

**REPUBLICAN UNITARY ENTERPRISE
„BELARUSIAN NATIONAL
REINSURANCE ORGANIZATION”**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2016**

REPUBLICAN UNITARY ENTERPRISE
„BELARUSIAN NATIONAL REINSURANCE ORGANISATION”
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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KPMG, Limited Liability Company
57-53 Dzerzhinsky avenue
13th floor, office 53-2
220089 Minsk Belarus

Tel.
Fax
Web

+375 (17) 372 72 57
+375 (17) 372 72 58
www.kpmg.com

Independent Auditors' Report

*To the Shareholder and General Director of
Republican Unitary Enterprise "Belarusian National Reinsurance Organization"*

Opinion

We have audited the accompanying financial statements of Republican Unitary Enterprise "Belarusian National Reinsurance Organization" (the "Company"), which comprise the statement of financial position as at 31 December 2016, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the attached financial statements true and in all material aspects represent the financial position of the Company as at 31 December 2016, as well as its financial results and cash flow for the year ended on the date in accordance with International Financial Reporting Standards (hereinafter referred to as "IFRS").

Basis for the audit opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter referred to as "ISA"). Our responsibilities under these standards are discussed in more detail in the section "Auditors' responsibility" of this Opinion. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants developed by the Council for International Ethical Standards for Professional Accountants (hereinafter referred to as the "IESBA Code") and the ethical requirements applicable to our audit of financial statements in the Republic of Belarus and have complied with our other Responsibilities under these requirements of professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management and TCWG for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. In the preparation of financial statements, management is responsible for assessing the going concern and disclosing, if necessary, issues related to business continuity, as well as for reporting based on the assumption of going concern, unless management intends to liquidate the Company, to terminate its activities or when there is no other real alternative, except for the liquidation or termination of activities.

Those charged with governance are responsible for overseeing the preparation of the Company's financial statements.

Auditors' Responsibility

The purpose of our audit is to obtain reasonable assurance that the financial statements as a whole do not contain material misstatements due to fraud or error and the issuance of an opinion that includes our opinion. Reasonable assurance is a high degree of assurance, but not a guarantee that, based on the results of the audit conducted in accordance with ISA, any significant distortion, when it occurs, will be detected in all cases. Misstatements can arise from fraud or errors and are considered significant if it can reasonably be expected that, individually or in combination, they will affect the economic decisions of users made on the basis of such financial statements.

As part of the audit in accordance with ISA, we use professional judgment and retain professional skepticism at all stages of planning and conducting the audit. We also:

- We identify and assess the risks of material misstatement of financial statements as a result of fraud or error, develop and perform audit procedures to address these risks, and obtain sufficient and appropriate audit evidence to form our opinion. The risk of not detecting a material misstatement arising from fraud is greater than the risk of not detecting a material misstatement related to error, since fraud may include collusion, forgery or falsification, intentional omission, misrepresentation or violation of the internal control system.
- We get an understanding of the elements of the internal control system relevant to the audit in order to develop audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We assess the appropriate nature of the accounting policies used and the justification of accounting estimates and related disclosures prepared by management.
- We make a conclusion on the reasonableness of management's application of accounting principles on the basis of the assumption of going concern and, based on the audit evidence obtained, whether there is any significant uncertainty about events or conditions that could cast significant doubt on the Company's ability to continue its operations on an uninterrupted basis. If we conclude that there is significant uncertainty, we should underline in our audit opinion the relevant disclosures in the financial statements, or, if such disclosures are not adequate, we must modify our opinion. Our conclusions are based on the audit evidence obtained for the period ended on the date of our audit report. However, future events or conditions may make the Company lose the ability to continue its operations on a continuous basis.

We evaluate the presentation in general, the structure and content of the financial statements, including disclosures, and also assess whether the initial operations and events are reflected in the financial statements in such a way as to achieve their reliable representation. We carry out informational interaction with those charged with governance, including, among other things, information on the planned scope and timing of the audit, as well as significant comments on the audit results, including significant deficiencies in the internal control system that we identify in the process of audit



Edgars Volskis
Director
Deputy General Audit Director
LLC KPMG
Minsk, Belarus
23 March 2017

Audited entity

Name: Republican Unitary Enterprise "Belarusian National Reinsurance Organization"

Certificate of State Registration issued on the basis of Decision of the Ministry of Finance of the Republic of Belarus No. 408 dd. 16 November 2006, registered in Uniform State Register of Legal Entities and Individual Entrepreneurs under No. 806000232

Registered office: 14-2 off. 302 Chkalova street, Minsk, Republic of Belarus 220039

Audit organization

Name: KPMG, Limited Liability Company

Registration: registered by Minsk City Executive Committee on 10.02.2011, registered in Uniform State Register of Legal Entities and Individual Entrepreneurs under No. 191434140

Registered office: 57-53 Dzerzhinsky Avenue, 13th floor, office 53-2 Minsk Belarus, 220089

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2016

All amounts in thousands BYR

	Notes	2016	2015 (restated)
Gross written premiums	8	62 329	45 334
Retrocessionaires' share in written premiums	8	(26 843)	(22 029)
<i>Net written premiums</i>	8	<i>35 486</i>	<i>23 305</i>
Gross changes in unearned premium and unexpired risk technical reserves	10	(7 229)	(8 408)
Retrocessionaires' share	10	2 914	6 114
<i>Change in net unearned premium and unexpired risk technical reserves</i>	10	<i>(4 315)</i>	<i>(2 294)</i>
Net earned premiums	9	31 171	21 011
Paid claims		(17 738)	(7 337)
Loss adjustment expenses		(140)	(71)
Retrocessionaires' share of claims paid	11	8 942	2 296
Net paid claims	11	(8 936)	(5 112)
Change in outstanding claim technical reserves			
Gross change in outstanding claim technical reserves	13	(7 114)	15 571
Retrocessionaires' share	13	(5 143)	(16 717)
<i>Net change in outstanding claim technical reserves</i>	13	<i>(12 257)</i>	<i>(1 146)</i>
Net incurred claims			
Operating income / expenses	12	(21 193)	(6 258)
Client acquisition costs	14	(4 052)	(3 166)
Change in deferred client acquisition costs	14	886	1 231
Retrocessionaires' commission income		740	775
Administrative expenses	15	(3 053)	(2 459)
Net operating expenses		(5 479)	(3 619)
Investment income	16	13 524	12 488
Investment expenses	17	-	(14 426)
Other income/expenses, net	18	(55)	13 980
Profit before tax		17 968	23 176
Income tax expense	19	(2 532)	(7 386)
Profit / loss for the year		15 436	15 790


2016

2015

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2016 (continued)

		(restated)
Other comprehensive income	-	(7 490)
<i>Items that are or may be reclassified to profit or loss:</i>	-	(7 490)
Change in fair value of financial assets available-for-sale	-	(12 861)
Change in fair value of financial assets available for sale reclassified to profit or loss for the year	-	2 874
Corresponding income tax	-	2 497
Total comprehensive income / loss for the year	15 436	8 300

The accompanying notes on pages 13-66 form an integral part of these financial statements.


