Translation of the original Russian version

Bank BelVEB OJSC
and its subsidiaries

Consolidated financial statements

Year ended 31 December 2016
together with Independent auditors' report

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улучшаем мир

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Audit report of an independent audit firm on the financial statements of Open Joint Stock Company "Bank BelVEB" for the period from 1 January 2016 to 31 December 2016

To the Chairman of the Management Board
of Bank BelVEB OJSC
Mr. Mikalai Luzgin

To the Shareholders, Supervisory Board,
Audit Committee of Bank BelVEB OJSC

Opinion

We have audited the accompanying consolidated financial statements of Bank BelVEB OJSC and its subsidiaries (hereinafter, the "Bank"), which comprise the consolidated statement of financial position as of 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 Bank as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with 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 with 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 Professional 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 matters 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 Bank's management. The identification of impairment and the determination of the recoverable amount require a high level of professional judgment, the use of assumptions and analysis of various factors, including the financial standing of borrowers, expected future cash flows and realizable value of the collateral. The Bank's management approach to assessing and managing credit risk is described in Note 29 to the consolidated financial statements.

The use of various models and assumptions significantly affects the estimates of the allowances for impairment of loans to customers. Due to the significance of the loans to customers, which account for 60% of total assets, and due to the high level of subjectivity of judgments, the estimation of the allowance for impairment is one of the key audit matters.

Our procedures included evaluation of the methodology for calculating allowance for impairment of loans to customers, testing of the input data, assessment of the assumptions used by the Bank in calculating the allowance for impairment. In addition, for allowance for impairment of significant individually assessed loans, we inspected the expected future cash flows, including the value of realizable collateral based on the results of the independent valuation, our professional judgment and publicly available information on the market value. With regard to allowances for impairment of collectively assessed loans, our audit procedures included the analysis of models and assessment of the appropriateness of the input data used in such models. As part of the audit procedures, we analyzed the consistency and validity of the management judgments used to assess the economic factors and historic information on losses incurred and recovered amounts and their compliance with the generally accepted practices and our professional judgment.

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We performed audit procedures in respect of the information disclosed in Notes 3, 9 and 29 to the consolidated financial statements for completeness and compliance with the requirements of International Financial Reporting Standards.

Valuation of buildings

Methods of the fair value valuation of buildings may be of a subjective nature and may be based on various assumptions about pricing factors. Various methods of assessment and usage of assumptions may significantly impact on the result of fair value assessment. Due to significant amount of the buildings, high level of professional judgment used and potential influence on the Bank's consolidated financial statements, assessment of fair value of buildings is considered to be one of the key audit matters.

As of reporting date, the Bank engaged independent appraiser to estimate market value of buildings. Independent appraiser used the market and income approaches in course of the appraisal. Changes in the fair value of buildings for the reporting period were analyzed using the results of the analysis of actual market data.

Our audit procedures in relation to the valuation of buildings included the analysis of competence and integrity of the independent appraiser engaged by the Bank's management, examination of significant assumptions used, as well as comparison of the input data used for the appraisal with available market information about the value of objects and other observable market data. We also involved our real estate valuation experts to evaluate the methodology and assumptions used.

We performed audit procedures in respect of the information disclosed in Note 13 to the consolidated financial statements for completeness and compliance with the requirements of International Financial Reporting Standards.

Responsibility of management and the Supervisory Board of Bank BelVEB OJSC 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 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of Bank BelVEB OJSC is responsible for overseeing the Bank's financial reporting process.

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Auditors' 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 with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an 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 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Bank 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.

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- Obtain sufficient appropriate audit evidence regarding the entities or business activities of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit procedures. We remain solely responsible for our auditor's report.

We communicate with the Supervisory Board and the Audit Committee of Bank BelVEB OJSC 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 Bank BelVEB OJSC with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it 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 Bank BelVEB OJSC, 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.

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

3 March 2017

Details of the audited entity

Name: Open Joint Stock Company "Belvnesheconombank" (OJSC "Bank BelVEB")
Open Joint Stock Company "Belvnesheconombank" registered by the National Bank of the Republic of Belarus on 12 December 1991, registration No. 24.
Address: 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Details of the audit firm

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

Consolidated statement of financial position

As of 31 December 2016

(Thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Assets			
Cash and cash equivalents	6	437,088	346,808
Precious metals		551	498
Derivative financial assets	8	–	77
Amounts due from credit institutions	7	38,592	47,789
Loans to customers	9	2,385,393	2,163,063
Investment securities available for sale	10	824,439	511,068
Investment in associate	12	3,915	3,918
Property and equipment	13	151,197	146,492
Assets constructed for sale	14	13,236	18,485
Investment property	11	5,291	4,145
Intangible assets	15	39,636	30,454
Current income tax asset		762	3,978
Deferred income tax assets	16	6,441	4,428
Other assets	18	44,487	51,409
Total assets		**3,951,028**	**3,332,612**
Liabilities			
Amounts due to credit institutions	19	1,358,520	1,264,213
Amounts due to the National Bank of the Republic of Belarus	20	12,739	6,173
Derivative financial liabilities	8	–	13
Amounts due to customers	21	1,892,433	1,446,573
Debt securities issued	22	3,352	2,752
Current income tax liabilities		1,068	225
Deferred income tax liabilities	16	887	932
Other liabilities	18	24,772	25,382
Subordinated debt	23	196,607	184,528
Total liabilities		**3,490,378**	**2,930,791**
Equity			
Share capital	24	473,057	473,057
Share premium		458	458
Additional paid-in capital		5,485	5,485
Revaluation reserve for buildings		23,390	24,096
Accumulated deficit		(51,141)	(110,061)
Total equity attributable to shareholders of the Bank		**451,249**	**393,035**
Non-controlling interests		9,401	8,786
Total equity		**460,650**	**401,821**
Total equity and liabilities		**3,951,028**	**3,332,612**

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

Mikalai Luzgin — Chairman of the Board

Liudmila Filipava — Chief Accountant

28 February 2017

The accompanying notes on pages 7 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2016

(Thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Interest income			
Loans to customers		356,416	327,184
Investment securities		60,506	29,007
Amounts due from credit institutions		3,826	2,715
Finance lease		196	767
		420,944	**359,673**
Interest expense			
Amounts due to credit institutions		(96,645)	(94,419)
Amounts due to customers		(87,480)	(89,680)
Subordinated debt		(13,879)	(9,955)
Debt securities issued		(767)	(1,065)
		(198,771)	**(195,119)**
Net interest income		**222,173**	**164,554**
Allowance for loan impairment	9	(99,285)	(139,884)
Effect of initial recognition of interest-bearing assets		(1,077)	(1,972)
Net interest income after allowance for loan impairment		**121,811**	**22,698**
Net fee and commission income	26	53,122	44,642
Net gains from investment securities available for sale		–	116
Net gains/(losses) from foreign currencies:			
- dealing		29,310	30,023
- transactions with derivative financial instruments		(237)	542
- translation differences		(19,418)	30,769
Share in loss of associate	12	(3)	(263)
Other income	27	32,096	35,079
Non-interest income		**94,870**	**140,908**
Personnel expenses	28	(61,143)	(56,572)
Depreciation and amortization	11, 13, 15	(17,023)	(12,377)
Taxes other than income tax		(3,838)	(3,393)
Other operating expenses	28	(63,142)	(56,188)
Other gains from impairment and reversal of provisions	17	37	407
Non-interest expense		**(145,109)**	**(128,123)**
Profit before income tax		**71,572**	**35,483**
Income tax expense	16	(3,458)	(1,296)
Profit for the year		**68,114**	**34,187**
Attributable to:			
- shareholders of the Bank		66,678	35,241
- non-controlling interests		1,436	(1,054)
		68,114	**34,187**

The accompanying notes on pages 7 to 72 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		**68,114**	**34,187**
Other comprehensive income/(loss)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Unrealized gains on investment securities available for sale		–	254
Realized losses on investment securities available for sale reclassified to the statement of profit or loss		–	(116)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**–**	**138**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Revaluation of buildings	24	(223)	(3,274)
Income tax	16	(116)	(67)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(339)**	**(3,341)**
Other comprehensive loss for the year		**(339)**	**(3,203)**
Total comprehensive income for the year		**67,775**	**30,984**
Attributable to:			
- shareholders of the Bank		66,339	32,038
- non-controlling interests		1,436	(1,054)
		67,775	**30,984**

The accompanying notes on pages 7 to 72 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	*Share premium*	*Additional paid-in capital*	*Revaluation reserve for buildings*	*Unrealized gains/(losses) on investment securities available for sale*	*Accumulated deficit*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2014	**473,057**	**458**	**5,485**	**27,786**	**(138)**	**(138,066)**	**368,582**	**9,951**	**378,533**
Profit for the year	–	–	–	–	–	35,241	**35,241**	(1,054)	**34,187**
Other comprehensive income/(loss) for the year	–	–	–	(3,341)	138	–	**(3,203)**	–	**(3,203)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(3,341)**	**138**	**35,241**	**32,038**	**(1,054)**	**30,984**
Amortization of revaluation reserve for buildings, net of tax (Note 24)	–	–	–	(349)	–	349	**–**	–	**–**
Dividends to shareholders of the Bank (Note 24)	–	–	–	–	–	(7,585)	**(7,585)**	–	**(7,585)**
Dividends paid by subsidiaries	–	–	–	–	–	–	**–**	(111)	**(111)**
31 December 2015	**473,057**	**458**	**5,485**	**24,096**	**–**	**(110,061)**	**393,035**	**8,786**	**401,821**
Profit for the year	–	–	–	–	–	66,678	**66,678**	1,436	**68,114**
Other comprehensive loss for the year	–	–	–	(339)	–	–	**(339)**	–	**(339)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(339)**	**–**	**66,678**	**66,339**	**1,436**	**67,775**
Amortization of revaluation reserve for buildings, net of tax (Note 24)	–	–	–	(367)	–	367	**–**	–	**–**
Dividends to shareholders of the Bank (Note 24)	–	–	–	–	–	(8,125)	**(8,125)**	–	**(8,125)**
Dividends paid by subsidiaries	–	–	–	–	–	–	**–**	(821)	**(821)**
31 December 2016	**473,057**	**458**	**5,485**	**23,390**	**–**	**(51,141)**	**451,249**	**9,401**	**460,650**

The accompanying notes on pages 7 to 72 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*
Profit for the period		**68,114**	**34,187**
Adjustments:			
Depreciation and amortization		17,023	12,377
Income tax expense		3,458	1,296
Impairment allowance and other provisions		99,248	139,477
Changes in the fair value of derivatives		64	30
Share in loss of associate		3	263
Translation differences		19,418	(30,769)
Effect of initial recognition of interest-bearing assets		1,077	1,972
Changes in interest accruals		(31,985)	(15,449)
Loss from revaluation of property (buildings)		5,163	1,832
Profit from disposal of property and equipment and intangible assets		(1,163)	(160)
Other changes		1,503	204
Cash flows from operating activities before changes in operating assets and liabilities		**181,923**	**145,260**
Net (increase)/decrease in operating assets:			
Precious metals		(53)	(79)
Amounts due from credit institutions		12,795	(1,967)
Loans to customers		(153,262)	135,716
Assets constructed for sale		5,249	5,544
Other assets		407	(14,944)
Net increase/(decrease) in operating liabilities:			
Short-term amounts due to credit institutions		61,496	(278,635)
Amounts due to customers		380,273	174,389
Other liabilities		(593)	160
Net cash flows from operating activities before income tax		**488,235**	**165,444**
Income tax paid		(1,565)	(17,720)
Net cash from operating activities		**486,670**	**147,724**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2016

(Thousands of Belarusian rubles)

	Notes	*2016*	*2015*
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		1,957,045	241,331
Purchase of investment securities		(2,243,402)	(322,646)
Purchase of property and equipment and intangible assets		(43,332)	(43,341)
Proceeds from sale of property and equipment and intangible assets		8,248	1,716
Net cash used in investing activities		**(321,441)**	**(122,940)**
Cash flows from financing activities			
Proceeds from long-term interbank borrowings		486,123	201,383
Repayment of long-term interbank borrowings		(543,783)	(138,607)
Proceeds from debt securities issued		4,676	5,003
Redemption of debt securities issued		(4,095)	(5,893)
Proceeds from subordinated debt		(7,280)	(6,808)
Dividends paid to shareholders of the Bank		–	–
Dividends paid by subsidiaries		(821)	(111)
Net cash (used in)/from financing activities		**(65,180)**	**54,967**
Effect of exchange rate changes on cash and cash equivalents		(9,769)	56,582
Net increase in cash and cash equivalents		**90,280**	**136,333**
Cash and cash equivalents, beginning		**346,808**	**210,474**
Cash and cash equivalents, ending	6	**437,088**	**346,808**

The accompanying notes on pages 7 to 72 are an integral part of these consolidated financial statements.

(Thousands of Belarusian rubles, unless otherwise stated)

1. Principal activities

Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC) was formed on 12 December 1991 as an open joint stock company under the laws of the Republic of Belarus. Bank BelVEB OJSC operates under general banking license No. 6 issued by the National Bank of the Republic of Belarus on 27 December 2013, the special license for operations with precious metals and precious stones issued by the Ministry of Finance of the Republic of Belarus on 23 June 2010 and the special permit (license) for operations with securities issued by the Ministry of Finance of the Republic of Belarus on 29 July 2002.

Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC) is a universal financial institution and occupies one of the leading positions among the commercial banks in the Republic of Belarus. Its activities include international settlements, currency operations and other services relating to foreign trade activities of the state and customers. The Bank has extensive experience and a proven track reputation in both international and domestic markets. The Bank's main office is in Minsk. The Bank has 17 branches, including 5 offices in regional cities, 3 offices in Minsk, 9 offices in major cities throughout the country, as well as 15 cash settlement centers and 22 retail centers.

The Bank's legal address is 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Bank BelVEB OJSC is a principal member of MasterCard International (since 1994) and VISA International (since 1995).

Bank BelVEB OJSC is a member of the deposit insurance system. The system operates under the Belarusian laws and regulations and is governed by the public institution "Agency of Deposits Compensation". Insurance covers Bank BelVEB OJSC's liabilities to individual depositors for 100% of each individual deposit amount in case of business failure and revocation of the NBRB banking license.

These consolidated financial statements comprise the financial statements of Bank BelVEB OJSC and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is presented in Note 2.

As of 31 December, the following shareholders owned more than 5% of the outstanding shares:

Shareholder	***2016 %***	***2015 %***
State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"	97.52	97.52
Other	2.48	2.48
Total	**100.00**	**100.00**

The Bank is ultimately controlled by the Russian Government.

As of 31 December 2015 and 31 December 2016, members of the Supervisory Board and Management Board controlled 55, or 0.00000047%, of the Bank's shares.

2. Basis of preparation

General

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

The Bank is required to maintain accounting records and prepare its financial statements for regulatory purposes in Belarusian rubles in accordance with Belarusian accounting and banking legislation and related instructions ("BAL"). These consolidated financial statements are based on the Bank's BAL books and records, as adjusted and reclassified in order to comply with IFRS.

(Thousands of Belarusian rubles, unless otherwise stated)

2. Basis of preparation (continued)

General (continued)

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, securities available for sale, property and equipment (buildings) and derivative financial instruments have been measured at fair value.

Inflation accounting

With effect from 1 January 2011, the Belarusian economy was considered hyperinflationary in accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies.* Accordingly, adjustments and reclassifications for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, for changes in the general purchasing power of the Belarusian ruble.

The standard requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit effective at the end of the reporting period.

In applying IAS 29, the Bank has used conversion factors derived from the Belarusian consumer price index ("CPI"), published by the National Statistical Committee of the Republic of Belarus. The CPIs for the nine-year period and respective conversion factors since the time when the Republic of Belarus previously ceased to be considered hyperinflationary, i.e. since 1 January 2006 were as follows:

Year	*Index, %*	*Conversion factors*
2006	106.6	528.8
2007	112.1	471.8
2008	113.3	416.4
2009	110.1	378.2
2010	109.9	344.1
2011	208.7	164.9
2012	121.8	135.4
2013	116.5	116.2
2014	116.2	100.0

With effect from 1 January 2015, the Belarusian economy ceased to be considered hyperinflationary. The value of the Bank's non-monetary assets, liabilities and equity presented in measuring units current as of 31 December 2014 was used for opening balances for 2015.

Redenomination

On 1 July 2016, pursuant to Edict of the President of the Republic of Belarus No. 460 "On redenomination of the official currency of the Republic of Belarus" of 4 November 2015, the Belarusian ruble was redenominated. The currency was redenominated by dropping four zeros off the ruble (10,000:1).

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

(Thousands of Belarusian rubles, unless otherwise stated)

2. Basis of preparation (continued)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

Subsidiary	*31 December 2016 and 2015*				
	Interest/voting, %	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
Belvneshstrakh	100.0	Republic of Belarus	17 October 1994	Insurance	17 October 1994
International Energy Center	52.1	Republic of Belarus	3 May 2007	Production and wholesale of energy	3 May 2007
Vnesheconomstroy	51.0	Republic of Belarus	4 September 2002	Real estate transactions	4 September 2002

Associate

Investments in the associate below are accounted for under the equity method:

Associate	*31 December 2016 and 2015*				
	Interest/voting, %	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
Sivelga	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS effective for annual reporting periods beginning on or after 1 January 2016:

Amendments to IAS 1 Disclosure Initiative

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have no impact on the Bank.

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016. These amendments have no impact on the Bank, as the Bank does not apply the consolidation exception.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. These amendments have no impact on the Bank.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016. These amendments have no impact on the Bank.

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 through 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.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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 Bank, are consolidated. Control is achieved when the Bank 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 Bank controls an investee if, and only if, the Bank has:

- power over the investee (i.e., existing 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 Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Bank's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Bank 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 Bank.

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.

If the Bank loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, the carrying amount 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.

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognized in profit or loss. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as property and equipment (buildings), at fair value at each balance sheet date. Fair values of financial instruments measured at amortized cost are disclosed in Note 30.

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 consolidated 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 consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Bank 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 Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 statement of profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

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

Reclassification of financial assets

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

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

3. Summary of accounting policies (continued)

Financial assets (continued)

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

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

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of the Republic of Belarus, 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.

Precious metals

Precious metals in the form of ingots and coins are recorded at bid prices, which approximate fair values. The Bank determines value of write-off of precious metals in the form of ingots and coins at self-cost of each unit.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from foreign currencies.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 National Bank, amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated debts. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of profit or loss when the borrowings are derecognized as well as through the amortization process.

Borrowings from parent originated at interest rates different from market rates are measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is charged to equity as additional paid in capital. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of profit or loss using the effective interest method.

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Government grants

Government grants in the form of a non-financial asset receivable from the Government are recognized at the net present value of future discounted cash flows in respect of compensation of interest income. The loss on initial recognition of preferential loans is presented on Netto-basis with income from recognition of government grants in the consolidated statement of profit or loss.

The further recognition of receivable under the government grants is performed at amortized cost using the method of effective interest rate. Government grants are tested for impairment with the following recognition of gains/(losses) in the consolidated statement of profit or loss in case of ceasing the recognition of instrument or its impairment, as well as in the process of amortization.

Write-off of the loans issued

Loans are written off against the allowance for impairment losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank including sale of all available collateral. The decision to write off bad debt against the allowance for impairment is approved by management of the Bank.

Leases

Finance − Bank as lessor

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

Operating – Bank as lessee

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

Operating – Bank as lessor

The Bank 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 statement of profit or loss on a straight-line basis over the lease term. 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 amount of the leased asset.

Measurement of financial instruments at initial recognition

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

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

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

3. Summary of accounting policies (continued)

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 realize the asset and settle the liability simultaneously.

The right to set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

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

The objective indicators of loan impairment include the following "loss events":

- significant deterioration of the borrower's financial position;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- restructuring (hidden restructuring) of the debt;
- probability of the borrower's bankruptcy or other financial reorganization;
- available evidence of impairment of a group of loans with no evidence of impairment of an individual loan (e.g. increase in overdue credit card payments; unfavorable industry changes, decrease in borrowers' commodity prices, etc.).

The Bank analyzes at each reporting date whether there are any indications that financial assets may be impaired and exercises professional judgment to adjust observable data relating to a group of financial assets to current circumstances. Methods and assumptions used to assess impairment of financial assets are regularly reviewed to minimize the possibility of differences between actual and estimated losses.

Amounts due from credit institutions and loans to customers

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

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. 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 statement of profit or loss.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit rating system that considers credit risk characteristics such as asset type, industry, geographical location, 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 losses incurred by the Bank or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale investment securities

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated statement of profit or loss – is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

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

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed, the loan is derecognized and a new loan is recognized in the consolidated statement of financial position;
- If the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses the same approach as for financial liabilities as described below.

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

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or 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; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or 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 amounts is recognized in the consolidated statement of profit or loss.

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required 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 statement of profit or loss. The premium received is recognized in the consolidated statement of profit or loss on a straight-line basis over the life of the guarantee.

Taxation

The income tax expense is the sum of current and deferred income taxes.

The current income tax expense is estimated individually by the Bank and each of its subsidiaries based on the results recorded in their statements of profit or loss prepared under the requirements of Belarusian legislation and after any adjustments for taxation purposes.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be 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 rates 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.

The Republic of Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded separately in the consolidated statement of profit or loss within other operating expenses.

Property and equipment

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

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

3. Summary of accounting policies (continued)

Property and equipment (continued)

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment, except for buildings, are carried at cost adjusted for hyperinflation, excluding the cost of day to-day serving, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met.

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

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

	Years
Buildings	15-100
Furniture and office supplies	2-10
Computers and equipment	2-8
Motor vehicles	2-10

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.

Investment property

Investment property represented by the parts of buildings (office buildings) is held to earn rental income and is not used by the Bank or held for the sale in the ordinary course of business.

Investment property is initially recognized at cost adjusted for hyperinflation, excluding the cost of ongoing maintenance, less accumulated depreciation and accumulated impairment losses. Earned rental income is recorded in the consolidated statement of profit or loss. Depreciation is calculated on a straight-line basis over the following estimated useful life of the asset which is 100 years.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment (to buildings).

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as of 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 finite. Intangible assets with finite lives are amortized over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Assets constructed for sale

Assets constructed for sale comprise buildings under construction which will be sold to legal entities and individuals upon completion. Assets constructed for sale are measured at the lower of the cost adjusted on hyperinflation and selling price.

Provisions

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

Retirement and other employee benefit obligations

In the reporting period, the Bank participated 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. In addition, the Bank undertook additional pension obligations in the form of payments to former employees who have retired and are unemployed. These expenses are charged in the period the related salaries are earned.

Since 1 January 2013 the Bank has participated in the system of voluntary supplementary pension insurance of employees – the pension plan with defined contribution. Pension insurance expenses are reflected in other operating expenses.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium.

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.

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses; and for which financial information is available and is regularly reviewed by the entity's chief operating decision maker (a person or a group of persons) responsible for making decisions on allocation of resources and assessing financial performance.

Financial information is to be reported on the same basis as is used internally for assessing the performance of operating segments while making decision on resource allocation between operating segments. The Bank’s segment reporting is based on the following operating segments: corporate banking, retail banking and inter-bank operations. Note 5 “Segment information” of these consolidated financial statements contains information relating to profit and loss, assets and liabilities of the Bank’s operating segments. This information is provided to persons responsible for making decisions in the Bank.

In addition, the Bank has presented a reconciliation of profit and loss before taxation of the reporting segments, as well as a reconciliation of the gross amount of segment assets to the total amount of the Bank’s assets presented in these consolidated financial statements.

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 in the consolidated financial statements, 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 Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

Interest and similar income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. 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 asset management, custody and other management and advisory fees. 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 indicator are recognized after fulfilling the corresponding criteria.

Dividend income

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

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Revenue from the sale of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer.

Revenue from rendering of services

Revenue from rendering of services is recognized by reference to the stage of completion when the outcome of the contract can be estimated reliably. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Insurance transactions

Insurance premiums

The premiums on insurance contracts of the Bank's subsidiary Belvneshstrakh are recorded from the date of commencement of the insurance contracts and are recognized within income on a pro rata basis over the term of insurance contracts by changing the amount of provision for unearned premiums.

Provision for unearned premiums

Unearned premium provision is formed as a part of insurance premium accrued under the insurance contract that relates to the contract term after the reporting date and is calculated in proportion to the remaining contractual period.

Insurance claims paid

Claims paid including claims settlement expenses are expensed in the consolidated statement of profit or loss as incurred.

Insurance loss provision

Insurance loss provision is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, canceled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick.

Foreign currency translation

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

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

(Thousands of Belarusian rubles, unless otherwise stated)

3. Summary of accounting policies (continued)

Foreign currency translation (continued)

The closing exchange rates that were used in the preparation of these consolidated financial statements are presented in the table below:

	31 December 2016	*31 December 2015*
BYN/USD	1.95850	1.85690
BYN/EUR	2.04500	2.03000
BYN/RUB	0.03244	0.02553

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 Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards 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 financial instrument 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 also allows 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 Bank 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 unless there has been a significant increase in credit risk since origination, in which case 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 Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities. The Bank expects a significant impact on its equity due to the 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.

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, effective for periods beginning on or after 1 January 2018 with early application 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 Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 *Leases* in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to 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 all recognized leases will be similar to today’s finance lease accounting, with interest and depreciation expense recognized separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

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

Amendments to IAS 7 Statement of Cash Flows

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

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IFRS 2 Share-based Payment

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.

These 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 Bank.

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 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 Bank.

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated 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 inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 30.

4. Significant accounting judgments and estimates (continued)

Revaluation of buildings

As of 31 December 2016 and 2015, buildings were revalued at their fair value using market comparable method. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property.

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

Insurance loss provision

Insurance loss provision of the Bank's subsidiary Belvneshstrakh is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, or canceled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

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

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 differences can be utilized. The Bank's management judgment is required to determine the amount of the recognized tax assets based on the timing and the level of future taxable profit.

(Thousands of Belarusian rubles, unless otherwise stated)

5. Segment information

For management purposes, the Bank is organized into three operating segments:

Retail banking	Issuing and servicing retail loans for various purposes, handling individual customers' deposits, cash and settlements operations, currency transactions, the issue and maintenance of payment cards, transactions with precious metals.
Corporate banking	Sales of banking products and providing services (issuing loans and financing) to corporate and private entrepreneurial customers, attracting deposits from corporate customers, cash and settlements operations, currency and documentary transactions.
Interbank operations	Handling accounts of other banks, transactions of allocation/raising funds in the interbank market, including transactions with the NBRB, currency conversion operations with other banks, transactions with derivatives, bank securities transactions.

