Translation of the original Russian version

"Priorbank" JSC

Consolidated financial statements

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

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Ernst & Young LLC
Klary Tsetkin st., 51A, 15th floor
Minsk, 220004, Republic of Belarus
Tel: +375 (17) 240 4242
Fax: +375 (17) 240 4241
www.ey.com/by

ООО «Эрнст энд Янг»
Республика Беларусь, 220004, Минск
ул. Клары Цеткин, 51А, 15 этаж
Тел.: +375 (17) 240 4242
Факс: +375 (17) 240 4241

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Audit report of the independent audit firm on the consolidated financial statements of "Priorbank" Joint-Stock Company for the period from 1 January 2016 to 31 December 2016

To the Chairman of the Management Board
of "Priorbank" Joint-Stock Company
Mr. S.A. Kostyuchenko

To the shareholders, Supervisory Board, Audit Committee and Executive Committee
of "Priorbank" Joint-Stock Company

Opinion

We have audited the consolidated financial statements of "Priorbank" Joint-Stock Company and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with Law of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing (ISA). Our responsibilities under those rules and standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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.

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Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Allowance for impairment of loans to customers

The appropriateness of allowance for impairment of loans to customers is a key area of judgment for the Group's management. The identification of impairment indicators and the determination of the recoverable amount require the significant use of professional judgment, the use of assumptions and analysis of various factors, including the analysis of the borrower's financial position, expected future cash flows and realizable value of the collateral.

The use of various models and assumptions significantly affects the estimates of allowances for impairment of loans to customers. Due to the significance of the loans to customers, which account for 61% of total assets, and due to the high level of subjectivity, the estimation of the allowance for impairment is one of the key audit matters.

Our audit procedures were planned and performed to cover the increased risks related to the allowance for impairment of loans to customers. Our audit strategy with regard to the allowance for impairment of loans to customers was based on performing substantive procedures. We assessed the methodology used to calculate allowance for impairment of loans to customers, including analysis of models, test of input data used in those models, analysis of the Group's assumptions used to calculate a collective allowance for impairment. With regard to allowance for impairment of significant individually assessed loans, we inspected assumptions used by the Group to identify impairment indicators, their quantitative assessment, including forecasts of future cash flows, and the measurement of the fair value of the collateral.

In the course of our audit procedures we analyzed the consistency and relevance of management's judgments used to assess economic factors and statistical information on losses incurred and amounts recovered.

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We performed procedures in respect of information disclosed in Notes 4, 9 and 26 to the consolidated financial statements.

Assessment of liabilities under the defined benefit plan

As detailed in Note 25, the Group has a defined benefit plan with net liabilities of BYN 20,562 thousand as at 31 December 2016.

Assessment of retirement and other liabilities to employees is a key audit matter as the management determines carrying values of the defined benefit plans and the discounted value of the respective liabilities on the basis of actuarial methodologies that rely on certain assumptions and the amount of liabilities under the defined benefit plans as at the reporting date is highly sensitive to changes in those assumptions. Such assumptions include, but are not limited to, mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels as well as the expected return on plan asset. In order to measure the carrying value of the plan, the management of the Group engaged independent actuary.

In the course of our audit procedures we assessed competence and integrity of the independent actuary engaged by the Group, analyzed the above assumptions, performed sample testing of the Group's employee data used for actuarial calculations, as well as performed analytical procedures in respect of the carrying value of liabilities under the defined benefit plans and their changes during the period. To perform such audit procedures we engaged our actuarial experts.

We performed procedures in respect of information disclosed in Notes 3, 15, 24 and 25 to the consolidated financial statements.

Responsibility of management and the Supervisory Board of "Priorbank" JSC for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of "Priorbank" JSC is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and 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 consolidated financial statements.

As part of our audit performed in accordance with Law of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 consolidated 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 Group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Совершенствуя бизнес,
улучшаем мир

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We communicate with the Supervisory Board and the Audit Committee of "Priorbank" JSC regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board and the Audit Committee of "Priorbank" JSC with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board and the Audit Committee of "Priorbank" JSC, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the engagement resulting in this independent auditor's report is P.A. Laschenko.

P.A. Laschenko
Partner, FCCA
General Director, Ernst & Young LLC

21 April 2017

Details of the audited entity

Name: "Priorbank" Joint-Stock Company
"Priorbank" Joint-Stock Company was registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A.

Details of the audit firm

Name: Ernst & Young Limited Liability Company
Certificate of State Registration No. 190616051 issued by the Minsk City Executive Committee on 15 December 2014.
Address: 220004, Republic of Belarus, Minsk, Klary Tsetkin str., 51a, 15th floor.

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Consolidated statement of financial position
As at 31 December 2016

(thousands of Belarusian rubles)

	Notes	2016	2015
Assets			
Cash and cash equivalents	6	799,436	769,994
Amounts due from credit institutions	7	40,822	23,935
Derivative financial assets	8	681	751
Loans to customers	9	1,939,278	1,756,744
Held-to-maturity investment securities	11	172,625	214,093
Property and equipment	12	132,167	126,103
Intangible assets	13	27,313	24,547
Current income tax assets		3,567	34
Other assets	15	77,157	58,184
Total assets		**3,193,046**	**2,974,385**
Liabilities			
Amounts due to credit institutions	16	404,765	513,061
Derivative financial liabilities	8	464	578
Amounts due to customers	17	1,860,559	1,647,013
Amounts due to international financial institutions	18	11,771	17,466
Debt securities issued	19	2,676	6,889
Current income tax liabilities		761	5,607
Deferred income tax liabilities	14	70,938	62,749
Other provisions	10	518	480
Other liabilities	15	76,933	67,187
Total liabilities		**2,429,385**	**2,321,030**
Equity	20		
Share capital		341,828	296,908
Additional paid-in capital		193	193
Foreign currency translation reserve		1,693	1,758
Retained earnings		403,226	343,368
Revaluation reserve for the net pension liability		(4,482)	(6,781)
Total equity attributable to shareholders of the Bank		**742,458**	**635,446**
Non-controlling interests		21,203	17,909
Total equity		**763,661**	**653,355**
Total equity and liabilities		**3,193,046**	**2,974,385**

Signed and authorized for release on behalf of the Management Board of the Bank

Открытое акционерное общество "Приорбанк" * Республика Беларусь *

Sergey A. Kostyuchenko — Chairman of the Management Board

Zoya P. Yarmosh — Executive Director

21 April 2017

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

Consolidated income statement
For the year ended 31 December 2016

(thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Interest income			
Loans to customers		333,556	331,371
Held-to-maturity investment securities		10,373	13,010
Cash and cash equivalents		9,674	10,726
Amounts due from credit institutions		1,180	743
		354,783	**355,850**
Securities designated at fair value through profit or loss		14,962	8,372
		369,745	**364,222**
Interest expense			
Amounts due to customers		(52,302)	(99,523)
Amounts due to credit institutions		(22,508)	(26,357)
Debt securities issued		(724)	(4,931)
Amounts due to the National Bank of the Republic of Belarus		–	(2,071)
Amounts due to international financial institutions		(144)	(164)
		(75,678)	**(133,046)**
Net interest income		**294,067**	**231,176**
Charge of allowance for loan impairment	9	(46,145)	(62,678)
Net interest income after allowance for loan impairment		**247,922**	**168,498**
Fee and commission income		128,152	120,390
Fee and commission expense		(59,525)	(44,178)
Net fee and commission income	22	**68,627**	**76,212**
Net gains from foreign currencies:			
- dealing		12,348	79,113
- translation differences		36,598	91,033
Other income	23	8,511	8,347
Non-interest income		**57,457**	**178,493**
Personnel expenses	24	(83,323)	(67,507)
Depreciation and amortization	12, 13	(19,268)	(17,374)
Other operating expenses	24	(62,783)	(49,767)
Taxes other than income tax		(3,403)	(2,699)
Other provisions	10	(38)	(110)
Non-interest expense		**(168,815)**	**(137,457)**
Income before income tax expense		**205,191**	**285,746**
Income tax expense	14	(49,088)	(69,081)
Profit for the year		**156,103**	**216,665**
Attributable to:			
- shareholders of the Bank		152,772	210,207
- non-controlling interests		3,331	6,458
		156,103	**216,665**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2016

(thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Profit for the year		**156,103**	**216,665**
Other comprehensive income			
Other comprehensive income to be subsequently reclassified to profit or loss subject to certain conditions:			
Exchange differences on translation of the financial statements of a foreign subsidiary	20	(102)	2,790
Net other comprehensive income/(loss) to be subsequently reclassified to profit or loss subject to certain conditions		**(102)**	**2,790**
Other comprehensive income not to be subsequently reclassified to profit or loss subject to certain conditions			
Actuarial gain/(loss) on defined pension plan	20	3,065	(4,325)
Income tax effect	20	(766)	1,081
Net other comprehensive income/(loss) to be subsequently reclassified to profit or loss when specific conditions are met		**2,299**	**(3,244)**
Other comprehensive loss for the year, net of tax		**2,197**	**(454)**
Total comprehensive income for the year		**158,300**	**216,211**
Attributable to:			
- shareholders of the Bank		155,006	208,721
- non-controlling interests		3,294	7,490
		158,300	**216,211**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2016

(thousands of Belarusian rubles)