 A.V. Rychko
 Deputy Director

23 March 2017


 T. F. Sapeleva
 Chief Accountant

REPUBLICAN UNITARY ENTERPRISE
„BELARUSIAN NATIONAL REINSURANCE ORGANISATION”
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of Financial Position as at 31 December 2016

All amounts in thousands BYR

	Notes	31 December 2016	31 December 2015 (restated)
Assets			
Property and equipment	21	88	106
Intangible assets		34	25
Financial investments			
Financial assets held to maturity	22	31 076	21 113
Available-for-sale financial assets	23	65 823	68 323
Deposits with banks	24	86 752	56 393
Total financial investments		183 651	145 829
Receivables			
Receivables from reinsurance activities	25	22 864	18 221
Receivables from retrocession activities		1 279	1 331
Other receivables	26	229	60
Total receivables		24 372	19 612
Accrued deferred expenses			
Deferred client acquisition costs	14	5 096	4 210
Other accrued deferred expenses		-	-
Total accrued deferred expenses		5 096	4 210
Retrocession contract assets			
Retrocessionaires' share in unearned premium technical reserve	10	30 846	26 562
Retrocessionaires' share in outstanding claim technical reserve	13	6 214	10 732
Total assets from retrocession contracts		37 060	37 294
Prepayments	26	2 451	3 163
Current income tax asset		-	864
Cash and cash equivalents	27	830	13 908
Total assets		253 582	225 011


REPUBLICAN UNITARY ENTERPRISE
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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Statement of Financial Position as at 31 December 2016 (continued)


All amounts in thousands BYR

	Notes	31 December 2016	31 December 2015 (restated)
Equity and liabilities			
Equity			
Share capital	28	328 915	323 041
Fair value reserve		-	-
Accumulated loss		(194 867)	(196 859)
Total equity		134 048	126 182
Liabilities			
Technical reserves			
Technical reserves for unearned premium and unexpired risks	10	60 454	50 340
Outstanding claim technical reserves	13	41 315	31 740
Total technical reserves		101 769	82 080
Payables			
Reinsurance payables		1 949	1 575
Payables from retrocession activities		6 957	7 732
Current income tax payables		1 296	-
Other payables	29	1 095	32
Total payables		11 297	9 339
Deferred tax liabilities	19	6 468	7 410
Total liabilities		119 534	98 829
Total equity and liabilities		253 582	225 011

The accompanying notes on pages 13-66 form an integral part of these financial statements.


 A.V. Rychko
 Deputy Director

23 March 2017


 T. F. Sopleva
 Chief Accountant

REPUBLICAN UNITARY ENTERPRISE
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Notes to the financial statements

All amounts in thousands BYR

		2016	2015 (restated)
	Notes		
Cash flows from reinsurance activities			
Profit/loss for the year		15 436	15 790
Adjustments for:			
Investment income	16	(13 524)	(12 488)
Net foreign exchange gain	18	(2 548)	(15 061)
Depreciation of property and equipment	15	31	23
Impairment loss of available-for-sale financial assets	17	-	2 874
Income tax expenses	19	2 532	7 386
Cash flows from operating activities before changes in operating assets and liabilities		1 927	(1 476)
Increase/decrease in operating assets::			
Receivables from reinsurance activities		(2 804)	9 018
Receivables from retrocession activities		81	(763)
Other receivables		(168)	(14)
Prepayments		(143)	(1 147)
Retrocession contracts' assets		2 229	12 603
Accrued income and deferred expenses		(886)	(1 207)
<i>Increase/decrease in operating liabilities:</i>			
Technical reserves for unearned premium and unexpired risks		7 230	10 408
Outstanding claim technical reserves		7 114	(12 019)
Reinsurance payables		206	(955)
Payables from retrocession activities		(1 300)	(2 390)
Other payables		95	(2 046)
Net cash flows from reinsurance activities before income tax paid		13 581	10 012
Income tax paid		(1 316)	(7 835)
Net cash flows from reinsurance activities		12 265	2 177
Interest income received		5 217	4 902
Acquisition of available-for-sale financial assets		-	(1 917)
Acquisition of financial assets held to maturity		(2 039)	-
Disposal of available-for-sale financial assets		2 504	696
Acquisition of deposits with banks		(25 740)	3 757
Purchase of property and equipment		(8)	(57)
Purchase of intangible assets		(15)	(25)

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 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the financial statements

All amounts in thousands BYR

	Notes	2016	2015 (restated)
Dividends received		389	1 912
Total cash flows from investing activities		(19 692)	9 268
Cash flows from financing activities			
Dividends paid		(5 750)	(7 885)
Total cash flows from financing activities		(5 750)	(7 885)
Increase/decrease in cash and cash equivalents, net		(13 177)	3 560
Cash and cash equivalents at the beginning of the year	27	13 908	10 142
Effect of exchange rate fluctuations on cash and cash equivalents		99	206
Cash and cash equivalents at the end of the year	27	830	13 908

The accompanying notes on pages 13-66 form an integral part of these financial statements.



A.V. Rychko
 Deputy Director

23 March 2017



T. F. Sapeleva
 Chief Accountant

REPUBLICAN UNITARY ENTERPRISE
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Notes to the financial statements

All amounts in thousands BYR

	Notes	Share capital	Fair value reserve	Accumulated loss	Total capital
Balance at 1 January 2015 (acc. to previous FS)		312 045	7 490	(139 307)	180 228
Restatement ¹ effect	2	-	-	126	126
Balance at 1 January 2015 (restated)		312 045	7 490	(139 181)	180 354
Total loss for the year		-	(7 490)	15 790	8 300
Income for the year		-	-	15 790	15 790
Other comprehensive loss		-	(7 490)	-	(7 490)
Change in fair value of financial assets available-for-sale		-	(12 861)	-	(12 861)
Change in fair value of financial assets available-for-sale transferred to income or loss for the period		-	2 874	-	2 874
Corresponding income tax		-	2 497	-	2 497
Transactions with owner		10 996	-	(73 468)	(62 472)
Increase of share capital due to profit reallocation	28	10 996	-	(10 996)	-
Payments from profit to shareholders	28	-	-	(7 920)	(7 920)
Initial recognition of bonds at fair value	28	-	-	(54 552)	(54 552)
Balance at 31 December 2015		323 041	-	(196 859)	126 182

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Notes to the financial statements

All amounts in thousands BYR

	Notes	Share capital	Fair value reserve	Accumulated loss	Total capital
Balance at 31 December 2016	28	<u>323 041</u>	<u>-</u>	<u>(196 859)</u>	<u>126 182</u>
Total income for the year		-	-	15 436	15 436
Profit for the year		-	-	15 436	15 436
Transactions with owner		5 874	-	(13 444)	(7 570)
Increase of share capital due to profit reallocation	28	5 874	-	(5 874)	-
Payments from profit to shareholders	28	-	-	(7 570)	(7 570)
Balance at 31 December 2016	28	<u>328 915</u>	<u>-</u>	<u>(194 867)</u>	<u>134 048</u>

The accompanying notes on pages 13-66 form an integral part of these financial statements.


