-	54,017	3,560	-	-	57,577
Other financial liabilities	1,616	315	662	450	-	3,043
Subordinated loans	-	-	-	262,165	-	262,165
TOTAL FINANCIAL LIABILITIES	**299,116**	**1,471,061**	**539,935**	**313,935**	**13**	**2,624,060**
CURRENCY POSITION	**327,448**	**(80,884)**	**107,611**	**(117,168)**	**481**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts:

	BYN	USD	EUR	RUB	Other currencies	31 December 2015 Total
		1USD= BYN 1.8569	1EUR= BYN 2.0300	1RUB= BYN 0.025533		
Claims on derivative financial instruments and spot contracts	-	226,334	145,570	111,373	41,619	524,896
Liabilities on derivative financial instruments and spot contracts	(13,938)	(157,457)	(263,088)	-	(41,623)	(476,106)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**(13,938)**	**68,877**	**(117,518)**	**111,373**	**(4)**	
TOTAL CURRENCY POSITION	**313,510**	**(12,007)**	**(9,907)**	**(5,795)**	**477**	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase by 20% and decrease by 10% of USD, EUR and RUB against national currency as at 31 December 2016 and 2015. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates, which is used when reporting foreign currency risk internally to key management personnel of the Bank. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	As at 31 December 2016		As at 31 December 2015	
	BYN/USD 20%	**BYN/USD -10%**	**BYN/USD 20%**	**BYN/USD -10%**
Impact on profit before taxation	1,610	(805)	(2,403)	1,201
Impact on comprehensive income after taxation	1,208	(604)	(1,802)	901

	As at 31 December 2016		As at 31 December 2015	
	BYN/EUR 20%	**BYN/EUR -10%**	**BYN/EUR 20%**	**BYN/EUR -10%**
Impact on profit before taxation	(4,506)	2,253	(2,200)	1,100
Impact on comprehensive income after taxation	(3,380)	1,690	(1,650)	825

	As at 31 December 2016		As at 31 December 2015	
	BYN/RUB 20%	**BYN/RUB -10%**	**BYN/RUB 20%**	**BYN/RUB -10%**
Impact on profit before taxation	(4,540)	2,270	(1,241)	621
Impact on comprehensive income after taxation	(3,405)	1,703	(931)	465

Limitations of sensitivity analysis

The above interest-rate risk and currency risk sensitivity analysis demonstrate the effect of a change in a key assumption mentioned above, 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 sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets held at market value on the balance sheet may be affected significantly. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Operational risk

The Bank is subject to operational risk at all stages of its activity. Operational risk is the risk of loss arising from non-compliance of procedures specified by local regulations for banking operations and other transactions with legislation or breach thereof by employees, incompetence or human error, software and systems failure or external events.

To collect information on operational risk occurrence events the Bank maintains a corresponding database. It reflects data on events of operational risk occurrence and amounts of operational loss broken down by Bank activities, certain banking operations (processes), circumstances for occurrence and detection thereof.

The Bank performs assessment of operational risk to analyze operational risk condition and make correct management decisions.

Proactive methods of operational risk management in the Bank include maintaining of operational risks register and use of key operational risk indicators system, usage of self-assessment and risk-audit procedures. The Banks places special emphasis on ensuring business continuity and planning its operations in case of unexpected situations.

To increase the effectiveness of operational risk management the Bank developed and implemented operational risk escalation scenario.

Operational risk realization can result not only in financial losses, but can also damage Bank's reputation and negatively affect employees' performance efficiency. The Bank cannot expect to eliminate all operational risks, but it endeavors to expand the sphere of identified and manageable operational risk. This is implemented through internal control system development by setting limits and controls, risk insurance, process management system development and transfer of parts of risks to third parties. Internal control system implies efficient distribution of job responsibilities and authorized accesses to documents and other information, procedures for approval, comparative check and assessment in place, including internal audit, and development of personnel training system.

The Bank performs regular stress tests of operational risk to assess the resistance to realization of rare but plausible catastrophic events. The stress test results are submitted to the Management for managerial decision-making.

35. SUBSEQUENT EVENTS

In January and February 2017, the National Bank of the Republic of Belarus adopted the decision on the next reduction of the refinancing rate from 18% to 17% and 16%, respectively, due to the slowdown of inflation.