	Attributable to shareholders of the Bank							
	Share capital	*Additional paid-in capital*	*Foreign currency translation reserve*	*Retained earnings*	*Revaluation reserve for the net pension liability*	*Total*	*Non-controlling interests*	*Total equity*
At 31 December 2014	**296,908**	**193**	**–**	**171,065**	**(3,537)**	**464,629**	**10,419**	**475,048**
Profit for the year	–	–	–	210,207	–	**210,207**	6,458	**216,665**
Other comprehensive income/(loss) for the year	–	–	1,758	–	(3,244)	**(1,486)**	1,032	**(454)**
Total comprehensive income for the year	**–**	**–**	**1,758**	**210,207**	**(3,244)**	**208,721**	**7,490**	**216,211**
Dividends declared and paid to shareholders of the Bank (Note 20)	–	–	–	(37,904)	–	**(37,904)**	–	**(37,904)**
At 31 December 2015	**296,908**	**193**	**1,758**	**343,368**	**(6,781)**	**635,446**	**17,909**	**653,355**
Profit for the year	–	–	–	152,772	–	**152,772**	3,331	**156,103**
Other comprehensive income/(loss) for the year	–	–	(65)	–	2,299	**2,234**	(37)	**2,197**
Total comprehensive income for the year	**–**	**–**	**(65)**	**152,772**	**2,299**	**155,006**	**3,294**	**158,300**
Increase in share capital (Note 20)	44,920	–	–	(44,920)	–	**–**	–	**–**
Dividends declared and paid to shareholders of the Bank (Note 20)	–	–	–	(47,994)	–	**(47,994)**	–	**(47,994)**
At 31 December 2016	**341,828**	**193**	**1,693**	**403,226**	**(4,482)**	**742,458**	**21,203**	**763,661**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2016

(thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Cash flows from operating activities			
Interest received		349,281	361,614
Interest paid		(76,361)	(133,658)
Fees and commissions received		127,904	120,648
Fees and commissions paid		(60,886)	(44,014)
Gains less losses from foreign currencies		11,313	245,825
Other income received		8,497	7,209
Personnel expenses paid		(80,347)	(70,736)
Other operating expenses paid		(62,263)	(43,070)
Cash flows from operating activities before changes in operating assets and liabilities		**217,138**	**443,818**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(16,887)	(6,147)
Loans to customers		(131,665)	132,124
Other assets		(29,814)	18,565
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(127,811)	(165,365)
Amounts due to international financial institutions		(6,457)	(6,366)
Amounts due to customers		157,766	57,059
Other liabilities		12,561	8,176
Net cash from operating activities before income tax		**74,831**	**481,864**
Income tax paid		(50,044)	(36,424)
Net cash from operating activities		**24,787**	**445,440**
Cash flows from investing activities			
Purchase of held-to-maturity investment securities		(79,486)	–
Proceeds from redemption of held-to-maturity investment securities		144,645	–
Purchase of securities at fair value through profit or loss		(3,727,243)	–
Proceeds from disposal of securities at fair value through profit or loss		3,727,243	–
Proceeds from sale of property and equipment and intangible assets		2,436	3,080
Purchase of property and equipment and intangible assets	12, 13	(31,707)	(26,845)
Net cash used in investing activities		**35,888**	**(23,765)**
Cash flows from financing activities			
Proceeds from issue of bonds		442	846
Redemption of bonds		(4,695)	(13,786)
Dividends to shareholders of the Bank		(47,994)	(37,904)
Net cash used in financing activities		**(52,247)**	**(50,844)**
Effect of exchange rates changes on cash and cash equivalents		21,014	109,626
Net increase in cash and cash equivalents		**29,442**	**480,457**
Cash and cash equivalents, beginning		**769,994**	**289,537**
Cash and cash equivalents, ending	6	**799,436**	**769,994**

The accompanying notes on pages 6-58 are an integral part of these consolidated financial statements.

(thousands of Belarusian rubles)

1. Principal activities

"Priorbank" Joint Stock Company (hereinafter, "Priorbank" or the "Bank") was founded in 1989 as a public joint-stock company under the laws of the Republic of Belarus. The Bank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in August 2008 and extended in May 2013. The Bank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2011.

The Bank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its head office is in Minsk, and it has 88 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise the Bank and its subsidiaries (jointly referred to as the "Group"). The list of consolidated subsidiaries is disclosed in Note 2. The Bank's legal address is 31-A, ul. V. Khoruzhey, Minsk, 220002, Republic of Belarus.

As at 31 December 2016 and 2015, Priorbank had the following shareholding structure:

Shareholders	***2016*** ***%***	***2015*** ***%***
Raiffeisen CIS Region Holding GmbH	87.74	87.74
Other	12.26	12.26
Total	**100.00**	**100.00**

Raiffeisen Bank International AG is the ultimate parent company of the Group, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements in accordance with Belarusian accounting and reporting legislation and related instructions. These consolidated financial statements are based on the statutory financial statements and accounting records of the Bank and its subsidiaries, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies. For example, derivative financial instruments have been measured at fair value.

In July 2016, the official currency unit of the Republic of Belarus, the Belarusian ruble, was redenominated at the rate of 10,000:1. Comparative information for the year ended 31 December 2015 is disclosed taking into account the redenomination.

These consolidated financial statements are presented in thousands of Belarusian rubles ("BYN thousand"), unless otherwise indicated.

Inflation accounting

In accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*, the economy of the Republic of Belarus was considered to be hyperinflationary from 1 January 2011 to 31 December 2014.

Since 1 January 2015, the economy of the Republic of Belarus has no longer been considered hyperinflationary, and the value of the Group's non-monetary assets, liabilities and equity presented in measuring units current as at 31 December 2014 was used to calculate opening balances as at 1 January 2015.

(thousands of Belarusian rubles)

2. Basis of preparation (continued)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Ownership, %					
Subsidiary	***2016***	***2015***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition/incorporation***
Unitary Enterprise "PriortransAgro"	100	100	Belarus	June 1991	Agriculture	June 1991
Unitary Enterprise "Dom Office 2000"	100	100	Belarus	February 2001	Construction	February 2001
Unitary Insurance Enterprise "Priorlife"	100	100	Belarus	April 2001	Insurance	April 2001
Raiffeisen Leasing JLLC	70	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-Leasing Lithuania UAB	90	90	Lithuania	January 2011	Leasing	January 2011
Insurance broker Studiya Strakhovaniya LLC	100	100	Belarus	September 2014	Insurance	September 2014

3. Summary of accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS, which are effective for annual periods beginning on or after 1 January 2016:

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

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of income and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and OCI. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group, as the Group does not apply the consolidation exception.

Annual improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include, in particular:

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

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

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying value of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Fair value measurement

The Group measures financial derivative instruments at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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

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

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

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

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

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

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

Loans and receivables

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

Reclassification of financial assets

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

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

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Reclassification of financial assets (continued)

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

Cash and cash equivalents

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within net gains from foreign currencies, translation differences position.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBRB, amounts due to credit institutions, amounts due to customers, amounts due to international financial institutions, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying value of the liability and the consideration paid is recognized in the consolidated income statement.

Leases

i. Finance − Group as lessor

The Group recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Group presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct cost are included in the initial measurement of the lease receivables.

ii. Operating – Group as lessee

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Leases (continued)

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying value of the leased asset.

Measurement of financial instruments at initial recognition

Upon initial recognition, financial instruments are measured at fair value adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

At initial recognition the fair value of a financial instrument is best evidenced by the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

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

Offsetting of financial instruments

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

- The normal course of business
- The event of default, and
- The event of insolvency or bankruptcy of an entity or any of its counterparties

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Such assessment involves consideration of both quantitative and qualitative characteristics of a financial asset, resulting in the assignment of proper rating to each financial asset of the Group based on the established internal credit rating system. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment.

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying value based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity financial investments

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows. The carrying value of the asset is reduced and the amount of the loss is recognized in profit or loss.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Group could be required to repay.

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the consolidated statement of financial position at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus applicable to the Group companies operating in the Republic of Belarus, including the representative office of Raiffeisen-leasing Lithuania UAB. Current income tax of the subsidiary Raiffeisen-leasing Lithuania UAB is calculated and paid in accordance with the applicable legislation of Lithuania.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are recognized on the level of each of the Group's companies. Assets of one company of the Group may not be offset against the liabilities of the other Group company.

Belarus also has various operating taxes, which are assessed on the Group's activities. These taxes are separately presented in the consolidated income statement.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Property and equipment

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

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

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

	Years
Buildings	25-50
Furniture, fixtures and other	5-10

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and other intangible assets (including rights to use land plots, licenses to perform activity).

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, as adjusted for hyperinflation.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 6 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

Precious metals

Gold and other precious metals in the form of ingots are recorded at accounting prices set by the National Bank of the Republic of Belarus. Changes in accounting prices are reflected as net gains from trade in the consolidated income statement.

Inventory

Inventory include property transferred to the Group as a repayment of loans, as well as blocks of apartments and construction-in-progress owned by the Group. Inventory is recorded at the lower of cost and net realizable value.

Impairment, reversal and realization of inventories are recognized in other income or other expenses of the Group.

Other provisions

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations

The Group participates in the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Group operates a defined benefit plan through its wholly owned subsidiary Unitary Insurance Enterprise "Priorlife" which provides eligible employees with retirement benefits upon reaching the retirement age of 60 for men and 55 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in the consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

Past services costs are recognized in profit or loss on the earlier of:

- ► The date of the plan amendment or curtailment, and
- ► The date that the Group recognizes restructuring-related costs.

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities. The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated income statement as personnel expenses:

- ► Service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan
- ► Net interest gains or losses

Share capital

Share capital

Ordinary shares and preferred shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are recognized at cost adjusted for hyperinflation.

Dividends

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

Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not owned by the Group.

Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

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

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Group's right to receive the payment is established.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains from foreign currencies – translation differences". Non-monetary items that are measured in terms of actual cost in a foreign currency are translated using the exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates as at 31 December 2016 and 2015, were 1.9585 Belarusian rubles and 1.8569 Belarusian rubles to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Belarusian rubles at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss.