 A.V. Rychko
 Deputy Director

23 March 2017


 T. F. Sopeleva
 Chief Accountant

Notes to the financial statements

GENERAL INFORMATION

The Company was incorporated in 2006 as a Republican Unitary Enterprise and registered under the laws of the Republic of Belarus. The Company is the first specialized reinsurance organization in the Republic of Belarus and was established by Regulation of the Council of Ministers of the Republic of Belarus dated 4 November 2006 № 1463 “On Establishment of Belarusian National Reinsurance Organization” in compliance with the Order of the President of the Republic of Belarus dated 25 August 2006 № 530 “On Insurance Operations”. During the reporting year the Company operated under reinsurance license #02200/13-00048 valid from the day of the decision of the licensing authority on its issuance for the unlimited period of time, in accordance with the applicable legislation.

The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with the insured. Consequently, all references to insurance contracts refer to reinsurance assumed. In accordance with the legislation of the Republic of Belarus all insurance companies operating on the territory of the Republic of Belarus are obliged to cede to Republican Unitary Enterprise “Belarusian National Reinsurance Organization” a portion of liabilities insured by them in excess of liability limits set by the legislation of the Republic of Belarus. Insurance companies are obliged to agree their tariffs for such cases with the Company.

The main insurance lines of the Company are aviation reinsurance, liability reinsurance, transport reinsurance, property reinsurance, pecuniary reinsurance, motor reinsurance (third party liability of motor vehicles owners - “green card”), marine reinsurance and accident and medical expenses reinsurance.

The head office is located in Minsk, Chkalova str., 14-2, Republic of Belarus.
 As at 31 December 2016 and 31 December 2015 the Company’s shareholder was:

	31 December 2016	31 December 2015
The Council of Ministers of the Republic of Belarus	100.00%	100.00%
	<u>100.00%</u>	<u>100.00%</u>

(1) BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) published by International Accounting Standards Committee (IASC) and Interpretations published by International Financial Reporting Interpretations Committee (IFRIC).

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

The financial year of the Company coincides with the calendar year.

The financial statements for the year ended 31 December 2016 was approved on 23 March 2017 and signed by the management on behalf of Deputy Director and Chief Accountant.

Notes to the financial statements

Hyperinflation

In 2014 and earlier the economy of the Republic of Belarus was classified as a hyperinflationary economy under the criteria included in IAS 29. Starting from 1 January 2015 the economy of the Republic of Belarus ceased to be classified as a hyperinflationary economy. Therefore, all non-monetary items (assets, liabilities and equity) are presented in units of measure as of 31 December 2014 as the opening balances as at 1 January 2015. In the statement of profit or loss and other comprehensive income for the period ended 31 December 2015, non-monetary items have been presented as the opening balances as at 1 January 2015 units of measure as at 31 December 2014.

Restatement of data for the previous year

The management of the Company adjusted the amounts of receivables under reinsurance contracts, prepayments, current tax assets, accumulated loss as of 31 December 2015 and the amount of other income (expenses), income tax expense for the year ended 31 December 2015.

In 2016, the management of the Company recognized the recovery premium due from the broker Stellar Re Europa in connection with the restatement of actually collected premiums for liability insurance in the Green Card system in Romania for 2013. The document on the restatement of the premium was actually received by the Company in 2014. According to that document, based on contract with Societatea de Asigurare - Reasigurare City Insurance S.A., The Company earned a premium for additional risks it had taken in reinsurance during 2013. This document was not included in accounting records.

Statement of financial position

	31 December 2015 (As previously reported)	Adjustments	31 December 2015 (As restated)
Receivables from reinsurance contracts	17 860	361	18 221
Prepayments	3 279	(116)	3 163
Current income tax asset	936	(72)	864
Other assets	202 763	-	202 763
Total assets	224 838	173	225 011
Share capital	323 041	-	323 041
Fair value reserve	-	-	-
Accumulated loss	(197 032)	173	(196 859)
Total equity	126 009	173	126 182
Current income taxes liabilities	-	-	-
Other payables	32	-	32
Other liabilities	98 797	-	98 797
Total liabilities	98 829	-	98 829
Total equity and liabilities	224 838	173	225 011

Notes to the financial statements

Statement of Profit or Loss and Other Comprehensive Income

	2015 (As previously reported)	Adjustments	2015 (As restated)
Net earned premium	21 011	-	21 011
Net incurred claim	(6 258)	-	(6 258)
Net operating expenses	(3 619)	-	(3 619)
Investment income	12 488	-	12 488
Investment expenses	(14 426)	-	(14 426)
Net other income/loss	13 874	106	13 980
Income before tax	23 070	106	23 176
Income tax expenses	(7 360)	(26)	(7 386)
Income for the year	15 710	80	15 790
Total comprehensive income for the year	8 220	80^(*)	8 300

(*) - a part of restatement effect refers to the period ended 31 December 2014.

(2) FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of Belarus is the Belarusian ruble ("BYN") and the same currency is the functional currency of the Company, as well as the currency in which these financial statements are presented. On 1 July 2016, the national currency in the Republic of Belarus was denominated by 10,000. The international code of the Belarusian ruble was changed from "BYR" to "BYN". All figures in these financial statements, presented in Belarusian rubles ("BYN"), are rounded to the nearest thousand, except where otherwise indicated, while the previous financial statements for the year ended 31 December 2015 issued on 18 March 2016, were presented in millions of Belarusian rubles.

(3) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, the actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognized in the period, where the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is presented below:

Reinsurance liabilities

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Notes to the financial statements

The most significant assumptions are related to the recognition of incurred but not reported claims reserve ("IBNR") and unexpired risks reserve ("URR"). The adequacy of insurance technical reserves is monitored on a regular basis by conducting the test on the adequacy of commitments, performed in the context of the business lines.

Impairment of financial instruments

The determination of impairment indication is based on a comparison of the financial instrument's carrying value and the fair value.

For the purposes of impairment loss measurement, the Company's management makes estimates of any expected changes in future cash flows from a specific financial instrument based on an analysis of the financial position of the issuer of the financial instrument.

Impairment of loans and receivables

There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that the Company's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Company or changes in other facts and circumstances will lead the Company to change its investment decision. Any of these situations could result in a charge against the statement of profit or loss and other comprehensive income in a future period to the extent of the impairment charge recorded.

Recognition of provision

Provisions are established when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

Evaluation at fair value

A number of accounting policies and disclosures require the Company to determine the fair value of financial assets and liabilities. Fair value is defined as the estimated amount at which the instrument could be exchanged in a current transaction between informed, willing to make such transaction parties except for the cases when it is forced or it is a liquidation sale. Fair value is calculated basing on market prices, discounted cash flow models.

The hierarchy of the fair value of assets and liabilities

In assessing the fair value of the asset or liability Company applies, to the extent possible, observable market data. Estimates of fair value refer to different levels of the fair value hierarchy based on the inputs used in the framework of appropriate valuation methods.

- Level 1: quoted (unadjusted) prices for identical assets and liabilities in active markets.
- Level 2: input data, in addition to the quoted prices used for the evaluation of Level 1 that are observable either directly (i.e., such as price) or indirectly (i.e., defined on the basis of price).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements

If the source data used to estimate the fair value of the asset or liability can be attributed to different levels of the fair value hierarchy, the estimate of fair value generally refers to the level of the hierarchy, which correspond to the original data of the lowest level, is essential for the entire evaluation.