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

In 2016 and 2015, no revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue. Non-current non-financial assets and deferred tax assets are related to the Republic of Belarus. Generally, revenue is earned from sources in the Republic of Belarus.

Segment reporting of the Bank's assets and liabilities as of 31 December 2016 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	3,193,613	95,915	392,341	313,365	**3,995,234**
Segment liabilities	913,606	990,983	1,595,010	28,681	**3,528,280**

Segment reporting of the Bank's assets and liabilities as of 31 December 2015 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	2,668,140	87,870	318,344	304,141	**3,378,495**
Segment liabilities	745,261	720,885	1,480,311	28,061	**2,974,518**

(Thousands of Belarusian rubles, unless otherwise stated)

5. Segment information (continued)

A reconciliation of assets and liabilities as per the reportable segments with the Banks's assets and liabilities under IFRS as of 31 December 2016 and 31 December 2015 is as follows**:**

	Total assets		*Total liabilities*	
	2016	*2015*	*2016*	*2015*
Reported segments, total	**3,995,234**	**3,378,495**	**3,528,280**	**2,974,518**
Adjustment to allowance for impairment	(49,958)	(30,545)	–	–
Recognition of loans previously written-off	2,818	3,774	(22)	–
Accrued personnel expenses	–	–	3,393	3,165
Adjustment to amortized cost of loans issued under State programs	(6,708)	(1,817)	–	–
Adjustment to amortized cost of borrowings and subordinated debts	–	–	(3,722)	(2,376)
Adjustment to amortized cost of participation loan	(24,113)	(23,050)	(24,113)	(23,050)
Adjustment to other impairment and provisions	–	–	(17,920)	(11,899)
Adjustment to historical cost and depreciation of property and equipment	(14,481)	(7,473)	–	–
Adjustment to transit accounts and other temporary differences	30,918	(4,629)	5,328	(13,462)
Adjustment to reclassify corporate bonds to loans to customers	–	122	–	–
Recognition of derivative financial instruments at fair value	–	(2)	–	(12)
Consolidation effect	12,476	15,046	(485)	3,907
Other adjustments	(277)	22	(361)	–
Adjustment with regard to loans to employees	(5,193)	(5,627)	–	–
Share of profit of the associate	3,876	3,879	–	–
Adjustment to income tax	6,436	4,417	–	–
Total IFRS	**3,951,028**	**3,332,612**	**3,490,378**	**2,930,791**

Revenue and profit information of the Bank's operating segments for the years ended 31 December 2016 and 2015, respectively, is presented below:

2016	*Corporate banking*	*Retail banking*	*Interbank operations*	*Other*	*Total*
Revenue from operations with external customers					
Interest income	314,421	26,031	64,142	–	**404,594**
Net fee and commission income/(expense)	33,510	28,037	(1,048)	–	**60,499**
Net gains from foreign currencies	3,813	6,215	4,340	–	**14,368**
Other income	3,265	745	3,843	5,522	**13,375**
Total revenue	**355,009**	**61,028**	**71,277**	**5,522**	**492,836**
Interest expense	(45,731)	(43,830)	(115,303)	–	**(204,864)**
Allowance for loan impairment	(75,463)	(935)	(5,682)	–	**(82,080)**
Segment profit/(loss) before non-interest expense	**233,815**	**16,263**	**(49,708)**	**5,522**	**205,892**
Non-interest expense	(28,924)	(27,954)	(7,301)	(72,757)	**(136,936)**
Income tax expense					**(4,660)**
Profit for the year					**64,296**

(Thousands of Belarusian rubles, unless otherwise stated)

5. Segment information (continued)

2015	*Corporate banking*	*Retail banking*	*Interbank operations*	*Other*	*Total*
Revenue from operations with external customers					
Interest income	297,029	24,094	30,510	–	**351,633**
Net fee and commission income/(expense)	32,487	22,898	(627)	–	**54,758**
Net gains from foreign currencies	4,581	6,331	45,312	–	**56,224**
Other income	15,660	1,026	8,391	4,722	**29,799**
Total revenue	**349,757**	**54,349**	**83,586**	**4,722**	**492,414**
Interest expense	(53,347)	(37,663)	(102,845)	–	**(193,855)**
Allowance for loan impairment	(115,057)	(1,475)	617	–	**(115,915)**
Segment profit/(loss) before non-interest expense	**181,353**	**15,211**	**(18,642)**	**4,722**	**182,644**
Non-interest expense	(26,789)	(25,454)	(9,048)	(56,035)	**(117,326)**
Income tax expense					**(11,132)**
Profit for the year					**54,186**

A reconciliation of profit before tax, interest income and loss, net fee and commission income, net gains from foreign currencies for the reportable segments with the consolidated statement of profit or loss under IFRS for the year ended 31 December 2016 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**68,956**	**404,594**	**(204,864)**	**60,499**	**13,375**	**(136,936)**	**14,368**
Adjustment to other impairment and provisions	17,920	–	–	–	–	17,920	–
Adjustment to amortized cost of borrowings and subordinated debts	1,644	–	1,110	–	–	–	534
Recognition of loans previously written-off	(1,026)	(1,238)	56	67	(37)	37	89
Share in loss of associate	(3)	–	–	–	(3)	–	–
Adjustment to amortized cost of loans issued under State programs	(4,446)	(1,500)	–	–	470	(3,416)	–
Accrued personnel expenses	(3,393)	–	–	–	–	(3,393)	–
Adjustment to historical cost and depreciation of property and equipment	(201)	–	–	–	11,476	258	–
Adjustment to allowance for impairment	(49,958)	–	–	–	–	(396)	–
Adjustment to amortized cost of participation loan	–	(2,677)	2,677	–	–	–	–
Adjustment to transit accounts and other temporary differences	25,591	25,830	–	(265)	–	–	26
Reclassification of fee and commission income from loans to interest income (class 8)	–	6,098	–	(6,098)	–	–	–
Adjustment with regard to loans to employees	434	1,510	–	–	–	(1,076)	–
Other adjustments	(232)	–	88	–	(33)	(326)	40
Consolidation effect and other adjustments	16,286	(11,673)	2,162	(1,081)	6,848	(17,781)	(5,402)
Total IFRS	**71,572**	**420,944**	**(198,771)**	**53,122**	**32,096**	**(145,109)**	**9,655**

(Thousands of Belarusian rubles, unless otherwise stated)

5. Segment information (continued)

A reconciliation of profit before tax, interest income and loss, net fee and commission income, net gains from foreign currencies for the reportable segments with the consolidated statement of profit or loss under IFRS for the year ended 31 December 2015 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**65,318**	**351,633**	**(193,855)**	**54,758**	**29,799**	**(117,326)**	**56,224**
Adjustment to other impairment and provisions	1,425	–	–	–	–	(9,109)	10,534
Adjustment to amortized cost of borrowings and subordinated debts	(754)	–	(4,800)	451	–	–	3,595
Recognition of loans previously written-off	380	(941)	–	–	(658)	407	1,571
Adjustment to reclassify corporate bonds to loans to customers	122	122	–	–	–	–	–
Share in loss of associate	(263)	–	–	–	–	–	–
Adjustment of amortized cost of loans issued under State programs	194	194	–	–	–	–	–
Adjustment to loans serviced under agency agreements	–	(55)	55	–	–	–	–
Reclassification of fee and commission income to interest income	–	6,601	–	(6,601)	–	–	–
Recognition of derivative financial instruments at fair value	18	–	–	–	–	–	18
Accrued personnel expenses	(3,165)	–	–	–	–	(3,165)	–
Adjustment to historical cost and depreciation of property and equipment	(2,674)	–	–	–	561	(3,234)	–
Adjustment to allowance for impairment	(28,590)	–	–	–	–	10,493	(13,748)
Consolidation effect and other adjustments	3,472	2,119	3,481	(3,966)	5,377	(6,189)	3,140
Total IFRS	**35,483**	**359,673**	**(195,119)**	**44,642**	**35,079**	**(128,123)**	**61,334**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	***2015***
Cash on hand	68,235	81,141
Current accounts with the National Bank of the Republic of Belarus	132,776	71,218
Current accounts with credit institutions	135,556	194,449
Time deposits up to 90 days	100,521	–
Cash and cash equivalents	**437,088**	**346,808**

(Thousands of Belarusian rubles, unless otherwise stated)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2016	*2015*
Time deposits for more than 90 days	25,612	33,019
Obligatory reserve with the National Bank of the Republic of Belarus	8,435	8,001
Other amounts	4,545	6,769
Amounts due from credit institutions	**38,592**	**47,789**

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

As of 31 December 2016 and 2015, amounts due from credit institutions that are included in “Other amounts” are funds transferred to banks as guarantee deposits for the transactions using payment cards.

As of 31 December 2016 and 2015, time deposits placed with credit institutions for more than 90 days included deposits nominated in gold in the amount of BYN 23,336 thousand (2015: BYN 24,339 thousand).

Movements in the allowance for impairment of amounts due from credit institutions were as follows:

	2016	*2015*
At 1 January	**–**	**–**
Charge	–	2
Write-off	–	(2)
At 31 December	**–**	**–**

8. Derivative financial instruments

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

	31 December 2016			*31 December 2015*		
	Notional amount	*Fair value*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards and swaps – foreign	–	–	–	3,550	–	13
Forwards and swaps – foreign	–	–	–	–	–	–
Forwards and swaps – domestic	–	–	–	18,348	77	–
Forwards and swaps – domestic	–	–	–	–	–	–
Total derivative assets/liabilities		**–**	**–**		**77**	**13**

Foreign and domestic in the table above stand for counterparties where foreign means non-Belarusian entities and domestic means Belarusian entities.

(Thousands of Belarusian rubles, unless otherwise stated)

8. Derivative financial instruments (continued)

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

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 foreign currency rates to make payments with respect to defined credit events based on specified notional amounts.

9. Loans to customers

Loans to customers comprise:

	2016	*2015*
Corporate lending	1,822,895	1,608,059
Small and medium business lending	728,238	655,162
Consumer lending	75,628	67,909
Residential mortgages	16,518	16,198
Total loans to customers	**2,643,279**	**2,347,328**
Less: allowance for impairment	(257,886)	(184,265)
Loans to customers	**2,385,393**	**2,163,063**

Allowance for impairment of loans to customers

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

	Corporate lending 2016	*Small and medium business lending 2016*	*Consumer lending 2016*	*Residential mortgages 2016*	*Total 2016*
At 1 January 2016	**96,706**	**85,586**	**1,946**	**27**	**184,265**
Charge for the year	29,544	68,305	1,345	91	**99,285**
Amounts written off	(11,839)	(20,183)	(1,737)	(21)	**(33,780)**
Effect of foreign exchange rate changes	3,717	4,345	51	3	**8,116**
At 31 December 2016	**118,128**	**138,053**	**1,605**	**100**	**257,886**
Individual impairment	43,504	108,500	1,144	80	**153,228**
Collective impairment	74,624	29,553	461	20	**104,658**
	118,128	**138,053**	**1,605**	**100**	**257,886**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**388,609**	**448,372**	**1,269**	**84**	**838,334**

(Thousands of Belarusian rubles, unless otherwise stated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

	Corporate lending 2015	*Small and medium business lending 2015*	*Consumer lending 2015*	*Residential mortgages 2015*	*Total 2015*
At 1 January 2015	**51,632**	**24,929**	**1,460**	**39**	**78,060**
Charge for the year	55,937	82,033	1,891	21	**139,882**
Amounts written off	(19,752)	(23,771)	(1,471)	(45)	**(45,039)**
Effect of foreign exchange rate changes	8,890	2,394	66	12	**11,362**
At 31 December 2015	**96,707**	**85,585**	**1,946**	**27**	**184,265**
Individual impairment	48,243	68,936	1,333	13	**118,525**
Collective impairment	48,464	16,649	613	14	**65,740**
	96,707	**85,585**	**1,946**	**27**	**184,265**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**386,120**	**402,599**	**1,496**	**14**	**790,229**

Collateral and other credit enhancements

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

- for securities lending and reverse repurchase transactions – cash or securities;
- for corporate lending – charges over real estate property, inventory, rights to claim future proceeds on accounts receivables or surety of third parties;
- for consumer lending – mortgages over residential properties, pledges of vehicles and surety of third parties.

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

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 impairment losses.

(Thousands of Belarusian rubles, unless otherwise stated)

9. Loans to customers (continued)

Concentration of loans to customers

As of 31 December 2016, the Bank had a concentration of loans represented by BYN 849,060 thousand due from the ten largest third party borrowers (32% of the gross loan portfolio) (2015: BYN 814,400 thousand, or 35%). An allowance of BYN 44,788 thousand was recognized against these loans (2015: BYN 39,978 thousand).