Future changes in accounting policies

Standards issued but not yet effective

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

IFRS 9 Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories will be replaced by: fair value through profit or loss (FVPL), fair value through other comprehensive income (FVOCI), and amortized cost categories. IFRS 9 will also allow entities to continue to irrevocably designate instruments that qualify for amortized cost or FVOCI instruments as FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Equity instruments that are not held for trading may be irrevocably designated as FVOCI, with no subsequent reclassification of gains or losses to the income statement. The accounting for financial liabilities will largely be the same as the requirements of IAS 39.

IFRS 9 will also fundamentally change the approach to loan impairment. The standard will replace IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group will be required to record an allowance for expected losses for all loans and other debt financial assets not carried at FVPL, as well as for loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

If there has been a significant increase in credit risk since origination, the allowance would be based on the probability of default over the life of the asset.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but restatement of comparative information is not required; the effect on the transition date – 1 January 2018 – would be recorded in retained earnings. The adoption of IFRS 9 is expected to have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

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

Amendments to IAS 12 Income Taxes

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Future changes in accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 7 Statement of Cash Flows

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

Amendments to IFRS 2 Share-based Payments

The IASB issued amendments to IFRS 2 *Share-based Payment* in relation to the classification and measurement of share-based payment transactions. The amendments are intended to eliminate diversity in practice, but are narrow in scope and address specific areas of classification and measurement. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted. These amendments are not expected to have any impact on the Group.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. These amendments are not expected to have any impact on the Group.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

(thousands of Belarusian rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Allowance for impairment of loans and receivables

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

Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in the Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the Bank of loans and receivables. The Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

The allowance for loan impairment recognized in the consolidated statement of financial position as at 31 December 2016 was BYN 130,045 thousand (2015: BYN 99,653 thousand). More details are provided in Note 9.

Assessment of payment liabilities under the pension plan of Unitary Insurance Enterprise "Priorlife"

A defined benefit obligation is assessed on actuarial basis using projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ. Sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 25.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Deferred tax assets

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Group. Further details regarding taxation issues are provided in Note 14.

5. Segment information

For management purposes, the Group identifies three operating segments based on its products and service, as follows:

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers, except for banking financial institutions

Other – Treasury and International Department (transactions with banks) and other central functions, which are not directly allocated

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment

(thousands of Belarusian rubles)

5. Segment information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements. Income taxes are accounted for on a group basis and are not allocated to operating segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2016 or 2015.

Non-current assets and deferred tax assets are related to the Republic of Belarus. Generally revenue is earned from sources in the Republic of Belarus.

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments:

2016	***Retail banking***	***Corporate banking***	***Other/ unallocated***	***Total***
External revenue				
Interest income	100,355	234,410	34,980	**369,745**
Interest expense	(33,500)	(19,210)	(22,968)	**(75,678)**
Net interest income	**66,855**	**215,200**	**12,012**	**294,067**
Charge of allowance for loan impairment	(3,728)	(42,417)	–	**(46,145)**
Net interest income after allowance for loan impairment	**63,127**	**172,783**	**12,012**	**247,922**
Net fee and commission income	24,680	46,316	(2,369)	**68,627**
Net gains from foreign currencies	15,269	30,121	3,556	**48,946**
Other non-interest income	1,221	114	7,176	**8,511**
Non-interest expense	(81,457)	(79,317)	(8,041)	**(168,815)**
Segment financial results	**22,840**	**170,017**	**12,334**	**205,191**
Income tax expense				**(49,088)**
Profit for the year				**156,103**
Assets and liabilities				
Segment assets	309,246	1,630,032	1,253,768	**3,193,046**
Total assets				**3,193,046**
Segment liabilities	979,275	883,960	566,150	**2,429,385**
Total liabilities				**2,429,385**
Other segment information				
Capital expenditure	5,152	457	26,098	**31,707**
Depreciation and amortization	(3,002)	(2,181)	(14,085)	**(19,268)**
Other provisions	–	(38)	–	**(38)**

(thousands of Belarusian rubles)

5. Segment information (continued)

2015	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External revenue				
Interest income	94,244	237,681	32,297	**364,222**
Interest expense	(57,080)	(44,807)	(31,159)	**(133,046)**
Net interest income	**37,164**	**192,874**	**1,138**	**231,176**
Charge of allowance for loan impairment	(8,491)	(54,187)	–	**(62,678)**
Net interest income after allowance for loan impairment	**28,673**	**138,687**	**1,138**	**168,498**
Net fee and commission income	26,457	50,803	(1,048)	**76,212**
Net gains from foreign currencies	14,671	47,439	108,036	**170,146**
Other non-interest income	715	4,609	3,023	**8,347**
Non-interest expense	(65,456)	(63,808)	(8,193)	**(137,457)**
Segment financial results	**5,060**	**177,730**	**102,956**	**285,746**
Income tax expense				**(69,081)**
Profit for the year				**216,665**
Assets and liabilities				
Segment assets	247,409	1,509,334	1,217,642	**2,974,385**
Total assets				**2,974,385**
Segment liabilities	944,731	709,171	667,128	**2,321,030**
Total liabilities				**2,321,030**
Other segment information				
Capital expenditure	6,956	743	20,701	**28,400**
Depreciation and amortization	(2,729)	(1,914)	(12,731)	**(17,374)**
Other provisions/reversal of other provisions	–	(191)	81	**(110)**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	*2015*
Cash on hand	133,467	123,200
Current accounts with credit institutions	80,027	219,392
Current accounts with the NBRB	207,196	201,707
Time deposits with credit institutions up to 90 days	378,746	225,695
Cash and cash equivalents	**799,436**	**769,994**

As at 31 December 2016 liquid funds were represented by short-term deposits with five Belarusian banks and three foreign banks (2015: two Belarusian banks and three foreign banks).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2016	*2015*
Obligatory reserves with the NBRB	12,685	11,432
Time deposits for more than 90 days	28,137	12,503
Amounts due from credit institutions	**40,822**	**23,935**

(thousands of Belarusian rubles)

7. Amounts due from credit institutions (continued)

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

As at 31 December 2016, the Bank had time deposits with four Belarusian banks (2015: four Belarusian banks).

8. Derivative financial instruments

The Group enters into transactions with derivative financial instruments. The outstanding deals with derivative financial instruments and trading liabilities are presented in the table below. The notional principal is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2016			*2015*		
	Notional	*Fair value*		*Notional*	*Fair value*	
	principal	*Asset*	*Liability*	*principal*	*Asset*	*Liability*
Foreign exchange contracts (forwards and swaps)						
EUR-USD contract with OECD bank	187,485	363	–	115,314	354	(303)
USD-EUR contract with OECD bank	7,158	–	(75)			
USD-EUR contract with customer	11,823	–	(23)	115,719	366	(273)
EUR-RUB contract with customer	289	14	–	–	–	–
USD-BYN contract with customer	8,167	39	(10)	3,426	19	–
EUR-BYN contract with customer	211	4	–	3,247	6	(1)
RUB-BYN contract with customer	231	–	(8)	402	6	–
RUB-USD contract with customer	3,917	16	–	–	–	–
USD-RUB contract with customer	412	27	–			
USD-RUB contract with CIS bank	21,735	211	(9)			
RUB-USD contract with CIS bank	142,395	–	(339)			
BYN-USD contract with CIS bank	3,000	7	–	1,390	–	(1)
Total derivative financial assets/(liabilities)		**681**	**(464)**		**751**	**(578)**

As at 31 December 2016, the Group had positions in the following types of derivatives:

(thousands of Belarusian rubles)

8. Derivative financial instruments (continued)

Forwards

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

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

9. Loans to customers

Loans to customers comprise:

	2016	*2015*
Corporate lending	1,520,272	1,342,363
Consumer lending	275,874	233,607
Small business lending	239,805	249,128
Residential mortgages	33,372	31,299
Gross loans to customers	**2,069,323**	**1,856,397**
Less – allowance for loan impairment	(130,045)	(99,653)
Loans to customers	**1,939,278**	**1,756,744**

As at 31 December 2016, the Group had a concentration of loans represented by BYN 655,679 thousand due from the ten largest third party borrowers (32% of gross loan portfolio) (2015: BYN 460,020 thousand, or 25%). An allowance of BYN 20,079 thousand (2015: BYN 27,547 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2016	*2015*
Private companies	1,243,611	1,285,429
State companies	516,466	306,062
Individuals	309,246	264,906
Loans to customers	**2,069,323**	**1,856,397**

Loans are made principally in Belarus in the following industry sectors:

	2016	*2015*
Manufacturing, including:	811,814	756,661
Other manufacturing	177,325	217,495
Chemicals, rubber, plastics	174,911	180,982
Coking coal, oil products	153,674	55,298
Food, beverages, tobacco products	125,898	85,779
Machinery, equipment	63,445	87,646
Transport facilities	26,593	31,074
Electric equipment	26,099	30,538
Textile industry	24,132	15,852
Metals and metalware production	17,244	27,950
Wood processing	17,010	19,384
Pulp and paper industry	4,919	4,113
Pharmaceutical industry	564	550
Wholesale trade	329,129	339,145
Individuals	309,246	264,906
Retail trade	217,671	193,742
Mineral development and extraction	109,729	–
Construction	83,419	57,102
Real estate	76,858	101,132
Transport	73,679	74,793
Electrical energy, gas, water supply	16,627	12,229
Other	41,151	56,687
Loans to customers	**2,069,323**	**1,856,397**

(thousands of Belarusian rubles)