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period in which the change occurred.

Loans and receivables

The fair value of loans and receivables is measured at the present value of future cash flows, discounted at the market interest rate at the reporting date. This fair value is determined for disclosure purposes.

Financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate at the reporting date.

(4) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis, except for certain non-cash items incurred before December 31, 2014, which are accounted for in accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29), and certain assets which are accounted for at revalued amounts or fair value at each reporting date.

(5) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

a) Foreign currency transactions

Transactions in foreign currencies are initially recorded at the exchange rates on the dates of transactions. Monetary assets and liabilities, including offbalance-sheet assets and liabilities denominated in foreign currencies are retranslated into functional currency in accordance with the exchange rate set by the National Bank of the Republic of Belarus on the last date of the reporting period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value or cost are translated at the exchange rate as at the date fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit or loss account in the period in which the fluctuation occurs. Foreign exchange differences arising on translation on foreign operations are recognized in the statement of profit or loss and other comprehensive income.

Official exchange rates of principal currencies, established by the National Bank of the Republic of Belarus are as follows:

	31 December 2016	31 December 2015
BYN/USD	1,9585	1,8569
BYN/EUR	2,0450	2,0300
BYN/100 RUB	3,2440	2,5533

b) Property and equipment

Property and equipment is recorded at cost of acquisition net of accumulated depreciation and impairment losses (if any). The cost of fixed assets, which were acquired prior to 01.01.2015 has been increased by the effect of hyperinflation. Cost includes expenditure that is directly

Notes to the financial statements

attributable to bringing the asset to a working condition for their intended use. The cost of qualifying assets before commissioning includes the cost of borrowing. Depreciation is calculated using a straight-line method over the entire useful life of the respective asset in order to write their value down to the residual value at the end of the useful life based on the following rates:

Office equipment and furniture	10-20% per year
Machinery and equipment	7-20% per year
Vehicles	12.5% per year

Maintenance costs of equipment are recognized in the statement of profit or loss and other comprehensive income as incurred. Costs of capital repairs of equipment (leasehold improvements) are added to the value of the respective asset and are written off on a straight-line basis during the shorter of the useful lifetime of the capital repairs and the period of lease.

Profit or loss from disposal of equipment is calculated as the difference between the carrying value of the asset and income generated from sale, and recorded in the statement of profit or loss and other comprehensive income as received.

Depreciation methods, useful lives and residual values are reviewed annually.

At each reporting date, the Company reviews the carrying value of fixed assets, in order to identify the data for signs of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment loss (if any). If it is impossible to determine the recoverable amount of an individual asset, the Company estimates the recoverable value of the unit of measure generating cash to which the asset belongs.

If the recoverable amount of the asset (cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized immediately in cost.

c) Leases

Lease of assets under which the risks and benefits of ownership are retained by the lessor is classified as operating lease. Operating lease payments are recognized in the statement of profit or loss and other comprehensive income on accrual basis.

d) Reinsurance and retrocession agreements

Classification of reinsurance agreements

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All the Company's insurance contracts are classified as reinsurance contracts. An assumed reinsurance contract is a type of insurance contract whereas the insurance risk is assumed from another insurer. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with the insured. Consequently, all references to insurance contracts refer to reinsurance assumed.

When classifying reinsurance contracts for accounting purposes, the basis is the substance of transfer of insurance risk and common signs of possible risk. For example:

- aviation reinsurance;
- property reinsurance;
- pecuniary reinsurance (including the risk of outstanding credit occurrence reinsurance);

Notes to the financial statements

- motor reinsurance;
- transport reinsurance;
- liability reinsurance;
- marine reinsurance;
- accident reinsurance;
- medical expenses reinsurance.

Each of these lines of reinsurance may be divided in more detail by taking into account the substance of the transferred insurance risk.

Retrocession

During the course of its business, the Company enters into retrocession contracts to restrict the potential net loss through diversification of risks. Retrocession contracts do not relieve the Company from its liabilities to the insured.

Insurance premium and premium income

Written premiums include the amounts, which are due for reinsurance contracts signed during the reporting year, that have come into force in the reporting year irrespective of whether these premiums have been received or not. Premiums written are decreased by premiums cancelled during the reporting period.

If insurance premiums are expected to be paid in several installments during the reinsurance contract period, written premiums include the premiums that related to the entire reinsurance contract period.

The earned portion of premiums written is recognized as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. The unearned portion of premiums, relating to future periods, is recognized under technical reserves.

Retrocessionaires' share in written premiums is calculated in accordance with retrocession contracts in force. Outward retrocession premiums are recognized as expenses in accordance with the retrocession services received and the portion of retrocession expenses attributable for future periods are recognized as the retrocessionaires' share of the unearned premium reserve.

Reinsurance and retrocession receivables and payables

Amounts due to and from reinsured, brokers and retrocessionaires are financial instruments and are included in reinsurance and retrocession receivables and payables.

Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables.

Allowances for doubtful debts are recognized when the Company's management believes that the recoverability of these assets is uncertain. Receivables are written off when their recoverability is considered impossible.

Retrocession assets include recoveries due from retrocession companies in respect of claims paid. These are classified as loans and receivables and are included within insurance and other receivables in the statement of financial position.

Amounts recoverable under retrocession contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the retrocessionaire. Retrocession assets include balances due from retrocession companies for ceded retrocession liabilities.

Notes to the financial statements

Claims incurred

Claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, the corresponding claim handling expenses (loss adjustment expenses) and changes in the outstanding claim technical reserves. Claims paid are decreased by the amount of losses recoverable through retrocession or subrogation.

The claims amounts recoverable under ceded retrocession contracts are assessed on each reporting date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the retrocessionaire.

Technical reserves

The Company establishes technical reserves to record the estimate of liabilities arising from reinsurance contracts: unearned premium and unexpired risk reserves, outstanding claim technical reserves.

The retrocessionaires' share in the technical reserves is disclosed under assets in the statement of financial position.

Unearned premium reserve (UPR)

Unearned premium reserve represent the proportion of premiums written which relate to the period of risk subsequent to the accounting year. Reserve is calculated for each insurance policy under the 365- day Pro Rata Temporis method based on the period in force for a particular contract.

Outstanding claims technical reserves

An outstanding claims technical reserve comprises a reserve for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and the related internal and external claim handling expenses. Provisions for loss are not discounted.

Reported but not settled claims reserve (RBNS)

The RBNS claims reserve includes case reserves. Case reserves are set on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled as at the reporting date. The sensitivity analysis for insurance liabilities is disclosed in note 32 (h) and claim development analysis is disclosed in note 32 (i).

Incurred but not reported claims reserve (IBNR)

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period. For the purposes of IBNR determination as at the reporting date, the management uses data on historical accidents in the reporting and previous periods using claim development triangle methods. The claim development analysis is disclosed in note 32 (i).

Client acquisition costs

Client acquisition costs represent commissions paid to intermediaries related to the acquisition of reinsurance contracts. Deferred client acquisition costs represent the portion of client acquisition costs that are attributable to future reporting periods in accordance with the proportion of unearned premium technical reserves versus gross written premiums for each reinsurance contract.