Loans have been issued to the following types of customers:

	2016	*2015*
Private companies	1,268,038	1,224,714
State-controlled companies (state ownership of more than 50%)	1,283,095	1,038,507
Individuals	92,146	84,107
	2,643,279	**2,347,328**

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

	2016	*2015*
Manufacturing	1,388,378	1,222,328
Trading enterprises	427,267	363,959
Agriculture and food processing	325,781	301,287
Real estate construction	174,631	196,124
Financial sector	149,287	130,035
Individuals	92,146	84,107
Transport	68,569	16,765
Science and education	3,653	4,224
Other	13,567	28,499
	2,643,279	**2,347,328**

Finance lease receivables

Included in corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables as of 31 December 2016 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investment in finance leases	1,964	72	–	**2,036**
Unearned future finance income on finance leases	(22)	(20)	–	**(42)**
Net investment in finance leases	**1,942**	**52**	**–**	**1,994**

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

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investment in finance leases	2,034	39	–	**2,073**
Unearned future finance income on finance leases	(39)	(5)	–	**(44)**
Net investment in finance leases	**1,995**	**34**	**–**	**2,029**

(Thousands of Belarusian rubles, unless otherwise stated)

10. Investment securities available for sale

Available-for-sale securities comprise:

	2016	*2015*
Bonds of the National Bank of the Republic of Belarus	406,992	94,295
Bonds of the Ministry of Finance of the Republic of Belarus	308,640	327,754
Bonds of local authorities of the Republic of Belarus	108,649	88,861
Corporate shares	124	124
Participation shares	34	34
Available-for-sale securities	**824,439**	**511,068**

Bonds of the Ministry of Finance of the Republic of Belarus are pledged under collateral loan of the National Bank of the Republic of Belarus (Note 31):

	2016	*2015*
Carrying amount	–	6,462
Number, pcs	–	343

11. Investment property

The movements in investment property are as follows:

	2016	*2015*
At 1 January	**4,145**	**3,792**
Transfer from assets constructed for sale	1,674	397
Transfer to property and equipment	(277)	–
Disposals	(202)	–
Depreciation charge	(49)	(44)
At 31 December	**5,291**	**4,145**

Gains/(losses) for the period included in profit or loss

	2016	*2015*
Rental income from investment property	278	325
Gain from sale of investment property	372	–
Direct operating expenses	(122)	(128)
	528	**197**

In accordance with the accounting policy the Bank recognizes the investment property at initial cost. If the Bank recognized investment property at fair value, it would be approximately BYN 10,268 thousand.

(Thousands of Belarusian rubles, unless otherwise stated)

12. Investment in associate

The following associate is accounted under the equity method:

Associate	*Ownership/ voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Carrying amount*
2016						
Sivelga	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006	3,915

The movement of investments in the associate:

	2016	*2015*
Balance, beginning of the period	**3,918**	**4,181**
Share in loss	(3)	(263)
Investment in the associate at the end of the period	**3,915**	**3,918**

The summarized financial information of material associate is presented below:

Sivelga	*2016*	*2015*
Cash and cash equivalents	111	268
Property and equipment	6,161	5,984
Other assets	6,653	7,537
Total assets	**12,925**	**13,789**
Amounts due to credit institutions	(878)	(884)
Other liabilities	(3,814)	(4,862)
Total liabilities	**(4,692)**	**(5,746)**
Net assets	**8,233**	**8,043**
Share in net assets	2,058	2,011
Accumulated effect of hyperinflation	1,857	1,907
Carrying amount of investment in associate	**3,915**	**3,918**

Sivelga	*For the year ended 31 December 2016*	*For the year ended 31 December 2015*
Interest expense	(129)	(14)
Non-interest income	9,543	12,061
Non-interest expense	(9,426)	(13,098)
Loss for the year	**(12)**	**(1,051)**
Other comprehensive income	–	–
Total comprehensive expense for the year	**(12)**	**(1,051)**

As of 31 December 2016 and 2015 the Bank has no significant restrictions on the ability of associates to transfer funds to the Bank in the form of cash dividends, or to repay loans or advances made by the Bank.

(Thousands of Belarusian rubles, unless otherwise stated)

13. Property and equipment

During 2016, the movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2015	**77,677**	**43,449**	**31,687**	**3,370**	**29,014**	**185,197**
Additions	277	11,033	8,020	–	8,641	**27,971**
Disposals	–	(2,710)	(642)	(23)	(5,987)	**(9,362)**
Transfers	17,119	–	–	–	(17,119)	**–**
Effect of revaluation	(6,367)	–	–	–	–	**(6,367)**
31 December 2016	**88,706**	**51,772**	**39,065**	**3,347**	**14,549**	**197,439**
Accumulated depreciation and impairment						
31 December 2015	**–**	**(22,334)**	**(14,818)**	**(1,553)**	**–**	**(38,705)**
Depreciation charge	(981)	(3,904)	(5,512)	(400)	–	**(10,797)**
Disposals	–	1,616	640	23	–	**2,279**
Effect of revaluation	981	–	–	–	–	**981**
31 December 2016	**–**	**(24,622)**	**(19,690)**	**(1,930)**	**–**	**(46,242)**
Net book value						
31 December 2015	**77,677**	**21,115**	**16,869**	**1,817**	**29,014**	**146,492**
31 December 2016	**88,706**	**27,150**	**19,375**	**1,417**	**14,549**	**151,197**

During 2015, the movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2014	**81,685**	**39,572**	**22,536**	**3,795**	**15,429**	**163,017**
Additions	–	5,557	9,523	76	15,970	**31,126**
Disposals	–	(1,680)	(372)	(501)	(324)	**(2,877)**
Transfers	2,061	–	–	–	(2,061)	**–**
Effect of revaluation	(6,069)	–	–	–	–	**(6,069)**
31 December 2015	**77,677**	**43,449**	**31,687**	**3,370**	**29,014**	**185,197**
Accumulated depreciation and impairment						
31 December 2014	**–**	**(20,234)**	**(12,000)**	**(1,525)**	**–**	**(33,759)**
Depreciation charge	(963)	(3,406)	(3,174)	(428)	–	**(7,971)**
Disposals	–	1,306	356	400	–	**2,062**
Effect of revaluation	963	–	–	–	–	**963**
31 December 2015	**–**	**(22,334)**	**(14,818)**	**(1,553)**	**–**	**(38,705)**
Net book value						
31 December 2014	**81,685**	**19,338**	**10,536**	**2,270**	**15,429**	**129,258**
31 December 2015	**77,677**	**21,115**	**16,869**	**1,817**	**29,014**	**146,492**

The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2016. More details about the fair value of buildings are disclosed in Note 30.

(Thousands of Belarusian rubles, unless otherwise stated)

13. Property and equipment (continued)

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2016	*2015*
Cost	**73,545**	**56,149**
Accumulated depreciation and impairment	(6,718)	(5,884)
Net book value	**66,827**	**50,265**

14. Assets constructed for sale

The movements in assets constructed for sale were as follows:

	Assets constructed for sale
31 December 2014	**24,029**
Additions	4,080
Disposals	(9,227)
Transfers to investment property	(397)
31 December 2015	**18,485**
Additions	486
Disposals	(4,061)
Transfers to investment property	(1,674)
31 December 2016	**13,236**

During its normal activity the Bank sells office and residential premises in constructed "Business Center" ("Housing complex with integrated-attached garages and social infrastructure and facilities") during the years 2015 and 2016.

In 2015, the Bank started sales of apartments in residential building whose construction was launched in 2013.

15. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Investments in intangible assets*	*Total*
Cost				
31 December 2015	**9,591**	**12,978**	**18,373**	**40,942**
Additions	5,713	5,476	4,172	**15,361**
Disposals	(4)	(31)	–	**(35)**
Transfers	2,441	18,757	(21,198)	**–**
31 December 2016	**17,741**	**37,180**	**1,347**	**56,268**
Accumulated depreciation and impairment				
31 December 2015	**(2,752)**	**(7,736)**	**–**	**(10,488)**
Depreciation charge	(2,114)	(4,063)	–	**(6,177)**
Disposals	4	29	–	**33**
31 December 2016	**(4,862)**	**(11,770)**	**–**	**(16,632)**
Net book value				
31 December 2015	**6,839**	**5,242**	**18,373**	**30,454**
31 December 2016	**12,879**	**25,410**	**1,347**	**39,636**

(Thousands of Belarusian rubles, unless otherwise stated)

15. Intangible assets (continued)

	Licenses	*Computer software*	*Investments in intangible assets*	*Total*
Cost				
31 December 2014	**7,697**	**10,898**	**10,885**	**29,480**
Additions	328	529	11,359	**12,216**
Disposals	–	(754)	–	**(754)**
Transfers	1,566	2,305	(3,871)	**–**
31 December 2015	**9,591**	**12,978**	**18,373**	**40,942**
Accumulated depreciation				
31 December 2014	**(1,079)**	**(5,059)**	**–**	**(6,138)**
Depreciation charge	(1,672)	(2,690)	–	**(4,362)**
Disposals	–	12	–	**12**
31 December 2015	**(2,751)**	**(7,737)**	**–**	**(10,488)**
Net book value				
31 December 2014	**6,618**	**5,839**	**10,885**	**23,342**
31 December 2015	**6,840**	**5,241**	**18,373**	**30,454**

16. Taxation

The income tax expense comprises:

	2016	*2015*
Current tax charge	5,624	11,383
Deferred tax credit — origination and reversal of temporary differences	(2,058)	(10,027)
Including: deferred tax recognized directly in equity	(116)	(67)
Less: amortization of deferred tax recognized directly in equity	8	7
Income tax expense	**3,458**	**1,296**

The Bank accounts for taxes based on the tax accounting maintained in accordance with the Belarusian tax legislation. In 2016, income tax rate for Bank BelVEB OJSC and its subsidiary Belvneshstrakh was 25% (2015: 25%). Income tax rate for subsidiaries International Energy Center and Vnesheconomstroy was 18% (2015: 18%).

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

	2016	*2015*
Profit before tax	**71,573**	**35,483**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**17,893**	**8,871**
Investment tax credits	(118)	(97)
Non-taxable income from securities	(17,923)	(9,145)
Non-taxable income	(344)	(432)
Income taxed at different rates	194	(180)
Effect of investment deduction	(362)	(323)
Non-deductible expenditures	7,292	4,624
Change in unrecognized deferred tax assets	87	(198)
Effect of statutory revaluation of property and equipment in compliance with legislation of the Republic of Belarus	(1,728)	(1,877)
Tax effect of other permanent differences	(1,533)	53
Income tax expense	**3,458**	**1,296**

(Thousands of Belarusian rubles, unless otherwise stated)

16. Taxation (continued)

As of 31 December, deferred tax assets and liabilities and their movements for the respective years comprise:

	2016	*2015*
Tax effect of deductible temporary differences		
Property and equipment	4,706	2,159
Accruals	4,426	1,171
Loans to customers	8,918	10,698
Other	–	–
Deferred tax assets	**18,050**	**14,028**
Unrecognized deferred tax assets	(260)	(347)
Deferred tax asset, net	**17,790**	**13,681**
Tax effect of taxable temporary differences		
Accruals	(3,037)	(55)
Provisions for potential losses	(4,590)	(3,074)
Amounts due to credit institutions	(1,010)	(594)
Property and equipment, intangible assets and assets constructed for sale	(794)	(945)
Amounts due from credit institutions	(1,293)	(19)
Derivative financial instruments	–	(3)
Other	(1,512)	(5,495)
Deferred tax liabilities	**(12,236)**	**(10,185)**
Net position on deferred tax	**5,554**	**3,496**

Net position on deferred tax	*2016*	*2015*
At the beginning of the period	**(3,496)**	**6,531**
Recognized directly in the consolidated statement of profit or loss	(2,058)	(10,027)
At the end of the period	**(5,554)**	**(3,496)**

As of 31 December 2016, Bank BelVEB OJSC recognized deferred tax asset in the amount of BYN 6,441 thousand. Subsidiaries Vnesheconomstroy and Belvneshstrakh recognized deferred tax liabilities in the amount of BYN 570 thousand and BYN 317 thousand, respectively.

In addition, as of 31 December 2016, in connection with the revaluation of buildings at fair value the Bank recognized income tax in the amount of BYN 116 thousand, recorded in equity, and amortized deferred tax recognized in 2015 in connection with the revaluation of buildings in the amount of BYN 8 thousand.

As of 31 December 2015, Bank BelVEB OJSC recognized deferred tax asset in the amount of BYN 4,428 thousand. Subsidiaries Vnesheconomstroy and Belvneshstrakh recognized deferred tax liabilities in the amount of BYN 672 thousand and BYN 260 thousand, respectively. In addition, as of 31 December 2015, in connection with the revaluation of buildings at fair value the Bank recognized income tax in the amount of BYN 67 thousand, recorded in equity, and amortized deferred tax recognized in 2014 in connection with the revaluation of buildings in the amount of BYN 7 thousand.

(Thousands of Belarusian rubles, unless otherwise stated)

17. Other impairment and provisions

The movements in allowance for impairment of other assets were as follows:

	Other assets
31 December 2014	**691**
Charge	(407)
Write-off	(43)
31 December 2015	**241**
Reversal	(37)
Write-off	–
31 December 2016	**204**

Allowance for impairment of assets is deducted from the carrying amount of the related assets.