9. Loans to customers (continued)

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

	Corporate lending 2016	*Small business lending 2016*	*Consumer lending 2016*	*Residential mortgages 2016*	*Total 2016*
At 31 December 2015	**68,294**	**13,863**	**14,077**	**3,419**	**99,653**
Charge for the year	33,653	8,764	4,021	(293)	**46,145**
Amounts written off	(6,221)	(3,793)	(5,739)	–	**(15,753)**
At 31 December 2016	**95,726**	**18,834**	**12,359**	**3,126**	**130,045**
Individual impairment	84,668	15,481	9,045	2,523	**111,717**
Collective impairment	11,058	3,353	3,314	603	**18,328**
	95,726	**18,834**	**12,359**	**3,126**	**130,045**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**162,122**	**20,040**	**9,045**	**2,523**	**193,730**

	Corporate lending 2015	*Small business lending 2015*	*Consumer lending 2015*	*Residential mortgages 2015*	*Total 2015*
At 31 December 2014	**22,898**	**6,388**	**9,107**	**2,316**	**40,709**
Charge for the year	46,301	7,887	7,387	1,103	**62,678**
Amounts written off	(905)	(412)	(2,417)	–	**(3,734)**
At 31 December 2015	**68,294**	**13,863**	**14,077**	**3,419**	**99,653**
Individual impairment	53,321	10,636	7,704	2,393	**74,054**
Collective impairment	14,973	3,227	6,373	1,026	**25,599**
	68,294	**13,863**	**14,077**	**3,419**	**99,653**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**95,974**	**16,122**	**7,704**	**2,393**	**122,193**

Individually impaired loans

As at 31 December 2016, interest income accrued on individually impaired loans comprised BYN 5,557 thousand (2015: BYN 4,140 thousand).

Collateral and other credit risk enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties, cars, sureties

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

(thousands of Belarusian rubles)

9. Loans to customers (continued)

Collateral and other credit risk enhancements (continued)

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

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2016 are analyzed as follows:

	Not later than 1 year	*From 1 to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	93,372	144,715	25,149	**263,236**
Unearned future finance income on finance leases	(19,903)	(27,210)	(1,126)	**(48,239)**
Net investment in finance leases	**73,469**	**117,505**	**24,023**	**214,997**

Finance lease receivables as at 31 December 2015 are analyzed as follows:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	92,519	159,781	43,014	**295,314**
Unearned future finance income on finance leases	(23,613)	(40,092)	(6,594)	**(70,299)**
Net investment in finance leases	**68,906**	**119,689**	**36,420**	**225,015**

10. Other provisions

The movements in other provisions were as follows:

	Legal claims	*Guarantees and commitments*	*Total*
31 December 2014	**81**	**289**	**370**
Reversal	(81)	191	**110**
31 December 2015	**–**	**480**	**480**
Reversal	–	38	**38**
31 December 2016	**–**	**518**	**518**

11. Held-to-maturity investment securities

The held-to-maturity investment securities portfolio was as follows:

At 31 December 2016

Issuer	*Maturity*	*Currency*	*Rate*	*Amortized cost*
Belarusian Ministry of Finance	October 2017	USD	7.15%	93,200
Belarusian Ministry of Finance	November 2017	USD	5.50%	22,123
Belarusian Ministry of Finance	May 2018	USD	5.70%	33,195
National Bank of the Republic of Belarus	February 2017	USD	8.36%	11,021
National Bank of the Republic of Belarus	May 2017	USD	7.77%	11,054
National Bank of the Republic of Belarus	September 2017	EUR	4.92%	1,022
National Bank of the Republic of Belarus	December 2017	USD	6.14%	1,010
				172,625

(thousands of Belarusian rubles)

11. Held-to-maturity investment securities (continued)

At 31 December 2015

Issuer	*Maturity*	*Currency*	*Rate*	*Amortized cost*
Belarusian Ministry of Finance	February 2016	USD	7.00%	125,725
Belarusian Ministry of Finance	October 2017	USD	7.15%	88,368
				214,093

12. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2015	**100,411**	**109,457**	**209,868**
Additions	3,194	18,398	**21,592**
Disposals	(214)	(8,440)	**(8,654)**
At 31 December 2016	**103,391**	**119,415**	**222,806**
Accumulated depreciation			
At 31 December 2015	**(21,605)**	**(62,160)**	**(83,765)**
Depreciation	(2,349)	(9,675)	**(12,024)**
Disposals	31	5,119	**5,150**
At 31 December 2016	**(23,923)**	**(66,716)**	**(90,639)**
Net book value			
At 31 December 2015	**78,806**	**47,297**	**126,103**
At 31 December 2016	**79,468**	**52,699**	**132,167**

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2014	**97,402**	**102,415**	**199,817**
Additions	3,417	15,463	**18,880**
Disposals	(408)	(8,421)	**(8,829)**
At 31 December 2015	**100,411**	**109,457**	**209,868**
Accumulated depreciation			
At 31 December 2014	**(19,488)**	**(58,472)**	**(77,960)**
Depreciation	(2,148)	(8,874)	**(11,022)**
Disposals	31	5,186	**5,217**
At 31 December 2015	**(21,605)**	**(62,160)**	**(83,765)**
Net book value			
At 31 December 2014	**77,914**	**43,943**	**121,857**
At 31 December 2015	**78,806**	**47,297**	**126,103**

As at 31 December 2016, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYN 28,715 thousand (2015: BYN 28,101 thousand).

(thousands of Belarusian rubles)

13. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Other*	*Total*
Cost			
At 31 December 2015	**50,656**	**363**	**51,019**
Additions	10,023	92	**10,115**
Disposals	(115)	–	**(115)**
At 31 December 2016	**60,564**	**455**	**61,019**
Accumulated amortization			
At 31 December 2015	**(26,414)**	**(58)**	**(26,472)**
Amortization	(7,237)	(7)	**(7,244)**
Disposals	10	–	**10**
At 31 December 2016	**(33,641)**	**(65)**	**(33,706)**
Net book value			
At 31 December 2015	**24,242**	**305**	**24,547**
At 31 December 2016	**26,923**	**390**	**27,313**

	Computer software	*Other*	*Total*
Cost			
At 31 December 2014	**42,872**	**184**	**43,056**
Additions	7,784	181	**7,965**
Disposals	–	(2)	**(2)**
At 31 December 2015	**50,656**	**363**	**51,019**
Accumulated amortization			
At 31 December 2014	**(20,093)**	**(27)**	**(20,120)**
Amortization	(6,321)	(31)	**(6,352)**
Disposals	–	–	**–**
At 31 December 2015	**(26,414)**	**(58)**	**(26,472)**
Net book value			
At 31 December 2014	**22,779**	**157**	**22,936**
At 31 December 2015	**24,242**	**305**	**24,547**

14. Taxation

The corporate income tax expense comprises:

	2016	*2015*
Current tax charge	41,665	38,172
Deferred tax charge – origination and reversal of temporary differences	8,189	29,828
Including: deferred tax recognized in other comprehensive income	(766)	1,081
Income tax expense	**49,088**	**69,081**

Belarusian legal entities must file individual tax returns. In 2016 and 2015, the income tax rate for banks was 25%. In 2016 and 2015, the income tax rate for the Bank's subsidiaries in the Republic of Belarus was 18%. In 2016 and 2015, the income tax rate for the foreign subsidiary in the Republic of Lithuania was 15%.

(thousands of Belarusian rubles)

14. Taxation (continued)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on the statutory rate with the actual charge is as follows:

	2016	*2015*
Profit before tax	**205,191**	**285,746**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**51,298**	**71,437**
Tax exemption for operations with securities	(6,384)	(5,410)
Other tax exemptions	(2,965)	(160)
Income of subsidiaries taxed at different rates	(1,620)	(3,450)
Non-deductible expenses:		
- salaries and related expenses	5,280	3,768
- insurance	2,433	1,263
- translation differences	(226)	204
- consulting, advertising and representative expenses	133	496
- charity	456	403
- disposal of property and equipment	535	613
- depreciation and amortization	124	113
- maintenance and repairs	235	150
- taxes other than income tax	31	29
- other	3,532	1,213
Change in unrecognized deferred tax assets	–	(45)
Reversal of statutory revaluation of property and equipment	(3,774)	(1,543)
Income tax expense	**49,088**	**69,081**

(thousands of Belarusian rubles)

14. Taxation (continued)

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2014	*In the income statement*	*In other comprehensive income*	*2015*	*In the income statement*	*In other comprehensive income*	*2016*
Tax effect of deductible temporary differences							
Property and equipment	45	176	–	221	2,769	–	2,990
Amounts due to credit institutions	–	–	–	–	2	–	2
Loans to customers	283	(48)	–	235	2,400	–	2,635
Derivative financial assets	1,740	(1,740)	–	–	–	–	–
Amounts due to customers	2	(1)		1	–		1
Other provisions	545	(423)	–	122	23	–	145
Other assets	388	922	–	1,310	381	–	1,691
Other liabilities	937	689	1,081	2,707	396	(766)	2,337
Deferred tax assets	**3,940**	**(425)**	**1,081**	**4,596**	**5,971**	**(766)**	**9,801**
Deferred tax assets not recognized in the statement of financial position	(45)	45	–	–	–	–	–
Deferred tax asset, net amount	**3,895**	**(380)**	**1,081**	**4,596**	**5,971**	**(766)**	**9,801**
Tax effect of taxable temporary differences							
Allowance for loan impairment	(21,735)	(22,932)	–	(44,667)	(13,569)	–	(58,236)
Amounts due to credit institutions	(14)	(9)	–	(23)	12	–	(11)
Other provisions	(2,813)	(1,477)		(4,290)	(2,569)		(6,859)
Derivative financial assets	–	–	–	–	–	–	–
Loans to customers	(406)	(3,567)	–	(3,973)	2,083	–	(1,890)
Investments in subsidiaries	(1,913)	–	–	(1,913)	–	–	(1,913)
Other assets	(967)	(464)	–	(1,431)	(369)	–	(1,800)
Other liabilities	(4,029)	(4,928)	–	(8,957)	(1,073)	–	(10,030)
Property and equipment	(4,938)	2,847	–	(2,091)	2,091	–	–
Deferred tax liability	**(36,815)**	**(30,530)**	**–**	**(67,345)**	**(13,394)**	**–**	**(80,739)**
Deferred tax liabilities, net	**(32,920)**	**(30,910)**	**1,081**	**(62,749)**	**(7,423)**	**(766)**	**(70,938)**

(thousands of Belarusian rubles)

15. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Other financial assets		
Settlements on currency conversion operations	5,385	2,492
Accrued fines and fees and commissions receivable	3,902	7,812
	9,287	**10,304**
Other non-financial assets		
Blocks of apartments and construction-in-progress owned by the Group	20,256	16,751
Prepayments	19,129	4,892
VAT and other prepaid taxes other than income tax	10,957	11,831
Property transferred to the Group as a repayment of loans	8,376	1,443
Precious metals	297	444
Other non-financial assets	8,855	12,519
	67,870	**47,880**
Total other assets	**77,157**	**58,184**

The Group is involved in the construction of blocks of apartments, and these are intended to be sold in the ordinary course of business. The blocks of apartments owned by the Group comprise both finished apartments and construction-in-progress. The carrying value of apartments is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Group.