Liability adequacy test

Notes to the financial statements

Management assesses at each reporting date the adequacy of its recognized insurance liabilities using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities after the deduction of the deferred acquisition costs. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, and the investment income from assets backing the reinsurance contract provisions are used in performing these tests.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognized as a loss for the financial year by setting aside additional unexpired risk reserves.

The liability adequacy test is applied to the gross amounts of reserves, i.e. the effect of retrocession is not taken into account.

e) Financial documents

Classification

At inception, all financial instruments are classified into one of the following categories:

Financial instruments at fair value through profit or loss are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, are designated by the Company at fair value through the profit or loss.

Available-for-sale assets are financial assets classified at inception as available-for-sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available-for-sale instruments include certain equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and receivables in the statement of financial position. Reinsurance receivables are classified in this category.

Financial liabilities carried at amortized cost represent financial liabilities of the Company other than financial instruments recorded at fair value through profit or loss. This category includes payables.

Recognition and derecognition

Financial instruments are recognized when the Company becomes a party to the contractual rights of the instrument. All regular way purchase and sales of financial assets are recognized in the statement of financial position on the transaction date representing the date when the financial asset is delivered. In the period between the dates of transaction and settlement, the Company accounts for the changes in the fair value of the received or transferred asset based on the same principles used for any other acquired asset of the respective category.

Financial assets are derecognized when the rights to receive cash flows from the financial asset have expired or where the Company has transferred substantially all risks and rewards of ownership.

Notes to the financial statements

Financial liabilities are derecognized when they are extinguished - that is, when the obligation is discharged, cancelled or expires.

Initial and subsequent measurement

Financial instruments are initially measured at fair value and except for financial instruments at fair value through profit or loss include directly attributable transaction costs.

Financial assets at fair value through profit or loss are subsequently accounted for at fair value with revaluation recognized through profit or loss.

Subsequent to initial measurement, all financial assets and liabilities available for sale are designated at fair value through profit or loss except those instruments for which no reliable fair value measurement is possible. In this case, such instruments are carried at cost less transaction expenses and impairment.

All financial liabilities and other financial assets including loans and receivables, deposits with banks and assets held to maturity are measured at amortized cost using the effective interest rate method. All instruments are subject to revaluation when impaired. Short term receivables and payables are not discounted.

Profit or loss arising from changes to the fair value of financial instruments designated through profit or loss is recognized in the statement of profit or loss and other comprehensive income. Differences arising from changes to the fair value of available-for-sale financial instruments are recognized through other comprehensive income in equity.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments that have a quoted market price in an active market is determined based on the quoted price on the reporting date or the last working date of the respective market. Where reference to an active market for a financial instrument is not possible, discounted cash flows techniques are used or other measurement models available in the respective market provided if the use of such models may ensure a reliable estimate of the fair value.

In case the financial instruments are not listed on the market to determine the fair value discounted cash flow model is used or other measurement models available in the respective market (these models are used only if with their help it is possible to determine the fair value of financial instruments).

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market rate related to the reporting date for a financial instrument with similar terms and conditions. Where a pricing model is used, inputs are based on market related measures at the reporting date.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

f) Impairment

Financial assets

At each reporting date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial

Notes to the financial statements

recognition of the asset, and that the loss event has a negative impact on the future cash flows of the asset that can be estimated reliably.

The Company considers evidence of impairment at both a specific asset level and a collective level. All individually significant assets are individually assessed for impairment. All individually significant assets which are not assessed as impaired are then collectively assessed for any impairment that has been incurred but not yet identified at the reporting date.

No impairment allowances are recognized in respect of amounts that have not yet become due if no portion of the premium is taken to income.

Other receivables are stated at amortized cost.

Non-financial assets

Non-financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that records current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in the statement of profit or loss and other comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any reversed impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

g) Investment income and expenses

Investment income comprises interest income from funds invested (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method.

Dividend income is recognized in statement of profit or loss and other comprehensive income on the date that the Company's right to receive payment is established.

Investment expenses comprise changes in the fair value of available-for-sale financial assets and loss from disposals of available-for-sale financial assets.

h) Corporate income tax

Income tax expense comprises current and deferred tax. Current income tax expense is based on taxable profit for the year and is calculated in accordance with the legislation of the Republic of Belarus. Company's current income tax expense is calculated using tax rates enacted at the reporting date.

Deferred tax - the tax payable or recoverable as a result of differences arising between the carrying value of assets and liabilities in the financial statements and tax base used in the calculation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all deductible temporary differences, and deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against temporary differences that can be utilized. Such assets and liabilities are not recognized

Notes to the financial statements

if the temporary difference arises from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax nor the accounting profit.

Deferred tax is calculated at the tax rate which is expected to be applied in the period when the obligation is fulfilled or the asset realized using tax rates that have been introduced or substantially announced at the reporting date. Deferred tax is recognized in profit or loss and other comprehensive income, except when it relates to items that are charged to other comprehensive income, in which case the deferred tax is also accounted for within equity.

Deferred tax asset is reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be obtained to repay the asset in part or in full.

Deferred tax assets and liabilities are not discounted.

i) Cash and cash equivalents

In the cash flow statement cash and cash equivalents comprise demand deposits, overnight deposits and term deposits with banks with the initial maturity term less than three months. In the statement of cash flows, cash flows are presented using the indirect method.

j) Deposits with banks

Deposits with banks include cash in Belarusian rubles or in foreign currency that the Company placed in the bank for the purpose of storing and generating income for a period exceeding three months.

k) Employee benefits

Salaries of employees are recognized as expenses of the reporting period. In accordance with the requirements of the legislation, the Company withholds amounts of pension contributions from the wages of workers and pays them to the State pension fund. In addition, the pension system provides for calculation of current payments by the employer as a percentage of current total payments to staff. These costs are accrued in the period when the related wages are accrued. Upon retirement all retirement benefit payments are made by the state. The company does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Company has no obligations for pension benefits or other compensation, requiring accrual.

l) Provisions

Provisions are recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the Company expects to receive a refund of some or all provisions, the reimbursement is recognized as a separate asset but only when the reimbursement cannot be doubted. The expense relating to provision is presented in the statement of profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that adequately reflects the risks specific to the liability. If discounting is used, the increase in the allowance with the passage of time is recognized in financial expenses

m) Profit distribution to the shareholder

In accordance with the legislation of the Republic of Belarus the Company is obliged to distribute part of its profits to the government of the Republic of Belarus. In 2016 and 2015 profit distribution to the shareholder comprised payments to budget of a certain percentage of the profit for the year earned by the Company in accordance with Belarusian accounting principles. The percentage depends on the profitability of the Company and is stated in the Order of the President of the Republic of Belarus #637 dated 28 December 2005 (with the editions followed). The maximum level of the payment is limited by 20 per cents of the profit.

Notes to the financial statements

Also, payments to the shareholder include payments to investment fund established in accordance with the Decree of the President of Belarus #357 of 7 August 2012 «On the order of formation and use of funds of innovation funds». The maximum level of the payment is limited by 25 per cents of the profit. In 2016 actual payments amounted to 10per cent of the profit (2015: 25 per cent of the profit).