18. Other assets and liabilities

Other assets comprise:

	2016	*2015*
Settlements with customers	17,797	13,187
Government grants	8,048	15,879
Prepaid expenses	7,043	9,114
Prepaid taxes other than income tax	5,150	6,128
Other accrued income	4,221	3,399
Property received in repayment of loans	708	1,419
Re-insurer's share in unearned insurance premium reserves	499	690
Inventories	483	996
Other	742	838
	44,691	**51,650**
Less: allowance for impairment of other assets (Note 17)	(204)	(241)
Other assets	**44,487**	**51,409**

Other liabilities comprise:

	2016	*2015*
Settlements related to non-banking activity	8,471	7,638
Insurance loss provision	5,680	5,846
Settlements with employees	4,100	3,675
Accrued expenses	1,506	3,440
Payments to individuals deposits insurance fund	1,451	1,050
Taxes other than income tax	1,257	942
Deferred income	1,172	1,138
Amounts due to local authorities of foreign states	–	990
Other	1,135	663
Other liabilities	**24,772**	**25,382**

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2016	*2015*
Time deposits and loans	1,278,376	1,195,669
Current accounts	65,075	56,153
Other accounts	15,069	12,391
Amounts due to credit institutions	**1,358,520**	**1,264,213**

(Thousands of Belarusian rubles, unless otherwise stated)

19. Amounts due to credit institutions (continued)

As of 31 December 2016, time deposits and loans included cash received from the parent company in the amount of BYN 773,638 thousand (61% of time deposits and loans) (2015: BYN 730,778 thousand or 61% of time deposits and loans) for project financing in the Republic of Belarus.

As of 31 December 2016 and 2015, amounts due to credit institutions included into “Other accounts” are represented by guarantee deposits for transactions using the payment cards.

20. Amounts due to the National Bank of the Republic of Belarus

Amounts due to the National Bank of the Republic of Belarus comprise:

	2016	*2015*
Import financing	12,719	150
Collateral loan (Note 31)	–	6,005
Other	20	18
Amounts due to the National Bank of the Republic of Belarus	**12,739**	**6,173**

21. Amounts due to customers

Amounts due to customers include the following:

	2016	*2015*
Time deposits	1,526,893	1,187,376
Current accounts	365,540	259,197
Amounts due to customers	**1,892,433**	**1,446,573**
Held as security against letters of credit	28,861	20,326
Held as security against guarantees	9,811	1,492

As of 31 December 2016, amounts due to customers of BYN 312,286 thousand (17%) were due to the ten largest customers (2015: BYN 326,214 thousand or 23%). Included in time deposits are deposits of individuals in the amount of BYN 913,518 thousand (2015: BYN 662,457 thousand).

Due to changes introduced to classification of bank deposits in November 2015, time and conditional deposit agreements are classified as irrevocable and revocable. Irrevocable agreements do not provide for early repayment of a deposit upon demand of a depositor. Early repayment of such deposits may be performed only with the Bank's approval. For revocable agreements, the Bank is obliged to repay deposits of individuals within five days upon demand of a depositor in accordance with the Banking code of the Republic of Belarus. In case a time deposit is repaid upon demand of the depositor prior to maturity, the interest is paid based on the interest rate for demand deposits, unless otherwise specified in the agreement.

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

	2016	*2015*
Individuals, other than employees	959,201	691,203
Private companies	681,379	541,385
State and budgetary organizations	221,480	184,276
Employees	30,373	29,709
Amounts due to customers	**1,892,433**	**1,446,573**

The category “State and budgetary organizations” includes only state and budgetary organizations of the Republic of Belarus. Foreign state enterprises are included in category “Private companies”.

(Thousands of Belarusian rubles, unless otherwise stated)

21. Amounts due to customers (continued)

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

	2016	*2015*
Individuals	989,574	720,912
Manufacturing, including heavy machinery and military-related goods production	211,014	156,724
Trade	167,875	209,804
Science and education	72,652	62,903
Agriculture and food processing	67,968	34,537
Real estate and construction	64,877	56,345
Finance	51,174	31,573
Transport	27,939	18,448
Oil and gas	13,642	15,793
Metallurgy	12,008	13,944
Regional authorities	7,125	6,548
Electric power industry	5,730	1,228
Health care, physical training and sport	1,291	2,243
Telecommunication	862	306
Water supply	519	876
Logistics	515	330
Mass media	396	234
Mining	71	5
Other	197,201	113,820
Amounts due to customers	**1,892,433**	**1,446,573**

22. Debt securities issued

Debt securities issued are denominated in BYN and comprise:

	2016	*2015*
Domestic bonds issued	3,352	2,752
Debt securities issued	**3,352**	**2,752**

As of 31 December 2016 the interest rate on domestic bonds issued is 16% per annum (2015: from 29% to 31%).

23. Subordinated debt

Subordinated debt comprises:

	2016	*2015*
Subordinated loans received from Vnesheconombank (Russia)	196,607	184,528
Subordinated loans	**196,607**	**184,528**

Subordinated loans comprise USD-denominated loans from the parent company maturing in 2021-2024.

(Thousands of Belarusian rubles, unless otherwise stated)

24. Equity

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares (all ordinary)	*Nominal value (all ordinary)*	*Inflation adjustment*	*Total*
31 December 2014	11,740,750,000	117,408	355,649	**473,057**
31 December 2015	11,740,750,000	117,408	355,649	**473,057**
31 December 2016	11,740,750,000	117,408	355,649	**473,057**

The share capital of the Bank was contributed by the shareholders in Belarusian rubles and they are entitled to dividends and any capital distribution in Belarusian rubles. All shares are ordinary with the nominal value of BYN 0.01.

At the Shareholders' Meeting in March 2016, the Bank declared dividends in respect of the year ended 31 December 2015 in the amount of BYN 8,125 thousand (2015: BYN 7,585 thousand).

In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in the Bank's financial statements prepared in accordance with Belarusian accounting legislation. The Bank had BYN 64,296 thousand of undistributed and unreserved earnings as of 31 December 2016 (2015: BYN 54,185 thousand).

Nature and purpose of other reserves

The revaluation reserve for property and equipment is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

Unrealized gains/(losses) on investment securities available for sale. This reserve records changes in the fair value of investments available for sale.

Movements in other reserves

Movements in other reserves were as follows:

	Revaluation reserve for buildings	*Unrealized gains/(losses) on investment securities available for sale*	*Total*
At 1 January 2015	**27,786**	**(138)**	**27,648**
Revaluation of buildings	(3,274)	–	(3,274)
Tax effect of revaluation of buildings	(67)	–	(67)
Amortization of revaluation reserve	(356)	–	(356)
Amortization of income tax	7	–	7
Unrealized losses on investment securities available for sale	–	254	254
Realized losses on investment securities available for sale reclassified to the statement of profit or loss	–	(116)	(116)
31 December 2015	**24,096**	**–**	**24,096**
Revaluation of buildings	(223)	–	(223)
Tax effect of revaluation of buildings	(116)	–	(116)
Amortization of revaluation reserve	(375)	–	(375)
Amortization of income tax	8	–	8
Unrealized gains on investment securities available for sale	–	–	–
Realized losses on investment securities available for sale reclassified to the statement of profit or loss	–	–	–
31 December 2016	**23,390**	**–**	**23,390**

(Thousands of Belarusian rubles, unless otherwise stated)

25. Commitments and contingencies

Operating environment

In 2016, the National Bank of the Republic of Belarus (the "NBRB" or the "National Bank") continued to follow a policy of stabilizing the financial market. In January 2016, the NBRB began to gradually lower rates on liquidity instruments, reducing them from 25% to 18% by the year end in an attempt to increase the effectiveness of the refinancing rate as a monetary policy tool.

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: for the Russian ruble - 50%, for the US dollar - 30%, for the euro - 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. Total devaluation of the national currency by the end of 2016 amounted to 5.5%, 0.7% and 27.1% against the US dollar, euro and the Russian ruble, respectively. In 2016, the overall decrease in GDP amounted to 2.6% as compared to the decrease by 3.8% in 2015. Inflation processes slowed down as well, 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 of 1 January 2017, the 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 Government of the Republic of Belarus and the NBRB in the implementation of economic policies and the structural transformation 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 and the second installment in the amount of USD 300 million were provided on 30 March 2016 and on in June 2016, respectively.

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

Legal

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

(Thousands of Belarusian rubles, unless otherwise stated)

25. Commitments and contingencies (continued)

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and customs regulations, continue to evolve. Legislation and regulations 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. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in the Republic of 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 of 31 December 2016, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

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

	2016	***2015***
Credit related commitments		
Letters of credit	286,929	288,115
Undrawn loan commitments	273,101	221,756
Guarantees	576,183	365,190
	1,136,213	**875,061**
Operating lease commitments		
Not later than 1 year	1,636	1,167
Later than 1 year and not later than 5 years	2,283	763
	3,919	**1,930**
Less: provisions	–	–
Commitments and contingencies (before deducting collateral)	**1,140,132**	**876,991**
Less: cash held as security against letters of credit and guarantees	(38,672)	(21,817)
Commitments and contingencies	**1,101,460**	**855,174**

Many of the above credit related commitments may be terminated without being performed partially or in full. Therefore, they do not represent expected cash outflow. Majority of loan and credit line commitments are not absolute covenants of the Bank.

Capital expenditures

As of 31 December 2015, Bank BelVEB OJSC had capital expenditure commitments in the amount of BYN 6,625 thousand, related to the construction of new and reconstruction of the Bank's office buildings. As of 31 December 2016, Bank BelVEB OJSC had no such capital expenditure commitments.

(Thousands of Belarusian rubles, unless otherwise stated)

26. Net fee and commission income

Net fee and commission income comprises:

	2016	***2015***
Settlement operations	57,159	44,171
Guarantees and letters of credit	21,112	22,076
Securities operations	64	44
Other	2,833	2,171
Fee and commission income	**81,168**	**68,462**
Settlement operations	(21,118)	(16,062)
Guarantees and letters of credit	(6,500)	(7,522)
Securities operations	(13)	(15)
Other	(415)	(221)
Fee and commission expense	**(28,046)**	**(23,820)**
Net fee and commission income	**53,122**	**44,642**

27. Other income

	2016	***2015***
Collection of debts previously written off	11,935	10,602
Income of subsidiaries from sales of goods/provision of services	9,801	14,416
Penalties received	3,613	4,761
Income from generation and sale of electrical energy	3,105	2,310
Income from disposal of property and equipment and intangible assets	1,163	160
Insurance income	896	121
Reversal of impairment of property and equipment	–	608
Income from lease of investment property	278	325
Sub-rental income	54	85
Dividends	41	8
Other	1,210	1,683
Total other income	**32,096**	**35,079**

(Thousands of Belarusian rubles, unless otherwise stated)

28. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	2016	*2015*
Salaries and bonuses	47,592	43,453
Social security costs	13,551	13,119
Personnel expenses	**61,143**	**56,572**
Data processing	14,923	9,634
Office supplies, maintenance and rent	9,013	6,983
Insurance	6,207	5,716
Loss on revaluation of property and equipment	5,163	2,440
Contributions to the Agency of Deposits Compensation	5,252	5,209
Expenses related to current activities of subsidiaries	4,111	8,999
Professional services	2,897	2,284
Maintenance of property and equipment	2,086	1,737
Security	1,758	1,757
Expenses on pension insurance	1,684	1,189
Expenses related to material assistance payments to retired employees	1,397	987
Telecommunication services	986	787
Transportation of cash	928	810
Consultancy and information costs	893	962
Transportation expenses	618	618
Charity	494	410
Contributions to trade union	466	350
Entertainment	225	223
Free of charge transfer of assets	100	98
Expenses on disposal of non-current assets held for sale	7	763
Other	3,934	4,232
Other operating expenses	**63,142**	**56,188**

29. Risk management

Introduction

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

Risk management structure

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

Supervisory Board

Supervisory Board ensures the risk management system organization, controls the overall level of risk and the state of risk management system of the Bank, approves the limits system, states risk tolerance, risk-appetite, makes other decisions concerning risk management covering its terms of reference.

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Introduction (continued)

The Risk Committee of the Supervisory Board

The Risk Committee of the Supervisory Board of Bank BelVEB OJSC provides the qualitative preparation of Supervisory Board decisions under the issues of organization and improvement of risk management system, submits the report to the Supervisory Board about risk management system position and the level of risk of the Bank together with recommendation under the management of the risk at least once a year.

Management Board

The Management Board is responsible for organizing the risk management framework and ensuring the Bank's compliance with relevant objectives and goals set by the Supervisory Board.

Chair of the Management Board

Chair of the Management Board reviews management reports on specific risks and makes respective managerial decisions.

Risk Management Officer

Risk management officer is responsible for the risk management system, timely identification, assessment and measures to limit the risks, controlling the risks level and the key risk indicators of the Bank.

Asset and Liability Management Committee

The Asset and Liability Management Committee of the Bank realizes current and long-run policy of the Bank in the asset and liability management field, including interest rates policy, liquidity management policy, and break-even policy of the Bank. Asset and Liability Management Committee develops the recommendations on liquidity risk management, market risks and interest rate risks of the bank portfolio.

The Superior Credit Committee

The Superior Credit Committee of Bank BelVEB OJSC provides effective and immediate activities to negotiate credit policy of the Bank, makes a decision within its competence on carrying out active operations.

The Small Credit Committee

The Small Credit Committee makes a decision within its competence on carrying out active operation.

Risk Management Department

The Risk Management Department is responsible for independent assessment of banking risks together with methodological and analytical support of risk management process.

Treasury

Bank Treasury takes part in processes of managing liquidity risk, interest rates risk of the bank portfolio and currency risk.

The Audit Committee of the Supervisory Board

The Audit Committee of the Supervisory Board of Bank BelVEB OJSC performs the overall management of internal control system, the Internal Audit Department of the Bank.

The Internal Audit Department

The Internal Audit Department assesses the effectiveness of the risk management system, including the verification of the completeness and correctness of the application of the banking risks methods and the process of the Bank risk management, proposes variants of increasing the effectiveness of the Bank risk management during the audit. The Internal Audit Department informs the Risk Committee of the Supervisory Board and the Risk Management Department about the audit results.

29. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Bank's risk assessment is performed by the Bank for each major type of risk.

Together with the standard evaluation methods regarding the determination of regulatory capital adequacy set by the National Bank of the Republic of Belarus and applied to credit, market, operational and liquidity risks, the Bank also uses the following methods of assessment:

- value-at-Risk (VaR) (currency risk);
- approach based on the internal credit ratings of the borrower, scoring (credit risk);
- gap analysis, duration (interest rate risk of the bank portfolio);
- gap analysis, ratio analysis, the method of analysis of expected cash (payment) flows (liquidity risk);
- analysis of operational risk implementation facts per risk objects (operational risk).

The Bank performs stress-testing procedures of banking risks, which allow to estimate the potential impact of number of shocks, i.e. changes in risk factors representing exceptional but probable events on the Bank's financial performance.

Valuation techniques for every type of risks, including their composition and sources used in assessment for each of them, as well as stress-testing methodology, are specified in local normative documents of the Bank relating to management of different risk types.

Monitoring and controlling risks is primarily based on the limits established by the Bank. Such limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and estimates the overall risk bearing capacity in relation to the aggregate risk exposure across the basic risk types.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify the risks. This information is presented to the Management Board, appropriate Committees and to the heads of the departments according to the period defined by the separate local normative documents.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all the Bank's departments have an access to extensive, necessary and up-to-date information.

In the reporting period the Bank developed and implemented the Methodology for complex risk assessment comprising procedure to measure the total relative level of risks accepted by the Bank.

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

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

Identified concentrations of risks are managed accordingly.

29. Risk management (continued)

Credit risk

The Bank is subject to a credit risk, it means a risk of loss, failure to obtain the planned revenues because its customers, clients or counterparties failed to discharge their financial and other property obligations stated in contracts or by the legislation of the Republic of Belarus.

Credit risk is the most significant type of the risk for the Bank. Its management, as well as monitoring the quality of loan portfolio is given a special attention.

The Bank manages credit risk by:

- diversification of duties and responsibilities between representatives and executives bodies, committees, officials and Bank`s departments in sphere of the credit risk management;
- set-up of adequate and appropriate to interests of the Bank system of lending to legal entities and individual entrepreneurs, individuals, the limits setting system for transactions subject to credit risk;
- establishment the unified methodology of credit risk identification and assessment;
- realization of the interest rates policy, that allows to cover a loss and Bank's debt capital cost;
- implementation of qualitative and timely analysis of the state and dynamics loan portfolio, secure functioning normatives, which characterize the level of credit risk;
- the implementation of stress-testing and identification the factors which influence the changes of credit risk level;
- formation of fulfillment of obligations during the active operations;
- creation of the regular and timely system of providing with the information about the level of credit risk to the Superior Credit Committee, the Management Board and the Supervisory Board.

The Bank has established the system of internal ratings of corporate clients, which provides a differentiated assessment of the probability of the debtors default based on the analysis of qualitative and quantitative credit risk factors, their impact on the debtor's ability to maintain and repay the liabilities.

Decisions on separate standard products for individuals are made based on the scoring model of individual solvency assessment developed in the Bank.

To improve quality of the new credit products the Bank working further on the ratings and scoring models. For the purpose of improvement of the reliability and efficiency of the process of credit risk assessment the methods of calculation and assignment of the internal ratings for the legal entities has been developed by the Bank. The scoring card has been amended based on statistical analysis of the issued loans in order to improve the classifying ability and the efficiency of the scoring model.

As part of the activities to enhance credit risk management system, in the reporting period the Bank developed Methodology for assessment industry-specific credit risks.

The Bank controls credit risk by setting limits per borrower or group of related borrowers, concentration limits for the 20 largest corporate customers, for industries and others.

Concentration of credit risk limits are approved by the credit policy of the Bank and undergo regular review (at least once a year). Monitoring of these limits is made on a monthly basis as part of the preparation of management reports on the quality of the Bank's loan portfolio.

Covering accepted credit risk is carried out by formation of special allowances. The risk assessment is carried out by the Bank individually for each borrower on the basis of criteria of debtor's ability to meet its obligations, the quality and adequacy of submitted collateral, the number of renewals and duration of overdue debt. Risk Management Department controls the completeness and accuracy of judgment for the classification (reclassification) of assets and contingencies of the corporate clients by their risk groups.

For contingencies the Bank uses the same credit policy as it does for on-balance financial instruments, which is based on transaction approving procedures, procedures of using restricting risk limits, and monitoring procedures.

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the concluded agreements. They expose the Bank to similar risks to loans and these are mitigated by the same control procedures and the risk control policy.

The carrying amount of the consolidated statement of financial position, including derivative financial instruments, excluding the effect of risk mitigation through the use of master netting and collateral agreements, most accurately reflects the maximum credit risk exposure for these lines.

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

More detailed information on the maximum exposure to credit risk for each class of financial instrument can be found in the specific notes. The effect of collateral and other risk mitigation techniques are shown in Note 9.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets for loan-related lines in the consolidated statement of financial position, based on the Bank's credit rating system.

		Neither past due nor individually impaired					
	Notes	***High grade 2016***	***Standard grade 2016***	***Sub-standard grade 2016***	***Past due but not individually impaired 2016***	***Individually impaired 2016***	***Total 2016***
Cash and cash equivalents less cash on hand	6	–	368,853	–	–	–	**368,853**
Amounts due from credit institutions	7	–	38,592	–	–	–	**38,592**
Loans to customers	9						
Corporate lending		210,665	1,223,362	–	259	388,609	**1,822,895**
Small and medium business lending		172,786	104,380	–	2,700	448,372	**728,238**
Consumer lending		–	73,096	–	1,263	1,269	**75,628**
Mortgage lending		–	16,327	–	107	84	**16,518**
		383,451	**1,417,165**	**–**	**4,329**	**838,334**	**2,643,279**
Investment securities available for sale	10	–	824,281	–	–	–	**824,281**
Total		**383,451**	**2,648,891**	**–**	**4,329**	**838,334**	**3,875,005**

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Credit risk (continued)

		Neither past due nor individually impaired			*Past due but*		
	Notes	*High grade 2015*	*Standard grade 2015*	*Sub-standard grade 2015*	*not individually impaired 2015*	*Individually impaired 2015*	*Total 2015*
Cash and cash equivalents less cash on hand	6	–	265,667	–	–	–	**265,667**
Amounts due from credit institutions	7	–	47,789	–	–	–	**47,789**
Loans to customers	9						
Corporate lending		200,613	1,020,120	–	1,206	386,120	**1,608,059**
Small and medium business lending		173,734	74,908	–	3,921	402,599	**655,162**
Consumer lending		–	64,837	–	1,576	1,496	**67,909**
Mortgage lending		–	16,053	–	131	14	**16,198**
		374,347	**1,175,918**	**–**	**6,834**	**790,229**	**2,347,328**
Investment securities available for sale	10	–	510,910	–	–	–	**510,910**
Total		**374,347**	**2,000,284**	**–**	**6,834**	**790,229**	**3,171,694**

In the tables above, loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a credit rating close to sovereign level or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard –below Baa3 but above B3, sub-standard – below B3.

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be individually impaired.

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

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

	Less than 30 days 2016	*31 to 60 days 2016*	*61 to 90 days 2016*	*More than 90 days 2016*	*Total 2016*
Loans to customers					
Corporate lending	11	217	8	23	**259**
Mortgage lending	76	6	24	–	**106**
Consumer lending	949	315	–	–	**1,264**
Small and medium business lending	406	1,786	3	505	**2,700**
Total	**1,442**	**2,324**	**35**	**528**	**4,329**

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Credit risk (continued)

	Less than 30 days 2015	*31 to 60 days 2015*	*61 to 90 days 2015*	*More than 90 days 2015*	*Total 2015*
Loans to customers					
Corporate lending	103	1,066	–	37	**1,206**
Mortgage lending	72	33	26	–	**131**
Consumer lending	1,087	489	–	–	**1,576**
Small and medium business lending	3,303	158	172	288	**3,921**
Total	**4,565**	**1,746**	**198**	**325**	**6,834**

See Note 9 for 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 60 days taken into account the materiality overdue amounts;
- there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

The Bank recognizes the following financial assets as impaired:

- loans, evaluated and individually impaired;
- groups of financial assets collectively reserved under the collective historical loss rate of 51% or more.

Groups of loans collectively assessed and reserved for historical rate less than 51% are not considered as impaired.

Allowances are assessed both individually and collectively.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance payment on an individual basis. Items considered when 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, 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 or more often if unforeseen circumstances require more attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and consumer lending) 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.

While collective assessing the impairment of the portfolio is valued even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an impairment allowance, and expected receipts and recoveries once impaired.

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

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Credit risk (continued)

The geographical concentration of the Bank'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	295,871	51,250	89,967	**437,088**	183,038	129,190	34,580	**346,808**
Derivative financial assets	–	–	–	**–**	77	–	–	**77**
Amounts due from credit institutions	30,060	4,544	3,988	**38,592**	33,762	6,770	7,257	**47,789**
Loans to customers	2,385,393	–	–	**2,385,393**	2,163,063	–	–	**2,163,063**
Investment securities available for sale	824,407	32	–	**824,439**	511,036	32	–	**511,068**
Other financial assets	31,678	469	13	**32,160**	31,338	187	15	**31,540**
	3,567,409	**56,295**	**93,968**	**3,717,672**	**2,922,314**	**136,179**	**41,852**	**3,100,345**
Liabilities								
Amounts due to credit institutions	100,823	186,082	1,071,615	**1,358,520**	80,598	272,441	911,174	**1,264,213**
Amounts due to the National Bank of the Republic of Belarus	12,739	–	–	**12,739**	6,173	–	–	**6,173**
Derivative financial liabilities	–	–	–	**–**	–	–	13	**13**
Amounts due to customers	1,724,727	6,928	160,778	**1,892,433**	1,359,955	5,791	80,827	**1,446,573**
Debt securities issued	3,352	–	–	**3,352**	2,752	–	–	**2,752**
Other financial liabilities	20,507	319	507	**21,333**	15,421	543	1,311	**17,275**
Subordinated debt	–	–	196,607	**196,607**	–	–	184,528	**184,528**
	1,862,148	**193,329**	**1,429,507**	**3,484,984**	**1,464,899**	**278,775**	**1,177,853**	**2,921,527**
Net assets/(liabilities)	**1,705,261**	**(137,034)**	**(1,335,539)**	**232,688**	**1,457,415**	**(142,596)**	**(1,136,001)**	**178,818**

Liquidity risk and funding management

Liquidity risk is the probability of the losses, failure to obtain the planned revenues due to the inability to ensure the timely performance of the obligations in full.

Liquidity risk management process includes identification, measurement (assessment) and stress testing, limitation, monitoring and control of the liquidity risk, a system of key early warning indicators, financing plans in crises, the disclosure of liquidity risk.

The Bank has developed a number of documents which regulate issues of liquidity risk management and liquidity position, management define goals, objectives, principles and methods of management, the division of responsibility between departments and procedures of interaction between them on liquidity risk management and liquidity position.

The liquidity risk is managed and controlled by the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board, the Asset and Liability Management Committee, the official responsible for risk management at Bank BelVEB OJSC, the Risk Management Department, the Bank Treasury, the Department of Operations in the Financial Markets, the Finance and Economic Department and the Internal Audit Department.

Bank BelVEB OJSC performs daily monitoring of the implementation of regulations set by the National Bank of the Republic of Belarus, local liquidity risk limits, prepares a management report on liquidity risk. In addition, Bank BelVEB OJSC takes measures to comply with the liquidity ratios recommended by the National Bank of the Republic of Belarus calculated on the basis and with the frequency set by Basel III.

The Bank takes into account the interaction between the risk of funding liquidity and market liquidity risk, which it is exposed, and provides a comprehensive assessment of the liquidity risk that includes an analysis of the balance sheet structure, cash flow forecasting, in all material balance and off-balance positions and activities both under normal conditions and in stressful situations.

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Liquidity risk and funding management (continued)

The Bank uses payment calendars to manage its current liquidity position. To monitor the risk of loss of liquidity, the Bank monitors the limits of liquidity deficit as well as the key indicators of liquidity risk.

The assets and liabilities formation is based on the principle of diversification of sources and destinations, the volume and terms of attraction and allocation. The main external sources of financing are the resources of the parent bank − the State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)".

Maintaining funding sources and increase in the resource base of the Bank is provided by improving the quality of customer service, offering new products, providing more flexible conditions of deposit contracts.

The Bank maintains a sufficient liquidity to meet all the requirements of the National Bank of the Republic of Belarus and perform its obligations to clients in timely manner.