Other liabilities comprise:

	2016	*2015*
Other financial liabilities		
Defined benefit plan: pension liabilities (Note 25)	20,562	19,317
Pension liabilities payable by subsidiary to third parties	20,238	4,933
Salaries and bonuses payable	7,285	4,309
Trade and other payables	1,301	2,370
Other financial liabilities	12,663	13,741
	62,049	**44,670**
Other non-financial liabilities		
Prepayments for construction of blocks of apartments	11,976	17,517
Tax liabilities (taxes other than income tax)	2,345	1,670
Other non-financial liabilities	563	3,330
	14,884	**22,517**
Total other liabilities	**76,933**	**67,187**

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2016	*2015*
Current accounts	21,632	15,431
Time deposits and loans	383,133	497,630
Amounts due to credit institutions	**404,765**	**513,061**

As at 31 December 2016, time deposits and loans included amounts payable to the bank from Raiffeisen Group comprising BYN 364,892 thousand (2015: BYN 485,727 thousand). EUR-denominated contracts and USD-denominated contracts bore interest rates of 3.76%-4.69% and 3.26%-4.54%, respectively.

(thousands of Belarusian rubles)

17. Amounts due to customers

Amounts due to customers include the following:

	2016	*2015*
Time deposits	933,613	958,773
Current accounts	926,946	688,240
Amounts due to customers	**1,860,559**	**1,647,013**
Held as collateral against letters of credit	6,251	7,719
Held as collateral against guarantees	4,897	4,494

As at 31 December 2016, amounts due to customers of BYN 223,846 thousand, or 12%, were due to the five largest third-party customers (2015: BYN 147,172 thousand or 9%).

Included in time deposits are deposits of individuals in the amount of BYN 633,879 thousand (31 December 2015: BYN 720,168 thousand).

In accordance with the laws of the Republic of Belarus, time and conditional deposit agreements are classified as follows:

- Irrevocable agreements - agreements that do not provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement
- Revocable agreements - agreements that provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement upon demand of a depositor

The depositor has right to claim the repayment of the deposit under the time revocable or conditional revocable deposit agreement prior to its maturity or prior to circumstances (event) or absence of circumstances (event) determined in the agreement. The Bank must repay the deposit within the timeframe and in accordance with the procedure stipulated by the time revocable or conditional revocable deposit agreement. The depositor has no right to claim early repayment of deposit under the time irrevocable and conditional irrevocable deposit agreements. Deposits under such agreements can be early repaid only with the Bank's consent.

As at 31 December 2016, irrevocable deposits amounted to BYN 78,118 thousand, or 12%, of the time deposits of individuals.

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

	2016	*2015*
Individuals	979,275	944,731
Private companies	861,017	630,642
State companies and budgetary organizations	20,267	71,640
Amounts due to customers	**1,860,559**	**1,647,013**

(thousands of Belarusian rubles)

17. Amounts due to customers (continued)

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

	2016	*2015*
Individuals	979,275	944,731
Retail trade	231,521	108,293
Wholesale trade	137,553	109,063
Manufacturing:	130,737	150,528
Coking coal, oil products	26,519	43,429
Machinery, equipment	15,978	10,995
Food, beverages, tobacco products	13,598	12,917
Electric equipment	12,773	16,922
Wood processing	10,122	6,700
Chemicals, rubber, plastics	9,290	11,659
Textile industry	7,937	8,640
Pharmaceutical industry	2,999	5,610
Transport facilities	2,586	3,535
Base metals production	932	697
Pulp and paper industry	795	243
Other manufacturing	27,208	29,181
Construction	57,350	20,766
Transport	46,343	56,194
Real estate	7,805	12,877
Mineral development and extraction	3,013	17,050
Electrical energy, gas, water supply	773	1,945
Other	266,189	225,566
Amounts due to customers	**1,860,559**	**1,647,013**

18. Amounts due to international credit institutions

As at 31 December 2016 and 2015, amounts due to international credit institutions consisted of the loan issued by the European Bank for Reconstruction and Development of BYN 11,771 thousand (2015: BYN 17,466 thousand).

19. Debt securities issued

	2016	*2015*
Non-documentary bonds	2,676	6,889
Debt securities issued	**2,676**	**6,889**

Non-documentary bonds denominated in euros, US dollars and Russian rubles in the amount of BYN 2,676 thousand (2015: BYN 3,144 thousand) mature in 2017. USD-denominated bonds and EUR-denominated bonds bear a fixed interest rate of 3.5%, RUB-denominated bonds bear an interest rate of 10.6%. The rates are revised every three months.

As at 31 December 2016, the Group had no BYN-denominated non-documentary bonds (2015: BYN 3,745 thousand, the interest rate based on the NBRB refinancing rate was 25% p.a.).

20. Equity

The information on shares issued, fully paid and outstanding is as follows:

	Number of shares		*Nominal value (BYN)*			
	Preferred	*Ordinary*	*Preferred*	*Ordinary*	*Inflation adjustment*	*Total*
31 December 2014 and 2015	10,000	123,058,441	3	41,225	255,680	**296,908**
Increase in share capital	–	–	4	44,916	–	**44,920**
31 December 2016	10,000	123,058,441	7	86,141	255,680	**341,828**

(thousands of Belarusian rubles)

20. Equity (continued)

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors or its cost. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank's Charter. In the event of the Bank's liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

At the shareholders' meeting in March 2016, the Bank declared dividends in respect of the year ended 31 December 2015 as follows: BYN 0.39 per ordinary share and BYN 0.17 per preferred share (2015: BYN 0.31 and BYN 0.17, respectively).

As a result, dividends on ordinary shares amounted to BYN 47,993 thousand (2015: BYN 37,902 thousand) and dividends on preferred shares amounted to BYN 1.7 thousand (2015: BYN 1.7 thousand).

In addition, the shareholders' meeting decided to increase the share capital of "Priorbank" JSC to BYN 86,148 thousand through increasing the nominal amount of one share to BYN 0.7 from the equity of "Priorbank" JSC, i.e. by using retained earning for 2015 in the amount of BYN 44,920 thousand.

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Bank's shareholders based on the Bank's financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2016, the Bank's non-distributable reserves totaled BYN 211,048 thousand (2015: BYN 205,444 thousand). As at 31 December 2016, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYN 2,303 thousand (2015: BYN 2,316 thousand).

Movements in other capital items

Movements in other capital items were as follows:

	Foreign currency translation reserve	*Actuarial loss on defined pension plans*	*Total*
At 1 January 2015	**–**	**(3,537)**	**(3,537)**
Exchange differences on translation of the financial statements of a foreign subsidiary	1,758	–	**1,758**
Revaluation of defined pension plans	–	(4,325)	**(4,325)**
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	1,081	**1,081**
At 31 December 2015	**1,758**	**(6,781)**	**(5,023)**
Exchange differences on translation of the financial statements of a foreign subsidiary	(65)	–	**(65)**
Revaluation of defined pension plans	–	3,065	**3,065**
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	(766)	**(766)**
At 31 December 2016	**1,693**	**(4,482)**	**(2,789)**

Foreign currency translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

20. Equity (continued)

Actuarial loss on defined pension plans

This reserve reflects changes in actuarial calculations for the reporting period.

21. Commitments and contingencies

Operating environment

In 2016, the NBRB continued to follow a policy of stabilizing the financial market. To increase the effectiveness of the refinancing rate as an instrument of the monetary policy, starting from January 2016, the NBRB was gradually decreasing rates for liquidity management instruments from 25% to 18% at the end of the year.

In August 2016, the Management Board of the NBRB decided to reduce the rate for the mandatory sale of foreign currency proceeds from 30% to 20%.

Starting from 1 November 2016, the Management Board of the NBRB decided to change relative weights of foreign currencies included in the basket as follows: RUB – 50%, USD – 30% and EUR – 20%. This decision was made to gradually align relative weight of the Russian ruble in the basket of foreign currencies and Russia's share in Belarus' foreign trade, which accounts for about 50%.

These measures taken by the NBRB had a positive impact on the stability of the Belarusian ruble. At year-end 2016, the national currency was devalued by 5.5%, 0.7% and 27.1% against the US dollar, the euro and the Russian ruble, respectively. In 2016, the overall decrease in GDP amounted to 2.6% as compared to its decrease by 3.8% in 2015. Inflation processes also slowed down and the inflation rate for 2016 was 10.6% (2015: 12%).