Acquisitions of bonds from the Ministry of Finance on special conditions are accounted for as transactions with owner and are recognized as distribution of retained earnings in equity.

n) Related party transactions

The Company applies the exemption in respect of requirements for disclosure of transactions and balances with related parties in accordance with paragraph 25 of IFRS (IAS) 24 "Related Party Disclosures", which allows a simplified disclosure on transactions with entities related to the Government.

(6) NEW STANDARDS AND INTERPRETATIONS

The following amendments to Standards became effective from 1 January 2016 but do not effect this financial reporting:

- Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38);
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41);
- Equity Method in Separate Financial Statements (Amendments to IAS 27);
- Annual Improvements to IFRSs 2012-2014 Cycle;
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28);
- Disclosure Initiative (Amendments to IAS 1);
- IFRS 14 Regulatory Deferral Accounts.

The following new Standards, changes in Standards and interpretations are not yet effective for the annual financial reporting period ended 31 December 2016 and have not been applied in preparing these financial statements

The following Standards and explanations may have a potential impact on the Company's operations. The company plans apply the Standards and clarification when they come into effect.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosure of information that will allow users of financial statements to assess changes in liabilities that arise from financial activities, including changes that are related or not related to changes in cash flows.

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

The new standard will not have an impact on the financial position or performance of the Company.

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

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

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

The company has not yet analyzed the likely consequences of the introduction of the new standard in terms of its impact on the financial position and performance of the Company.

Notes to the financial statements

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out the basic principles for determining whether revenue should be recognized, in what amount and when. The standard supersedes the current guidance on revenue recognition, including IAS 11 Construction Contracts, IAS 18 Revenue and Clarification of IFRIC 13 Customer Loyalty Programs.

IFRS 15 becomes effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognize revenue, and at what amount. The new model specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized:

- over time, in a manner that depicts the company's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that a company shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The new Standard is not expected to have significant impact on the financial statements of the Company.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 becomes effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

At present, the Company plans to apply IFRS 9 from 1 January 2018. The actual impact of the adoption of IFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated, as it will depend on the financial instruments owned by the Company at that time, and on future economic conditions, as well as on selected options for accounting and judgments that will be made by the Company in the future. The new Standard will require the Company to review the accounting processes and elements of internal control related to the reflection of financial instruments in the accounting, and these changes have not yet been completed.

Classification - financial assets

IFRS 9 introduces a new approach to the classification and measurement of financial assets, reflecting the business model used to manage these assets and the characteristics of the cash flows associated with them.

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

In accordance with IFRS 9, derivatives that are embedded in contracts where the main agreement is a financial asset within the scope of IFRS 9 are never separated from the main agreement. Instead, the requirements of the standard for classification apply to the entire hybrid financial instrument

Notes to the financial statements

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

Impairment - Financial assets and contractual assets

With respect to impairment, IFRS 9 introduces a new, forward-looking model of "expected credit losses" that replaces the "incurred credit loss" model established by IAS 39. Applying the new impairment model will require significant professional judgments from the Company as to how changes in economic factors affect the expected credit losses, determined by weighting by probability of occurrence.

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

In accordance with IFRS 9, estimated reserves for expected credit losses will be assessed in one of the following ways:

- based on 12-month expected credit losses. These are the expected credit losses that will arise as a result of defaults possible within 12 months after the reporting date;
- on the basis of expected credit losses for the entire period. These are the expected credit losses arising from all possible cases of default throughout the expected life of the financial instrument.

An estimate of the expected credit losses for the entire period is applied if the credit risk on the financial asset at the reporting date has increased significantly since the initial recognition. Otherwise, the estimated credit loss is evaluated for 12 months after the reporting date. In this case, the enterprise is entitled to use the assumption that the credit risk on the financial instrument has not increased significantly since the initial recognition if it was determined that the financial instrument has a low credit risk as at the reporting date

The Company has not yet analyzed the likely consequences of the introduction of the new Standard in terms of its impact on the financial position and performance of the Company.

Classification - financial liabilities

IFRS 9 generally preserves the existing requirements of IAS 39 regarding the classification of financial liabilities.

However, in accordance with IAS 39, all changes in fair value of financial liabilities classified at fair value through profit or loss are recognized in profit or loss, whereas in accordance with IFRS 9, in the general case, they are recognized in the following order:

- the amount reflecting the change in fair value of the financial liability due to changes in credit risk for such a liability is recognized in other comprehensive income;
- the remaining amount of the change in fair value of the liability is recognized in profit or loss.

The new Standard is not expected to have significant impact on the financial statements of the Company.

Hedge accounting

In the initial application of IFRS 9, the Company has the right to choose for its accounting policy to continue application of IAS 39 to hedge accounting rather than the requirements of IFRS 9. The Company currently plans to apply the new requirements set out in IFRS 9.

Notes to the financial statements

In accordance with IFRS 9, the Company will be required to ensure that hedging relationships are consistent with the Company's objectives and strategy with respect to risk management, and that it applies a more proactive and qualitative approach to assessing the effectiveness of hedging. IFRS 9 also introduces new requirements for a "rebalancing" of hedging relationships and a ban on voluntary termination of hedge accounting. According to the new hedging model, more risk management strategies, especially those related to hedging risk components (other than currency risk) of a non-financial entity are likely to meet qualifying criteria for hedge accounting. At present the Company does not hedge such risk components.

The Company uses forward exchange contracts to hedge potential changes in the amount of cash flows due to changes in foreign currency exchange rates and related to foreign currency denominated loans, receivables, sales and purchases of inventories.

At its discretion the Company determines only changes in the fair value of the spot element of the forward foreign exchange contract as a hedging instrument in the hedging of cash flows. In accordance with IAS 39, changes in fair value of the forward element of forward foreign exchange contracts ("forward points") are recognized immediately in profit or loss.

When applying IFRS 9, the Company may choose, at its discretion, to account for forward items as hedging costs. In this case, forward points are recognized in other comprehensive income, are included in hedging reserve as a separate component of equity and are subsequently accounted in the same way as profit or losses accrued in the cash flow hedging reserve.

In accordance with IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedging reserve are reclassified to profit or loss as a reclassification adjustment in the period in which the hedged expected cash flows affect profit or losses. At the same time, in accordance with IFRS 9, when hedging cash flows from currency risk associated with the projected purchases of non-financial assets, the amounts accumulated in the cash flow hedging reserve and the entire hedging reserve will instead be included in the original value of the non-financial asset as of its recognition.

The new Standard is not expected to have significant impact on the financial statements of the Company.

Disclosure

In accordance with IFRS 9, detailed new disclosures will be required, in particular on hedge accounting, credit risk and expected credit losses. During the preliminary assessment, the Company conducted an analysis to identify the missing information. The company plans to implement changes that in its opinion will enable it to collect the necessary data.

Transfer to the new Standard

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The company plans to take advantage of the exemption allowing to not restate comparative data for previous periods in terms of changes in the classification and evaluation (including impairment) of financial instruments. The differences between the previous carrying value of the instruments and their carrying values in accordance with IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.
- New requirements for hedge accounting, in general, should be applied prospectively. However, the Company may decide to apply changes in accounting for forward points retrospectively. The company has not yet decided on this issue.
- The following assessments should be made based on the facts and circumstances existing at the date of initial application.
Definition of the business model in which the financial asset is held.