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

	Minimum value	*2016*	*2015*
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	Min. 70%	96%	107%
"Short-Term Liquidity Ratio" (assets receivable within a year / liabilities repayable within a year)	Min. 1	2.4	3.2
"Quick Liquidity Ratio" (assets on demand/ liabilities on demand)	Min. 20%	107%	153%

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities As of 31 December 2016	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	273,060	540,580	678,528	2,943	**1,495,111**
Amounts due to the National Bank of the Republic of Belarus	2,050	10,716	−	−	**12,766**
Gross settled derivative financial instruments					
- Contractual amounts payable	−	−	−	−	**−**
- Contractual amounts receivable	−	−	−	−	**−**
Amounts due to customers	828,799	747,832	375,790	3,039	**1,955,460**
Debt securities issued	131	3,586	−	−	**3,717**
Other liabilities	13,288	3,611	3,178	−	**20,077**
Subordinated debt	−	10,662	111,940	154,933	**277,535**
Total undiscounted financial liabilities	**1,117,328**	**1,316,987**	**1,169,436**	**160,915**	**3,764,666**

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities As of 31 December 2015	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	155,684	353,261	960,766	69	**1,469,780**
Amounts due to the National Bank of the Republic of Belarus	6,173	–	–	–	**6,173**
Gross settled derivative financial instruments					
- Contractual amounts payable	3,575	–	–	–	**3,575**
- Contractual amounts receivable	(3,550)	–	–	–	**(3,550)**
Amounts due to customers	672,212	695,318	129,177	1,685	**1,498,392**
Debt securities issued	203	3,235	–	–	**3,438**
Other liabilities	10,253	3,445	1,585	1	**15,284**
Subordinated debt	–	9,215	46,716	213,436	**269,367**
Total undiscounted financial liabilities	**844,550**	**1,064,474**	**1,138,244**	**215,191**	**3,262,459**

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

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2016	803,029	147,702	171,919	13,563	**1,136,213**
2015	768,188	52,895	53,969	9	**875,061**

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

The maturity analysis does not reflect the historical stability of current accounts and customer deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Market risk

Market risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions related to the trade portfolio, foreign currency denominated positions and commodities due to changes in market interest rates, exchange rates, securities quotations, commodity prices and other factors.

The Bank is exposed to market risks due to the effect of general or specific market changes on its products. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate limits on the tolerable loss.

With the exception of foreign currency positions, the Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Bank has developed a number of documents which in generally organizes risk management process.

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Market risk (continued)

Asset and Liability Committee determines process of resource attraction and placement based on monitoring of the corresponding sectors in the banking sector.

Treasury performs analysis of volume-time structure of the Bank's balance and interest rate levels in the context of risk management process. Risk Management Departments performs independent assessment of the Bank's exposure to interest rate risk and stress testing of risk tolerance.

The following table demonstrates the sensitivity to a reasonable possible changes in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit or loss.

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

Currency	*Increase in basis points 2016*	*Sensitivity of profit or loss 2016*	*Sensitivity of equity less effect on profit and loss 2016*
BYN	+500	13,644	–
USD	+60	(1,519)	4,644
EUR	+12	(71)	–

Currency	*Decrease in basis points 2016*	*Sensitivity of profit or loss 2016*	*Sensitivity of equity less effect on profit and loss 2016*
BYN	-50	(1,364)	–
USD	-18	202	(619)
EUR	-8	47	–

Currency	*Increase in basis points 2015*	*Sensitivity of profit or loss 2015*	*Sensitivity of equity less effect on profit and loss 2015*
BYN	+500	12,670	–
USD	+50	(1,233)	2,555
EUR	+25	(189)	–

Currency	*Decrease in basis points 2015*	*Sensitivity of profit or loss 2015*	*Sensitivity of equity less effect on profit and loss 2015*
BYN	-500	(12,670)	–
USD	-12	296	(613)
EUR	-25	187	–

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions nominated in foreign currency, due to the exchange rate changes. The Bank`s positions in precious metals as bank bars are also exposed to currency risk.

Currency risk management system of the Bank provides for the following:

- distributing the responsibilities of currency risk management;
- regulating the methods of assessment and stress-testing of currency risk;
- preparing daily management reports on currency risk;
- setting and controlling position and risk limits and other key indicators to restrict the level of risk.

The table below indicates the currencies to which the Bank had significant exposure as of 31 December 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 ruble, with all other variables held constant, on the consolidated statement of profit or loss. The effect on equity does not differ from the effect on the consolidated statement of profit or loss. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, % 2016*	*Effect on profit before tax 2016*	*Change in currency rate, % 2015*	*Effect on profit before tax 2015*
USD	+18	7,803	+60.00	17,946
EUR	+18	(443)	+60.00	(9,264)
RUB	+25	(133)	+37.50	(1,235)

Currency	*Change in currency rate, % 2016*	*Effect on profit before tax 2016*	*Change in currency rate, % 2015*	*Effect on profit before tax 2015*
USD	+13	5,636	10.00	2,991
EUR	+13	(320)	10.00	(1,544)
RUB	-15	80	-27.00	1,026

Prepayment risk

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

The management of the Bank believes that the realization of the prepayment risk will not have a material effect on the Bank.

Operational risk

Operational risk is the risk of loss arising from inconsistency of the Bank's local documents of execution banking transactions and operations to the legislation of the Republic of Belarus, or its breach by the employees, incompetence or errors of the Bank's employees, discrepancy or failure the system used by the Bank including information systems, and as result of external factors.

The Bank has established and maintained a comprehensive centralized operational risk management system, which provides for an effective methodology of operational risk management, risk assessment, monitoring, control and restriction of operational risk in accordance with the local documents of the Bank.

(Thousands of Belarusian rubles, unless otherwise stated)

29. Risk management (continued)

Operational risk (continued)

Operational risk management functions are fixed at the level of the Bank's management, collegiate bodies, departments and responsible persons.

To manage the operational risk, the Bank is maintaining the database of realization of the facts of operational risk. Recommendations for optimization of the business process are generated using this database.

The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

30. Fair value measurement

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

		Fair value measurement using			
At 31 December 2016	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Derivative financial instruments	31 December 2016	–	–	–	**–**
Investment securities available for sale	31 December 2016	–	824,281	158	**824,439**
Property and equipment – buildings	31 December 2016	–	–	88,706	**88,706**
		–	**824,281**	**88,864**	**913,145**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	437,088	–	–	**437,088**
Precious metals	31 December 2016	551	–	–	**551**
Amounts due from credit institutions	31 December 2016	–	38,589	–	**38,589**
Loans to customers	31 December 2016	–	–	2,365,595	**2,365,595**
		437,639	**38,589**	**2,365,595**	**2,841,823**

(Thousands of Belarusian rubles, unless otherwise stated)

30. Fair value measurement (continued)

At 31 December 2016	*Date of valuation*	*Fair value measurement using* *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2016	–	–	–	**–**
		–	**–**	**–**	**–**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2016	–	65,075	1,292,552	**1,357,627**
Amounts due to the National Bank of the Republic of Belarus	31 December 2016	–	–	12,739	**12,739**
Amounts due to customers	31 December 2016	–	365,541	1,537,780	**1,903,321**
Debt securities issued	31 December 2016	–	3,303	–	**3,303**
Subordinated debt	31 December 2016	–	–	197,009	**197,009**
		–	**433,919**	**3,040,080**	**3,473,999**

At 31 December 2015	*Date of valuation*	*Fair value measurement using* *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Derivative financial instruments	31 December 2015	–	77	–	**77**
Investment securities available for sale	31 December 2015	–	510,910	158	**511,068**
Property and equipment – buildings	31 December 2015	–	–	77,677	**77,677**
		–	**510,987**	**77,835**	**588,822**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	346,808	–	–	**346,808**
Precious metals	31 December 2015	498	–	–	**498**
Amounts due from credit institutions	31 December 2015	–	47,765	–	**47,765**
Loans to customers	31 December 2015	–	2,130,742	–	**2,130,742**
		347,306	**2,178,507**	**–**	**2,525,813**

(Thousands of Belarusian rubles, unless otherwise stated)

30. Fair value measurement (continued)

		Fair value measurement using			
At 31 December 2015	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2015	–	13	–	**13**
		–	**13**	**–**	**13**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2015	–	1,261,108	–	**1,261,108**
Amounts due to the National Bank of the Republic of Belarus	31 December 2015	–	6,173	–	**6,173**
Amounts due to customers	31 December 2015	–	1,450,012	–	**1,450,012**
Debt securities issued	31 December 2015	–	2,869	–	**2,869**
Subordinated debt	31 December 2015	–	184,902	–	**184,902**
		–	**2,905,064**	**–**	**2,905,064**

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

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

	Carrying amount 2016	***Fair value 2016***	***Unrecognized loss 2016***	***Carrying amount 2015***	***Fair value 2015***	***Unrecognized loss 2015***
Financial assets						
Cash and cash equivalents	437,088	437,088	–	346,808	346,808	–
Precious metals	551	551	–	498	498	–
Amounts due from credit institutions	38,592	38,589	(3)	47,789	47,765	(24)
Loans to customers	2,385,393	2,365,595	(19,798)	2,163,063	2,130,742	(32,321)
Financial liabilities						
Amounts due to credit institutions	1,358,520	1,357,627	893	1,264,213	1,261,108	3,105
Amounts due to the National Bank of the Republic of Belarus	12,739	12,739	–	6,173	6,173	–
Amounts due to customers	1,892,433	1,903,321	(10,888)	1,446,573	1,450,012	(3,439)
Debt securities issued	3,352	3,303	49	2,752	2,869	(117)
Subordinated debt	196,607	197,009	(402)	184,528	184,902	(374)
Total unrecognized change in unrealized fair value			**(30,149)**			**(33,170)**

(Thousands of Belarusian rubles, unless otherwise stated)

30. Fair value measurement (continued)

Valuation techniques and assumptions

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

Assets for which fair value approximates their carrying amount

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

Financial assets and financial liabilities carried at amortized cost

Fair value of quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the National Bank of the Republic of Belarus and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Property and equipment − buildings

Fair value of the properties was determined using the market comparable method. This means that the valuation performed by the appraiser is based on the prices of market transactions significantly adjusted with regard to differences in nature, location or condition of specific real estate item. As of the valuation date, 31 December 2016, the properties' fair value is based on valuations performed by an accredited independent appraiser.

Movements in Level 3 assets and liabilities at fair value

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

	At 1 January 2016	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*At 31 December 2016*
Assets							
Investment securities available for sale	158	−	−	−	−	−	158
Property and equipment − buildings	77,677	(5,163)	(223)	17,396	−	(981)	88,706
Total Level 3 assets	**77,835**	**(5,163)**	**(223)**	**17,396**	**−**	**(981)**	**88,864**
Total Level 3 liabilities	**−**	**−**	**−**	**−**	**−**	**−**	**−**
Total Level 3	**77,835**	**(5,163)**	**(223)**	**17,396**	**−**	**(981)**	**88,864**

(Thousands of Belarusian rubles, unless otherwise stated)

30. Fair value measurement (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

During the year ended 31 December 2016, the Bank did not transfer financial instruments between levels of the fair value hierarchy.

	At 1 January 2015	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*At 31 December 2015*
Assets							
Investment securities available for sale	408	–	–	–	(250)	–	**158**
Property and equipment – buildings	81,685	(1,832)	(3,274)	2,061	–	(963)	**77,677**
Total Level 3 assets	**82,093**	**(1,832)**	**(3,274)**	**2,061**	**(250)**	**(963)**	**77,835**
Total Level 3 liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total Level 3	**82,093**	**(1,832)**	**(3,274)**	**2,061**	**(250)**	**(963)**	**77,835**

During the year ended 31 December 2015, the Bank did not transfer financial instruments between levels of the fair value hierarchy.

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

	2016			*2015*		
	Realized gains/(losses)	*Unrealized gains/(losses)*	*Total*	*Realized gains/(losses)*	*Unrealized gains/(losses)*	*Total*
Total losses recorded in the consolidated statement of profit or loss	–	(5,163)	**(5,163)**	–	(1,832)	**(1,832)**

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

At 31 December 2016	*Carrying amount*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average)*
Investment securities available for sale				
Equity securities	158	Cost is determined as the cost of investments using appropriate indices		
Property and equipment				
Buildings	88,706	Cost is determined by an appraiser using the method of comparing sales and capitalization rate of return		
	88,864			

The impact of possible alternative assumptions on measuring the fair value of Level 3 instruments is insignificant.

(Thousands of Belarusian rubles, unless otherwise stated)

31. Financial instruments pledged as collateral

Transferred financial instruments that are not derecognized in their entirety

As of 31 December 2016, there were no financial instruments that were not derecognized in their entirety.

The following table provides a summary of financial instruments which have been transferred in such a way that part or all of the transferred financial instruments do not qualify for derecognition as of 31 December 2015:

	Transferred financial instrument	*Available-for-sale government debt securities 2015*	*Total 2015*
Carrying amount of assets	Bonds	6,462	**6,462**
Total		**6,462**	**6,462**
Carrying amount of associated liabilities	Collateral loan	6,005	**6,005**
Total		**6,005**	**6,005**
Net position		**457**	**457**

Assets pledged as collateral

The Bank pledges assets recognized in the consolidated statement of financial position as part of ongoing operations with investment securities available for sale that are conducted under regular terms and conditions applying to such agreements. In 2015, the Bank transferred 343 bonds of the Ministry of Finance of the Republic of Belarus in the amount of BYN 6,462 thousand as collateral under collateral loan of BYN 6,005 thousand obtained from the National Bank of the Republic of Belarus.