In July 2016, the official currency unit of the Republic of Belarus, the Belarusian ruble, was redenominated at the rate of 10,000:1. The currently circulating banknotes issued in 2000 are gradually replaced by banknotes and coins issued in 2009.

During 2016, the Republic of Belarus continued to increase its government debt. As at 31 December 2016, external government debt amounted to USD 13.6 billion, showing a year-on-year increase by USD 1,198.8 million or 9.6%.

On 25 March 2016, the Council of the Eurasian Fund for Stabilization and Development approved a USD 2 billion stabilization loan for Belarus. The loan is provided to support the implementation of economic policies and the structural transformations of the Government of the Republic of Belarus and the NBRB during the period of 2016-2018. The loan is to be disbursed in seven installments, each of which shall be for 10 years, including a five-year grace period, over 2016-2018. The first installment in the amount of USD 500 million was provided on 30 March 2016. The second installment in the amount of USD 300 million was provided in June 2016.

The remaining increase in external government debt is largely attributable to net borrowings from the Government of the Russian Federation and Russian banks, as well as from Chinese banks.

In June 2016, Moody's international rating agency confirmed the Caa1 sovereign credit rating for Belarus and changed its outlook from "negative" to "stable" based on a stronger external liquidity position of Belarus.

While management of the Group believes it is taking appropriate measures to support the sustainability of its business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Group and its counterparties. The degree of such impact on the Group's financial statements is not currently determinable.

Legal

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

(thousands of Belarusian rubles)

21. Commitments and contingencies (continued)

Operating environment (continued)

Taxation

Belarusian tax legislation and regulations as well as other operational matters, including currency and customs regulations, continue to evolve.

Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. In addition, since management's interpretation of this legislation may differ from possible official interpretations, and the compliance with this legislation may be challenged by regulatory authorities, additional taxes and penalties may be assessed and other preventive measures may be taken. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

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

Financial commitments and contingencies

As at 31 December 2016, the Group's financial commitments and contingencies comprised the following:

	2016	***2015***
Credit-related commitments		
Undrawn loan commitments	202,793	129,228
Letters of credit	79,407	94,658
Guarantees	227,450	245,466
	509,650	**469,352**
Lease commitments		
Not later than 1 year	2,841	2,620
From 1 to 5 years	2,919	1,419
Later than 5 years	428	–
	6,188	**4,039**
Less: provisions	(518)	(480)
Financial commitments and contingencies (before deducting collateral)	**515,320**	**472,911**
Less: cash held as collateral against letters of credit and guarantees (Note 17)	(11,148)	(12,213)
Financial commitments and contingencies	**504,172**	**460,698**

(thousands of Belarusian rubles)

22. Net fee and commission income

Net fee and commission income comprises:

	2016	*2015*
Settlement transactions	114,404	100,846
Guarantees and letters of credit	8,565	7,979
Currency conversion operations	3,323	9,548
Agency services	848	1,266
Other	1,012	751
Fee and commission income	**128,152**	**120,390**
Settlement transactions	(50,280)	(37,808)
Guarantees	(6,194)	(4,708)
Currency conversion operations	(896)	(1,077)
Other	(2,155)	(585)
Fee and commission expense	**(59,525)**	**(44,178)**
Net fee and commission income	**68,627**	**76,212**

23. Other income

Other income comprises:

	2016	*2015*
Income from sale of constructed housing	3,674	1,233
Income from debt previously written off	1,335	779
Income from operating lease	1,316	857
Income from agriculture services	765	1,977
Income from early redemption and sale of leased assets	71	1,111
Income from sale of property and equipment	14	358
Income from sale of subsidiary	–	780
Income from additional services for finance lease agreements	–	30
Other	1,336	1,222
Total other income	**8,511**	**8,347**

24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	55,186	45,775
Social security costs	21,678	15,910
Retirement benefits (Note 25)	4,480	4,742
Other employment taxes	1,979	1,080
Personnel expenses	**83,323**	**67,507**

(thousands of Belarusian rubles)

24. Personnel and other operating expenses (continued)

	2016	**2015**
Occupancy and rent	13,867	11,396
Data processing	12,057	9,073
Deposit insurance fees	5,805	7,334
Marketing and advertising	4,576	3,681
Legal and consultancy	4,543	3,156
Overdue penalties written off	4,231	–
Plastic cards operations	3,630	3,204
Office supplies	2,384	1,952
Transportation expenses	2,032	2,130
Communications	1,540	1,292
Impairment of inventories	1,262	–
Loss on disposal of property and equipment and intangible assets	1,187	892
Repair and maintenance of equipment	1,066	1,072
Business travel and related expenses	902	610
Personnel training	794	703
Representative expenses	557	507
Security	349	296
Expenses from additional leasing services	56	124
Other	1,945	2,345
Other operating expenses	**62,783**	**49,767**

25. Post-employment benefits

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

Liability according to a defined benefit plan is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

Net benefit expense (recognized within personnel expenses)

	2016	**2015**
Current service cost	1,534	852
Interest cost on benefit obligation	2,946	2,202
Past service cost	–	1,688
Net benefit expense (Note 24)	**4,480**	**4,742**

Retirement benefit liability

	2016	**2015**
Retirement benefit liability (Note 15)	(20,562)	(19,317)

(thousands of Belarusian rubles)

25. Post-employment benefits (continued)

Defined benefit plan (continued)

Changes in value of the defined benefit obligation

	2016	*2015*
Opening defined benefit plan obligation	**19,317**	**10,621**
Current service cost	1,534	852
Interest expense	2,946	2,202
Actuarial gains/losses arising from changes in demographic assumptions	1,270	126
Actuarial losses arising from changes in finance assumptions	(2,763)	5,762
Current regulating amendments	(1,572)	(1,563)
Benefits paid	(170)	(371)
Increase in obligations due to changes in pension plan terms	–	1,688
Closing defined benefit obligation	**20,562**	**19,317**

Changes in plan obligations

	2016	*2015*
Opening plan obligation	**(19,317)**	**(10,621)**
Net benefit expense	(4,480)	(4,742)
Revaluation of defined benefit plans recognized in other comprehensive income	3,065	(4,325)
Benefits paid	170	371
Closing plan obligation	**(20,562)**	**(19,317)**

The principal assumptions used in determining pension obligations for the Bank's plan are shown below:

	2016	*2015*
Discount rate	6.30%	6.01%
Future inflation rate	9.13%	10.98%

In 2015 and 2016, all settlements (excluding settlements on periodic lifelong benefits to retired personnel) were made in euro using the basic amounts denominated in euro and the respective parameters (discount rate, salary growth rate, yield on accounts) related to the amounts denominated in euro.

The average term of defined benefit plan obligations at the end of the reporting period was 12.4 years (2015: 13.2 years).

The best estimate of the amounts of the employer's contributions to be paid in the annual period, after the estimation date amounted to BYN 627 thousand (2015: BYN 625 thousand).

Sensitivity analysis

	Changes in assumptions	*Effect on the benefit obligation*
Discount rate	+ / -1 pp	2,422
Future inflation rate	+ / -1 pp	625
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / -0.5 pp	175

(thousands of Belarusian rubles)

26. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management structure

The Supervisory Board and the Executive Committee are ultimately responsible for identifying and controlling risks and are responsible for the overall risk management approach and for approving the risk strategies and principles.

Supervisory Board

The Supervisory Board is required under the Belarusian legislation and is comprised of representatives of the Government, major shareholder and major counterparties.

Executive Committee

The Executive Committee is comprised of 5 members of the Supervisory Board.

Management Board

The Management Board is responsible for monitoring the overall risk process within the Group.

Risk Committee, Credit Committee, Financial Committee, Problem Loans Committee and Audit Committee

The committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions.

Risk management

The risk management units are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.

Bank's Treasury

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

Audit Committee

Audit Committee is responsible for overall management and effective functioning of internal control system and internal audit function of the Group.

Internal Audit

The risk management processes throughout the Group are audited annually by the Audit Function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Audit Function discusses the results of all assessments with management, and reports its findings and recommendations to the Management Board.

(thousands of Belarusian rubles)

26. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

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

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Supervisory Board and Executive committee. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loan Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Risk Committee and the Executive Committee receive a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As requested by all relevant subdivision throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular meetings are held with Risk Committee, Credit Committee, Financial Committee and Problem Loans Committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

Risk mitigation

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

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

Excessive risk concentration

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

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

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers’ financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

(thousands of Belarusian rubles)

26. Risk management (continued)

Credit risk (continued)

Where appropriate and in the case of most loans, the Group obtains collateral. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers letters of credit/ guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit/ guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

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

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

More details on the maximum exposure to credit risk for each class of financial instrument are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is described in Note 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings.

High grade: customers with credit rating 1C-4C (corporate customers and average customers with the limit over EUR 1.5 million) and 4B-6A (medium customers) - good profitability; has sufficient equity, the probability that the repayment of debt - is very high in the long run.

Standard grade: customers with credit rating 5A-5C (corporate customers and average customers with the limit over EUR 1.5 million) and 6B-7A (average customers) − stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in medium term.

Sub-standard grade: customers with credit rating 6A-9C (corporate customers and average customers with the limit over EUR 1.5 million) and 7B-9B (average customers) − low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations.

Individually impaired loans: customers with credit rating 10A-10C (Default. Financial obligations cannot be promptly and fully fulfilled).