Notes to the financial statements

- Allocation, at the discretion of the Company, and cancellation of the previously made allocation of certain financial assets and financial liabilities to the category measured at fair value through profit or loss.
- Allocation, at the discretion of the Company, of certain investments in equity instruments that are not held for sale in the category of measured at fair value through other comprehensive income.

IFRS 16 Lease

IFRS) 16 introduces a single model for recording lease agreements by lessees, which implies their reflection on the lessee's balance sheet. According to this model, the lessee must recognize the asset in the form of the right to use, which is the right to use the underlying asset, and the lease obligation, which is the obligation to make lease payments. There are optional simplifications for short-term leases and rentals of low-cost properties. For the lessors, the accounting rules are generally preserved - they will continue to classify the lease as financial and operating.

IFRS 16 replaces the existing lease guidance, including IAS 17 Leases, Clarification of IFRIC 4, Determination of Lease Characteristics in the Agreement, Clarification of SIC 15 Operating Leases - Incentives and Clarification of SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 becomes effective for annual periods beginning on or after 1 January 2019. An early adoption of the standard is permitted for enterprises that apply IFRS 15 Revenue Under Contracts with Customers on or before the date of initial application of IFRS 16.

The company has not yet analyzed the likely consequences of the introduction of the new Standard in terms of its impact on the financial position and performance of the Company.

Other changes

The following new Standards or amendments to standards are not expected to have a significant impact on the financial statements of the Company:

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

REPUBLICAN UNITARY ENTERPRISE
 „BELARUSIAN NATIONAL REINSURANCE ORGANISATION”
 FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Notes to the financial statements

(8) NET WRITTEN PREMIUMS

In thousands BYN

	2016			2015		
	Gross written premiums	Retrocessionaires' share in premiums	Net written premiums	Gross written premiums	Retrocessionaires' share in premiums	Net written premiums
Property reinsurance	21 353	(9 893)	11 460	17 540	(9 690)	7 850
Pecuniary reinsurance	18 676	(2 510)	16 166	11 527	(589)	10 938
Aviation reinsurance	10 780	(8 551)	2 229	7 400	(7 086)	314
Motor reinsurance	5 225	(3 829)	1 396	3 990	(2 965)	1 025
Marine reinsurance	2 476	(1 340)	1 136	1 687	(954)	733
Liability reinsurance	2 366	(708)	1 658	2 127	(689)	1 438
Transport reinsurance	1 152	(12)	1 140	1 060	(56)	1 004
Medical expenses reinsurance	301	-	301	-	-	-
Accident reinsurance	-	-	-	3	-	3
	62 329	(26 843)	35 486	45 334	(22 029)	23 305

(9) NET EARNED PREMIUMS

In thousands BYN

	2016			2015		
	Gross earned premiums	Retrocessionaires' share in premiums	Net earned premiums	Gross earned premiums	Retrocessionaires' share in premiums	Net earned premiums
Property reinsurance	19 766	(8 235)	11 531	11 671	(4 049)	7 622
Pecuniary reinsurance	13 584	(1 222)	12 362	9 326	(791)	8 535
Aviation reinsurance	10 437	(8 631)	1 806	6 977	(6 509)	468
Motor reinsurance	5 225	(3 829)	1 396	3 990	(2 965)	1 025
Marine reinsurance	2 587	(1 379)	1 208	1 534	(887)	647
Liability reinsurance	2 210	(629)	1 581	1 934	(624)	1 310
Transport reinsurance	1 088	(4)	1 084	1 492	(90)	1 402
Medical expenses reinsurance	201	-	201	-	-	-
Accident reinsurance	2	-	2	2	-	2
	55 100	(23 929)	31 171	36 926	(15 915)	21 011

(10) UNEARNED PREMIUM AND UNEXPIRED RISKS TECHNICAL RESERVES

In thousands BYN

Gross Retrocessionaires' share Net

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Balance at 1 January 2015 (restated)	34 432	(18 618)	15 814
<i>Written premiums</i>	45 334	(22 029)	23 305
<i>Premiums earned</i>	(36 926)	15 915	(21 011)
Changes for the year	8 408	(6 114)	2 294
Effect of changes in foreign exchange rate	7 500	(1 830)	5 670
Balance at 31 December 2015 (restated)	50 340	(26 562)	23 778
<i>Written premiums</i>	62 329	(26 843)	35 486
<i>Premiums earned</i>	(55 100)	23 929	(31 171)
Changes for the year	7 229	(2 914)	4 315
Effect of changes in foreign exchange rate	2 885	(1 370)	1 515
Balance at 31 December 2016	60 454	(30 846)	29 608

<i>In thousands BYN</i>	31 December 2016			31 December 2015 (restated)		
	Retrocessionaires' share			Retrocessionaires' share		
	Gross	Net		Gross	Net	
UPR	60 454	(30 846)	29 608	48 510	(26 562)	21 948
URR	-	-	-	1 830	-	1 830
	60 454	(30 846)	29 608	50 340	(26 562)	23 778

Technical reserves for unearned premium and unexpired risks as at 31 December 2016 in currencies:

<i>In thousands BYN</i>	BYN	USD	EUR	RUB	Total
Technical reserves for unearned premium and unexpired risks, gross	4 245	40 323	9 810	6 076	60 454
Technical reserves for unearned premium and unexpired risks, net	2 549	16 024	7 664	3 371	29 608

Technical reserves for unearned premiums and unexpired risks as at 31 December 2015 (recalculated in currencies):

<i>In thousands BYN</i>	BYN	USD	EUR	RUB	Total
Technical reserves for unearned premium and unexpired risks, gross	4 152	37 142	4 995	4 051	50 340
Technical reserves for unearned premium and unexpired risks, net	2 654	14 194	4 479	2 451	23 778

Notes to the financial statements

(11) NET PAID CLAIMS

In thousands BYN

	2016			2015 (restated)		
	Gross claims paid	Retro-cessionaires' share in claims	Net claims paid	Gross claims paid	Retro-cessionaires' share in claims	Net claims paid
Aviation reinsurance	7 404	(7 070)	334	212	(36)	176
Property reinsurance	6 041	(1 406)	4 635	4 563	(1 894)	2 669
Pecuniary reinsurance	3 083	(461)	2 622	1 876	(269)	1 607
Motor reinsurance	556	-	556	86	(68)	18
Transport reinsurance	490	(2)	488	394	-	394
Liability reinsurance	232	(3)	229	193	(1)	192
Marine reinsurance	72	-	72	84	(28)	56
	17 878	(8 942)	8 936	7 408	(2 296)	5 112

(12) NET INCURRED CLAIMS

In thousands BYN

	2016			2015		
	Gross incurred claims	Retro-cessionaires' share	Net incurred claims	Gross incurred claims	Retro-cessionaires' share	Net incurred claims
Property reinsurance	14 804	977	15 781	10 306	(4 247)	6 059
Pecuniary reinsurance	6 011	(615)	5 396	(22 155)	19 269	(2 886)
Aviation reinsurance	4 288	(4 029)	259	671	(429)	242
Transport reinsurance	338	(6)	332	575	1	576
Marine reinsurance	334	9	343	258	(37)	221
Liability reinsurance	266	48	314	112	(68)	44
Medical expenses reinsurance	12	-	12	-	-	-
Accident reinsurance	(14)	-	(14)	(8)	-	(8)
Motor reinsurance	(1 047)	(183)	(1 230)	2 078	(68)	2 010
	24 992	(3 799)	21 193	(8 163)	14 421	6 258