(Thousands of Belarusian rubles, unless otherwise stated)

32. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*More than 5 years*	*Total more than 1 year*	*No stated maturity*	*Past due*	*Total*
At 31 December 2016											
Assets											
Cash and cash equivalents	437,088	–	–	**437,088**	–	–	–	**–**	–	–	**437,088**
Precious metals	551	–	–	**551**	–	–	–	**–**	–	–	**551**
Derivative financial assets	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Amounts due from credit institutions	31,052	4,050	2,763	**37,865**	727	–	–	**727**	–	–	**38,592**
Loans to customers	178,847	788,291	544,826	**1,511,964**	646,586	160,476	39,028	**846,090**	–	27,339	**2,385,393**
Investment securities available for sale	95,661	227,831	195,850	**519,342**	233,748	64,924	6,267	**304,939**	158	–	**824,439**
Investment in associate	–	–	–	**–**	–	–	–	**–**	3,915	–	**3,915**
Property and equipment	–	–	–	**–**	–	–	–	**–**	151,197	–	**151,197**
Assets constructed for sale	13,236	–	–	**13,236**	–	–	–	**–**	–	–	**13,236**
Investment property	–	–	–	**–**	–	–	–	**–**	5,291	–	**5,291**
Intangible assets	–	–	–	**–**	–	–	–	**–**	39,636	–	**39,636**
Income tax assets:											
- current income tax asset	–	762	–	**762**	–	–	–	**–**	–	–	**762**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	6,441	–	**6,441**
Other assets	13,492	13,887	4,645	**32,024**	5,456	2,348	138	**7,942**	2,547	1,974	**44,487**
Total assets	**769,927**	**1,034,821**	**748,084**	**2,552,832**	**886,517**	**227,748**	**45,433**	**1,159,698**	**209,185**	**29,313**	**3,951,028**
Liabilities											
Amounts due to credit institutions	130,121	307,976	329,810	**767,907**	354,976	232,758	2,879	**590,613**	–	–	**1,358,520**
Amounts due to the National Bank of the Republic of Belarus	287	11,219	1,233	**12,739**	–	–	–	**–**	–	–	**12,739**
Derivative financial liabilities	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Amounts due to customers	552,597	571,268	405,942	**1,529,807**	353,872	7,486	1,268	**362,626**	–	–	**1,892,433**
Debt securities issued	–	28	3,324	**3,352**	–	–	–	**–**	–	–	**3,352**
Income tax liabilities:											
- current income tax liabilities	–	1,068	–	**1,068**	–	–	–	**–**	–	–	**1,068**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	887	–	**887**
Other liabilities	10,914	2,395	2,550	**15,859**	1,918	1,260	–	**3,178**	5,733	2	**24,772**
Subordinated debt	–	2,065	4,115	**6,180**	6,442	64,685	119,300	**190,427**	–	–	**196,607**
Total liabilities	**693,919**	**896,019**	**746,974**	**2,336,912**	**717,208**	**306,189**	**123,447**	**1,146,844**	**6,620**	**2**	**3,490,378**
Net position	**76,008**	**138,802**	**1,110**	**215,920**	**169,309**	**(78,441)**	**(78,014)**	**12,854**	**202,565**	**29,311**	**460,650**

(Thousands of Belarusian rubles, unless otherwise stated)

32. Maturity analysis of assets and liabilities (continued)

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*More than 5 years*	*Total more than 1 year*	*No stated maturity*	*Past due*	*Total*
At 31 December 2015											
Assets											
Cash and cash equivalents	346,808	–	–	**346,808**	–	–	–	**–**	–	–	**346,808**
Precious metals	498	–	–	**498**	–	–	–	**–**	–	–	**498**
Derivative financial assets	77	–	–	**77**	–	–	–	**–**	–	–	**77**
Amounts due from credit institutions	40,344	4,166	2,776	**47,286**	503	–	–	**503**	–	–	**47,789**
Loans to customers	155,353	664,089	432,163	**1,251,605**	626,044	166,842	62,595	**855,481**	–	55,977	**2,163,063**
Investment securities available for sale	6,136	161,619	167,121	**334,876**	–	164,150	11,884	**176,034**	158	–	**511,068**
Investment in associate	–	–	–	**–**	–	–	–	**–**	3,918	–	**3,918**
Property and equipment	–	–	–	**–**	–	–	–	**–**	146,492	–	**146,492**
Assets constructed for sale	18,485	–	–	**18,485**	–	–	–	**–**	–	–	**18,485**
Investment property	–	–	–	**–**	–	–	–	**–**	4,145	–	**4,145**
Intangible assets	–	–	–	**–**	–	–	–	**–**	30,454	–	**30,454**
Income tax assets:											
- current income tax asset	3,764	214	–	**3,978**	–	–	–	**–**	–	–	**3,978**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	4,428	–	**4,428**
Other assets	9,776	7,682	10,034	**27,492**	10,537	3,397	868	**14,802**	5,263	3,852	**51,409**
Total assets	**581,241**	**837,770**	**612,094**	**2,031,105**	**637,084**	**334,389**	**75,347**	**1,046,820**	**194,858**	**59,829**	**3,332,612**
Liabilities											
Amounts due to credit institutions	179,272	157,748	186,484	**523,504**	303,036	437,605	68	**740,709**	–	–	**1,264,213**
Amounts due to the National Bank of the Republic of Belarus	6,023	150	–	**6,173**	–	–	–	**–**	–	–	**6,173**
Derivative financial liabilities	13	–	–	**13**	–	–	–	**–**	–	–	**13**
Amounts due to customers	452,780	386,138	486,002	**1,324,920**	110,054	10,898	701	**121,653**	–	–	**1,446,573**
Debt securities issued	4	5	2,743	**2,752**	–	–	–	**–**	–	–	**2,752**
Income tax liabilities:											
- current income tax liabilities	–	225	–	**225**	–	–	–	**–**	–	–	**225**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	932	–	**932**
Other liabilities	10,151	4,525	2,692	**17,368**	1,964	137	1	**2,102**	5,911	1	**25,382**
Subordinated debt	–	1,816	3,317	**5,133**	5,800	5,393	168,202	**179,395**	–	–	**184,528**
Total liabilities	**648,243**	**550,607**	**681,238**	**1,880,088**	**420,854**	**454,033**	**168,972**	**1,043,859**	**6,843**	**1**	**2,930,791**
Net position	**(67,002)**	**287,163**	**(69,144)**	**151,017**	**216,230**	**(119,644)**	**(93,625)**	**2,961**	**188,015**	**59,828**	**401,821**

(Thousands of Belarusian rubles, unless otherwise stated)

33. Related party disclosures

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 the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

Transactions with entities under common control of the Russian Federation, except for Vnesheconombank group of companies (Russian Federation)

In the ordinary course of business, the Bank effects transactions with the entities that are ultimately controlled by the Russian Government. The balances of transactions with such entities at the reporting date comprised balances on correspondent accounts and loans from credit institutions. During the reporting period and at the reporting date, there were no individually or collectively significant transactions with such entities (in the amount exceeding RUB 1 billion).

Transactions with other related parties, including Vnesheconombank group of companies (Russian Federation)

The outstanding balances of transactions with other related parties at the end of the reporting period are as follows:

	2016					***2015***				
	Parent	***Entities under common control***	***Associates***	***Key management personnel***	***Other related parties***	***Parent***	***Entities under common control***	***Associates***	***Key management personnel***	***Other related parties***
Cash and cash equivalents	1,548	13,299	–	–	395	1,629	19,645	–	–	19,661
Loans outstanding at 1 January	**–**	**–**	**–**	**466**	**–**	**–**	**–**	**87**	**353**	**–**
Loans issued during the year	–	135,600	–	555	19,251	–	55,834	–	217	485,772
Loans repaid during the year	–	(135,600)	–	(452)	(19,268)	–	(55,782)	(92)	(198)	(486,519)
Other movements	–	–	–	(16)	17	–	(51)	5	94	747
Loans outstanding at 31 December	**–**	**–**	**–**	**553**	**–**	**–**	**1**	**–**	**466**	**–**
Less: allowance for impairment at 31 December	–	–	–	–	–	–	–	–	–	–
Loans outstanding at 31 December, net	**–**	**–**	**–**	**553**	**–**	**–**	**1**	**–**	**466**	**–**

(Thousands of Belarusian rubles, unless otherwise stated)

33. Related party disclosures (continued)

	2016					*2015*				
	Parent	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to credit institutions at 1 January	**730,778**	**38,890**	**–**	**–**	**117,386**	**513,327**	**22,088**	**–**	**–**	**59,776**
Amounts due to credit institutions received during the year	408,331	2,099,171	–	–	223,562	193,679	2,221,018	–	–	132,670
Amounts due to credit institutions repaid during the year	(445,315)	(2,088,857)	–	–	(199,468)	(214,311)	(2,238,536)	–	–	(106,689)
Other movements	79,844	(20,455)	–	–	2,022	238,084	34,320	–	–	31,630
Amounts due to credit institutions at 31 December	**773,638**	**28,749**	**–**	**–**	**143,502**	**730,779**	**38,890**	**–**	**–**	**117,387**
Subordinated debt at 1 January	**184,528**	**–**	**–**	**–**	**–**	**117,375**	**–**	**–**	**–**	**–**
Subordinated debt accrued during the year	–	–	–	–	–	–	–	–	–	–
Subordinated debt repaid during the year	–	–	–	–	–	–	–	–	–	–
Other movements	12,080	–	–	–	–	67,152	–	–	–	–
Subordinated debt at 31 December	**196,608**	**–**	**–**	**–**	**–**	**184,527**	**–**	**–**	**–**	**–**
Deposits at 1 January	**–**	**77,726**	**–**	**4,157**	**–**	**–**	**72,505**	**–**	**2,390**	**–**
Deposits received during the year	–	42,459	–	7,317	–	–	44,925	–	8,545	–
Deposits repaid during the year	–	(120,185)	–	(7,601)	–	–	(71,580)	–	(7,936)	–
Other changes	–	–	–	160	–	–	31,876	–	1,158	–
Deposits at 31 December	**–**	**–**	**–**	**4,033**	**–**	**–**	**77,726**	**–**	**4,157**	**–**
Settlement and current accounts at 31 December	**–**	**–**	**1**	**228**	**18**	**–**	**–**	**1**	**147**	**17**
Commitments and guarantees issued	–	–	–	217	–	–	–	–	–	–

Income and expenses arising from related party transactions during the reporting period are as follows:

	For the year ended 31 December									
	2016					*2015*				
	Parent	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*
Interest income on loans	1	129	–	64	284	3	387	–	67	505
Interest expense on deposits	(83,619)	(354)	–	(53)	(8,027)	(61,419)	(9,214)	–	(154)	(6,150)
Fee and commission income	–	16	–	1	14	3	–	1	4	11
Fee and commission expense	(4,397)	(257)	–	–	(2,207)	(4,838)	–	–	–	(293)
Income from derivative financial instruments	–	8	–	–	–	–	525	–	–	608
Expenses from derivative financial instruments	–	(10)	–	–	(7)	–	(350)	–	–	(146)

(Thousands of Belarusian rubles, unless otherwise stated)

33. Related party disclosures (continued)

Compensation to key management personnel comprises the following:

	2016	*2015*
Salaries and other short-term employee benefits	4,037	3,036
Social security costs	67	65
Mandatory contributions to the pension fund	315	301
Total compensation to key management personnel	**4,419**	**3,402**

34. Capital adequacy

Bank BelVEB OJSC maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the capital of Bank BelVEB OJSC is monitored using, among other measures, principals, ratios established by the Basel Capital Accord 1988 and ratios used by the NBRB in supervising the Bank.

During 2016, Bank BelVEB OJSC had complied in full with all of its externally imposed capital requirements.

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

Bank BelVEB OJSC manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Bank BelVEB OJSC may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NBRB capital adequacy ratio

The National Bank of the Republic of Belarus requires that the capital adequacy ratio of banks should be maintained at the level of 10% of risk-weighted assets computed based on BAS. As of 31 December 2016 and 2015, the capital adequacy ratio of Bank BelVEB OJSC on this basis was as follows:

	2016	*2015*
Main capital	290,856	256,893
Additional paid-in capital	289,816	227,093
Deductions from capital	(38,246)	(8,373)
Total capital	**542,426**	**475,613**
Risk weighted assets	**3,506,328**	**2,453,376**
Capital adequacy ratio	15.5%	15.0%

(Thousands of Belarusian rubles, unless otherwise stated)

34. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

As of 31 December 2016 and 2015, the Bank's capital adequacy ratio computed in accordance with Basel Capital Accord 1988, taking into account subsequent amendments relating to the incorporation of market risks, comprised:

	2016	***2015***
Tier 1 capital	437,260	377,726
Tier 2 capital	219,997	208,624
Total capital	**657,257**	**586,350**
Risk weighted assets	**4,789,763**	**3,934,627**
Tier 1 capital adequacy ratio	9.1%	9.6%
Total capital adequacy ratio	13.7%	14.9%

35. Events after the reporting period

On 11 January 2017, pursuant to the decision of the Supervisory Board of Bank BelVEB OJSC, the Bank sold its ownership interest in International Energy Center CJSV (547 shares; 52.1% of the share capital). As a result, International Energy Center CJSV was no longer the member of the banking holding headed by Bank BelVEB OJSC.

On 18 January 2017, the refinancing rate decreased from 18% to 17% per annum and the rate on permanently available and bilateral transactions of the National Bank on the current bank liquidity maintenance decreased from 23% to 22% per annum.

On 1 February 2017, obligatory reserve requirements for banks and non-bank credit and financial institutions changed as follows: the rate for funds raised in national currency decreased from 7.5% to 4%, and the rate for funds raised in foreign currency increased from 7.5% to 11%.

On 15 February 2017, the refinancing rate decreased from 17% to 16% per annum and the rate on permanently available and bilateral transactions of the National Bank on the current bank liquidity maintenance decreased from 22% to 20% per annum.