(thousands of Belarusian rubles)

26. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of asset for respective lines of the consolidated statement of financial position based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

		Neither past due nor individually impaired						
	Notes	*High grade 2016*	*Standard grade 2016*	*Sub-standard grade 2016*	*Not rated*	*Past due but not individually impaired 2016*	*Individually impaired 2016*	*Total 2016*
Cash and cash equivalents (net of cash on hand)	6	288,116	377,853	–	–	–	–	**665,969**
Amounts due from credit institutions	7	12,685	28,137	–	–	–	–	**40,822**
Derivative financial assets	8	–	681	–	–	–	–	**681**
Held-to-maturity investment securities	11	–	172,625	–	–	–	–	**172,625**
Loans to customers:	9							
Corporate lending		177,512	166,913	1,013,152	–	573	162,122	**1,520,272**
Small business lending		67,547	59,396	32,685	53,722	6,415	20,040	**239,805**
Consumer lending		–	–	–	253,911	12,918	9,045	**275,874**
Residential mortgages		–	–	–	28,054	2,795	2,523	**33,372**
		245,059	**226,309**	**1,045,837**	**335,687**	**22,701**	**193,730**	**2,069,323**
Other financial assets	15	–	–	–	9,287	–	–	**9,287**
Total		**545,860**	**805,605**	**1,045,837**	**344,974**	**22,701**	**193,730**	**2,958,707**

		Neither past due nor individually impaired						
	Notes	*High grade 2015*	*Standard grade 2015*	*Sub-standard grade 2015*	*Not rated*	*Past due but not individually impaired 2015*	*Individually impaired 2015*	*Total 2015*
Cash and cash equivalents	6	378,158	268,636	–	–	–	–	**646,794**
Amounts due from credit institutions	7	11,432	12,503	–	–	–	–	**23,935**
Derivative financial assets	8	–	751	–	–	–	–	**751**
Held-to-maturity investment securities	11	–	214,093	–	–	–	–	**214,093**
Loans to customers:	9							
Corporate lending		81,163	230,649	917,864	–	16,713	95,974	**1,342,363**
Small business lending		76,296	59,255	40,001	46,220	11,234	16,122	**249,128**
Consumer lending		–	–	–	211,554	14,349	7,704	**233,607**
Residential mortgages		–	–	–	27,585	1,321	2,393	**31,299**
		157,459	**289,904**	**957,865**	**285,359**	**43,617**	**122,193**	**1,856,397**
Other financial assets	15	–	–	–	10,304	–	–	**10,304**
Total		**547,049**	**785,887**	**957,865**	**295,663**	**43,617**	**122,193**	**2,752,274**

(thousands of Belarusian rubles)

26. Risk management (continued)

Credit risk (continued)

It is the Group's internal policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed statistics information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

An analysis of past due loans, by age, is provided below.

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

	Less than 30 days 2016	*31 to 90 days 2016*	*More than 90 days 2016*	*Total 2016*
Loans to customers				
Corporate lending	409	164	–	**573**
Small business lending	2,475	3,252	688	**6,415**
Consumer lending	6,159	2,865	3,894	**12,918**
Residential mortgages	586	1,659	550	**2,795**
Total	**9,629**	**7,940**	**5,132**	**22,701**

	Less than 30 days 2015	*31 to 90 days 2015*	*More than 90 days 2015*	*Total 2015*
Loans to customers				
Corporate lending	2,136	14,577	–	**16,713**
Small business lending	6,583	4,436	215	**11,234**
Consumer lending	6,517	4,334	3,498	**14,349**
Residential mortgages	592	553	176	**1,321**
Total	**15,828**	**23,900**	**3,889**	**43,617**

See Note 9 for more detailed information with respect to the allowance for impairment of loans to customers.

Impairment assessment

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

Individually assessed allowances

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

Collectively assessed allowances

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

(thousands of Belarusian rubles)

26. Risk management (continued)

Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

Geographical risk concentration

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

	2016				*2015*			
	Belarus	*OECD*	*CIS and other foreign banks*	*Total*	*Belarus*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	514,250	232,336	52,850	**799,436**	356,470	327,093	86,431	**769,994**
Amounts due from credit institutions	40,822	–	–	**40,822**	23,935	–	–	**23,935**
Derivative financial assets	100	363	218	**681**	397	354	–	**751**
Loans to customers	1,939,278	–	–	**1,939,278**	1,756,744	–	–	**1,756,744**
Held-to-maturity investment securities	172,625	–	–	**172,625**	214,093	–	–	**214,093**
Other assets	9,287	–	–	**9,287**	10,304	–	–	**10,304**
	2,676,362	**232,699**	**53,068**	**2,962,129**	**2,361,943**	**327,447**	**86,431**	**2,775,821**
Liabilities								
Amounts due to credit institutions	18,648	374,802	11,315	**404,765**	16,206	492,023	4,832	**513,061**
Derivative financial liabilities	41	75	348	**464**	274	303	1	**578**
Amounts due to customers	1,726,989	42,892	90,678	**1,860,559**	1,513,009	58,940	75,064	**1,647,013**
Amounts due to international credit institutions	–	11,771	–	**11,771**	–	17,466	–	**17,466**
Debt securities issued	2,676	–	–	**2,676**	6,889	–	–	**6,889**
Other liabilities	62,049	–	–	**62,049**	44,670	–	–	**44,670**
	1,810,403	**429,540**	**102,341**	**2,342,284**	**1,581,048**	**568,732**	**79,897**	**2,229,677**
Net assets and liabilities	**865,959**	**(196,841)**	**(49,273)**	**619,845**	**780,895**	**(241,285)**	**6,534**	**546,144**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

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

(thousands of Belarusian rubles)

26. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on net liquidity assets and liabilities established by the NBRB. As at 31 December, these ratios were as follows:

	NBRB required minimum ratio value	*2016*	*2015*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	158.7%	124.0%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity and liabilities repayable within one year)	1.0	1.7	2.4
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	226.3%	155.1%
The Bank's liquidity and total assets ratio	20.0%	35.6%	36.9%

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As at 31 December 2016	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	21,628	131,406	53,338	251,186	59	**457,617**
Derivative financial instruments:						
- Contractual amounts payable	–	386,293	227	–	–	**386,520**
- Contractual amounts receivable	–	(386,576)	(246)	–	–	**(386,822)**
Amounts due to customers	947,367	522,198	293,498	111,718	477	**1,875,258**
Amounts due to international financial institutions	62	2,962	2,952	5,874	–	**11,850**
Debt securities issued	–	24	2,746	–	–	**2,770**
Other liabilities	492	–	20,684	40,873	–	**62,049**
Total undiscounted financial liabilities	**969,549**	**656,307**	**373,199**	**409,651**	**536**	**2,409,242**

Financial liabilities As at 31 December 2015	***On demand***	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	15,424	111,519	54,540	394,153	1,397	**577,033**
Derivative financial instruments:						**–**
- Contractual amounts payable	–	239,175	–	–	–	**239,175**
- Contractual amounts receivable	–	(239,498)	–	–	–	**(239,498)**
Amounts due to customers	751,502	467,538	261,287	191,837	22	**1,672,186**
Amounts due to international financial institutions	39	2,964	2,953	11,707	–	**17,663**
Debt securities issued	–	255	4,233	3,257	–	**7,745**
Other liabilities	318	–	20,078	24,275	–	**44,671**
Total undiscounted financial liabilities	**767,283**	**581,953**	**343,091**	**625,229**	**1,419**	**2,318,975**

(thousands of Belarusian rubles)

26. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual expiry by maturity of the Bank's commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2016	510,384	2,107	2,919	428	**515,838**
2015	470,062	1,910	1,419	–	**473,391**

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than it is indicated in the tables above. These balances are included in amounts due on demand in the tables above.

Market risk

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

Interest rate risk

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the non-fixed rate non-trading financial assets and financial liabilities held as at 31 December 2016 and 2015.

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*
BYN	+50 b.p.	95
EUR	+50 b.p.	1,011
USD	+50 b.p.	1,153

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*
BYN	-50 b.p.	(95)
EUR	-50 b.p.	(1,011)
USD	-50 b.p.	(1,153)

Currency	*Increase in basis points 2015*	*Sensitivity of net interest income 2015*
BYN	+50 b.p.	726
EUR	+50 b.p.	1,420
USD	+50 b.p.	861

(thousands of Belarusian rubles)

26. Risk management (continued)

Market risk (continued)

Currency	*Decrease in basis points 2015*	*Sensitivity of net interest income 2015*
BYN	-50 b.p.	(726)
EUR	-50 b.p.	(1,420)
USD	-50 b.p.	(861)

Currency risk

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

The table below indicates the currencies to which the Group had significant exposure at 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity; meanwhile the positive amounts reflect the potentially possible increase.

Currency	*Change in currency rate in %, 2016*	*Effect on profit before tax 2016*	*Change in currency rate in %, 2015*	*Effect on profit before tax 2015*
USD	18.00	10,266	60.00	50,740
USD	-18.00	(10,266)	-15.00	(12,685)
EUR	18.00	6,211	60.00	24,643
EUR	-18.00	(6,211)	-15.00	(6,161)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgage loans when interest rates fall.

Due to the fact that the Group does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Group believes that the Group is not exposed to the prepayment risk.

Operational risk

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

(thousands of Belarusian rubles)

27. Fair value of financial instruments

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

	Carrying value 2016	*Fair value 2016*	*Unrecognized gain/ (loss) 2016*	*Carrying value 2015*	*Fair value 2015*	*Unrecognized gain/ (loss) 2015*
Financial assets						
Cash and cash equivalents	799,436	799,436	–	769,994	769,994	–
Amounts due from credit institutions	40,822	40,822	–	23,935	23,935	–
Loans to customers	1,939,278	1,942,084	2,806	1,756,744	1,745,766	(10,978)
Held-to-maturity investment securities	172,625	175,108	2,483	214,093	214,093	–
Other financial assets	9,287	9,287	–	10,304	10,304	–
Financial liabilities						
Amounts due to credit institutions	404,765	404,765	–	513,061	513,061	–
Amounts due to customers	1,860,559	1,861,377	(818)	1,647,013	1,642,308	4,705
Amounts due to international financial institutions	11,771	11,771	–	17,466	17,466	–
Debt securities issued	2,676	2,689	(13)	6,889	6,829	60
Other financial liabilities	62,049	62,049	–	44,670	44,670	–
Total unrecognized change in unrealized fair value			**4,458**			**(6,213)**

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

Assets for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

(thousands of Belarusian rubles)

27. Fair value of financial instruments (continued)

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	631	50	**681**
	–	**631**	**50**	**681**
Financial liabilities				
Derivative financial liabilities	–	446	18	**464**
	–	**446**	**18**	**464**

31 December 2015	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets				
Derivative financial assets	–	720	31	**751**
	–	**720**	**31**	**751**
Financial liabilities				
Derivative financial liabilities	–	576	2	**578**
	–	**576**	**2**	**578**

The following table shows an analysis of financial assets and liabilities for which fair values are disclosed by level of the fair value hierarchy:

31 December 2016	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets for which fair values are disclosed				
Cash and cash equivalents	133,467	665,969	–	**799,436**
Amounts due from credit institutions	–	40,822	–	**40,822**
Loans to customers	–	–	1,942,084	**1,942,084**
Held-to-maturity investment securities	–	175,108	–	**175,108**
Other financial assets	–	–	9,287	**9,287**
	133,467	**881,899**	**1,951,371**	**2,966,737**
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	404,765	**404,765**
Amounts due to customers	–	–	1 861377	**1,861,377**
Amounts due to international financial institutions	–	–	11,771	**11,771**
Debt securities issued	–	2,689	–	**2,689**
Other financial liabilities	–	–	62,049	**62,049**
	–	**2,689**	**2,339,962**	**2,342,651**

(thousands of Belarusian rubles)

27. Fair value of financial instruments (continued)

Financial instruments recorded at fair value (continued)

31 December 2015	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	123,200	646,794	–	**769,994**
Amounts due from credit institutions	–	23,935	–	**23,935**
Loans to customers	–	–	1,745,766	**1,745,766**
Held-to-maturity investment securities	–	214,093	–	**214,093**
Other financial assets	–	–	10,304	**10,304**
	123,200	**884,822**	**1,756,070**	**2,764,092**
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	513,061	**513,061**
Amounts due to customers	–	–	1,642,308	**1,642,308**
Amounts due to international financial institutions	–	–	17,466	**17,466**
Debt securities issued	–	6,829	–	**6,829**
Other financial liabilities	–	–	44,670	**44,670**
	–	**6,829**	**2,217,505**	**2,224,334**

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. Methods used by the Group to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

(thousands of Belarusian rubles)

27. Fair value of financial instruments (continued)

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2016	**Gain/(loss) recorded in profit or loss on 'Translation differences' position**	*Settlements*	*At 31 December 2016*
Financial assets				
Derivative financial instruments	31	50	(31)	50
Total Level 3 financial assets	**31**	**50**	**(31)**	**50**
Financial liabilities				
Derivative financial instruments	(2)	(18)	2	(18)
Total Level 3 financial liabilities	**(2)**	**(18)**	**2**	**(18)**

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	2016			*2015*		
	Realized gains	*Unrealized gains*	*Total*	*Realized gains*	*Unrealized gains*	*Total*
Gains recorded in the income statement	(29)	32	**3**	66,097	29	**66,126**

Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

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

	31 December 2016		*31 December 2015*	
	Carrying value	*Effect of reasonably possible alternative assumptions*	*Carrying value*	*Effect of reasonably possible alternative assumptions*
Financial assets				
Derivative financial instruments	50	2	31	4
Financial liabilities				
Derivative financial instruments	(18)	1	(2)	–

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows: the Group adjusted the interest rate used to measure discounted cash flows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 100 b.p. (2015: 100 b.p.)

(thousands of Belarusian rubles)

28. Maturity analysis of assets and financial liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2016			2015		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	799,436	–	**799,436**	769,994	–	**769,994**
Amounts due from credit institutions	40,234	588	**40,822**	23,738	197	**23,935**
Derivative financial assets	681	–	**681**	751	–	**751**
Loans to customers	1,244,158	695,120	**1,939,278**	1,162,385	594,359	**1,756,744**
Held-to-maturity investment securities	139,722	32,903	**172,625**	126,819	87,274	**214,093**
Property and equipment	11,816	120,351	**132,167**	10,713	115,390	**126,103**
Intangible assets	7,878	19,435	**27,313**	7,142	17,405	**24,547**
Deferred income tax assets	–	–	**–**	–	–	–
Current income tax assets	3,567	–	**3,567**	34	–	**34**
Other assets	76,974	183	**77,157**	56,816	1,368	**58,184**
Total assets	**2,324,466**	**868,580**	**3,193,046**	**2,158,392**	**815,993**	**2,974,385**
Amounts due to credit institutions	168,298	236,467	**404,765**	149,916	363,145	**513,061**
Derivative financial liabilities	464	–	**464**	578	–	**578**
Amounts due to customers	1,591,601	268,958	**1,860,559**	1,334,048	312,965	**1,647,013**
Amounts due to international financial institutions	5,928	5,843	**11,771**	5,866	11,600	**17,466**
Debt securities issued	2,676	–	**2,676**	3,745	3,144	**6,889**
Current income tax liabilities	761	–	**761**	5,607	–	**5,607**
Deferred income tax liabilities	–	70,938	**70,938**	–	62,749	**62,749**
Other provisions	518	–	**518**	480	–	**480**
Other liabilities	36,060	40,873	**76,933**	42,912	24,275	**67,187**
Total liabilities	**1,806,306**	**623,079**	**2,429,385**	**1,543,152**	**777,878**	**2,321,030**
Net	**518,160**	**245,501**	**763,661**	**615,240**	**38,115**	**653,355**

29. Related party transactions

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of relationship, not merely the legal form.

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

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG (RBI), banks under common control), shareholders with more than 5% ownership in the share capital of the Bank and the key management personnel of the Group.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Group, owning 100% of shares of the Group's principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

(thousands of Belarusian rubles)

29. Related party transactions (continued)

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	2016			*2015*		
	RBI	***Banks under common control***	***Key management personnel***	***RBI***	***Banks under common control***	***Key management personnel***
Cash and cash equivalents at 31 December	**6,163**	**2,220**	**–**	**19,509**	**1,453**	**–**
Loans at 1 January, gross	**–**	**–**	**117**	**–**	**–**	**299**
Loans issued during the year	–	–	19	–	–	17
Loans repaid during the year	–	–	(83)	–	–	(199)
Loans outstanding at 31 December	**–**	**–**	**53**	**–**	**–**	**117**
Less: allowance for impairment at 31 December	–	–	–	–	–	–
Loans outstanding at 31 December, net	**–**	**–**	**53**	**–**	**–**	**117**
Deposits at 1 January	**485,727**	**–**	**3,000**	**437,650**	**–**	**1,747**
Foreign exchange differences	8,768	–	80	199,175	–	791
Deposits received during the year	–	–	6,711	–	–	10,289
Deposits repaid during the year	(129,603)	–	(5,723)	(151,098)	–	(9,827)
Deposits at 31 December	**364,892**	**–**	**4,068**	**485,727**	**–**	**3,000**
Settlement and current accounts at 31 December	49	4,147	175	5	306	101
Commitments and guarantees issued	8,790	–	–	8,924	–	–
Commitments and guarantees received	1,077	–	–	1,021	–	–

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

	For the year ended 31 December					
	2016			*2015*		
	RBI	***Banks under common control***	***Key management personnel***	***RBI***	***Banks under common control***	***Key management personnel***
Interest income	–	5	13	–	1	29
Interest expense	(20,976)	–	(201)	(25,337)	–	(226)
Net gains/(losses) from foreign currencies	850	(13,728)	–	654	(11,843)	–
Fee and commission income	–	70	7	31	4	11
Fee and commission expense	(761)	(88)	–	(499)	(418)	–
Personnel expenses	–	–	(2,743)	–	–	(2,064)
Other operating expenses	(4,109)	–	–	(3,426)	–	–

(thousands of Belarusian rubles)

29. Related party transactions (continued)

Compensation to key management personnel comprises the following:

	2016	*2015*
Salaries and other short-term benefits	2,330	1,777
Defined benefit plan	231	150
Social security costs	182	137
Total key management compensation	**2,743**	**2,064**

30. Capital adequacy

Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group’s capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the level of risks taken. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous years.

NBRB capital adequacy ratio

The NBRB requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets in 2015, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2016 and 2015, the Bank managed to comply with NBRB capital adequacy ratio.

Capital adequacy ratio under 1988 Basel Capital Accord

The Group’s capital adequacy ratio, computed in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2016 and 2015, comprised:

	2016	*2015*
Tier 1 capital	746,940	642,227
Tier 2 capital	–	–
Total equity	**746,940**	**642,227**
Risk-weighted assets	**2,636,693**	**2,463,341**
Tier 1 capital adequacy ratio	28.33%	26.07%
Total capital ratio	28.33%	26.07%

(thousands of Belarusian rubles)

31. Events after the reporting period

On 9 January 2017, the Bank's Supervisory Board decided to increase share capital of Unitary Insurance Enterprise "Priorlife" by EUR 1,500,000 using the Bank's funds.

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

At the shareholders' meeting in March 2017, dividends were declared in respect for the year ended 31 December 2016, totaling BYN 0.40 per ordinary share and BYN 0.35 – per preferred share. As a result, the amount of dividends totaled BYN 49,226 thousand on ordinary shares and BYN 3.5 thousand on preferred shares.