Notes to the financial statements

(13) OUTSTANDING CLAIM TECHNICAL RESERVES

<i>In thousands BYN</i>	Gross	Retrocessionaires' share	Net
Balance at 1 January 2015			15
	41 327	(25 641)	686
Claims incurred during the period	(8 163)	14 421	6 258
Claims paid	(7 408)	2 296	(5 112)
Changes for the year	(15 571)	16 717	1 146
Effect of changes in foreign exchange rates	5 984	(1 808)	4 176
Balance at 31 December 2015			21
	31 740	(10 732)	008
Claims incurred during the period	24 992	(3 799)	21 193
Claims paid	(17 878)	8 492	(8 936)
Changes for the year	7 114	5 143	12 257
Effect of changes in foreign exchange rates	2 461	(625)	1 836
Balance at 31 December 2016	41 315	(6 214)	35 101

<i>In thousands BYN</i>	31 December 2016			31 December 2015		
	Gross	Retrocessionaires' share	Net	Gross	Retrocessionaires' share	Net
RBNS	33 201	(6 214)	26 987	28 429	(10 732)	17 697
IBNR	8 114	-	8 114	3 311	-	3 311
	41 315	(6 214)	35 101	31 740	(10 732)	21 008

Outstanding claim technical reserves as at 31 December 2016 in currencies:

<i>In thousands BYN</i>	BYN	USD	EUR	RUB	Total
Outstanding claim technical reserves, gross	2 532	9 575	9 196	20 012	41 315
Outstanding claim technical reserves, net	1 612	8 282	6 993	18 214	35 101

Outstanding claim technical reserves as at 31 December 2015 in currencies:

<i>In thousands BYN</i>	BYN	USD	EUR	RUB	Total
Outstanding claim technical reserves, gross	6 781	10 526	7 984	6 449	31 740
Outstanding claim technical reserves, net	6 254	4 070	4 669	6 015	21 008

Notes to the financial statements

(14) CLIENT ACQUISITION COSTS

Changes in deferred client acquisition costs during 2016 and 2015 were as follows:

In thousands BYN

Balance at 1 January 2015		2 979
Written commissions		3 166
Deferred commissions allocated to statement of profit or loss and other comprehensive income		(1 935)
	Changes for the year	1 231
Balance at 31 December 2015		4 210
Written commissions		4 052
Deferred commissions allocated to statement of profit or loss and other comprehensive income		(3 166)
	Changes for the year	886
Balance at 31 December 2016		5 096

In 2016 and 2015 client acquisition costs by types were as follows:

In thousands BYN

	2016	2015
Pecuniary reinsurance	1 429	951
Property reinsurance	1 412	1 337
Aviation reinsurance	443	283
Liability reinsurance	373	327
Marine reinsurance	181	147
Transport reinsurance	127	121
Medical expenses reinsurance	87	-
	4 052	3 166
<i>In thousands BYN</i>	2016	2015
Commissions to insurance and reinsurance companies	3 723	2 927
Commissions to reinsurance brokers	329	239
	4 052	3 166

(15) ADMINISTRATIVE EXPENSES

In thousands BYN

	2016	2015
Salaries and social contribution expenses	1 361	1 072
Social taxes	450	357
Insurance expenses	272	184
Cultural events	268	160
Rent, utilities and maintenance	194	158
Professional services	128	190
Bank commissions	93	79
Business trips	80	65
Advertisement and public relations	54	30
Membership contributions	45	40
Depreciation of property and equipment	31	23
Tax payments	9	23
Other	68	78
	3 053	2 459

Notes to the financial statements

(16) INVESTMENT INCOME

<i>In thousands BYN</i>	2016	2015
Interest income on commercial bonds	8 077	5 797
Interest income on deposits	5 058	4 779
Dividends received	389	1 912
	13 524	12 488

(17) INVESTMENT EXPENSES

<i>In thousands BYN</i>	2016	2015
Impairment of available-for-sale financial assets	-	2 874
Disposal of available-for-sale financial assets	-	11 552
	-	14 426

(18) OTHER INCOME / EXPENSES

<i>In thousands BYN</i>	2016	2015 (restated)
Other income		
Foreign exchange differences	2 548	15 061
Income from termination of retrocession contracts	911	1 431
Income from fines, penalties, forfeits	215	19
Other	112	9
Total other income	3 786	16 520
Other expenses		
Expenses from termination of reinsurance contracts	(2 860)	(1 954)
Charity	(875)	(566)
Other	(106)	(20)
Total other expenses	(3 841)	(2 540)
Other income / expenses, net	(55)	13 980

(19) INCOME TAX EXPENSES

According to the Tax Code of the Republic of Belarus, the rate of corporate income tax in 2015 and 2016 is 18%, for banks and insurance companies is 25%.

<i>In thousands BYN</i>	2016	2015 (restated)
Current tax	3 474	5 915
Deferred tax expense / benefit	(942)	1 471
Income tax expense	2 532	7 386

<i>In thousands BYN</i>	2016	2015 (restated)
Income before tax	17 968	23 176
Theoretical tax	4 492	5 793
Tax-exempt income	(1 980)	-
Non-deductible expenses	174	2 104
Tax-exempt income (income on bonds)	(154)	(511)
Income tax expense	2 532	7 386

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<i>In thousands BYN</i>	2016	2015 (restated)
Deferred tax liability at the beginning of the year	(7 410)	(8 436)
Deferred tax benefit / expense during the reporting period attributable to profit or loss	942	(1 471)
Changes in deferred tax in the statement of other comprehensive income	-	2 497
Deferred tax liability at the end of year	(6 468)	(7 410)

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

<i>In thousands BYN</i>	31 December 2016	31 December 2015 (restated)
Technical reserves for unearned premium and unexpired risks	7 534	3 058
Outstanding claim technical reserves	5 251	9 245
Receivables from reinsurance activities	3 732	3 240
Bank deposits	1 583	-
Retrocessionaires' share in outstanding claim technical reserves	1 161	-
Other receivables	109	2 039
Receivables from retrocession activities	103	-
Deferred expenses	86	-
PPE and intangible assets	70	-
Other payables	-	64
Total deductible temporary differences	19 629	17 646
Available-for-sale financial assets	(22 860)	(23 667)
Deferred income	(7 894)	-
Deferred client acquisition costs	(5 096)	(4 210)
Retrocessionaires' share in unearned premium technical reserve	(4 127)	(2 286)
Payables from retrocession activities	(2 968)	-
Prepayments	(2 338)	(2 684)
Payables from reinsurance activities	(214)	(157)
Other payables	(4)	(50)
Deferred expenses	-	(13 372)
Retrocessionaires' share in outstanding claim technical reserves	-	(859)
Total taxable temporary differences	(45 501)	(47 285)
Net temporary differences	(25 872)	(29 639)
Deferred tax liabilities	(6 468)	(7 410)

Notes to the financial statements

(20) RETROCESSION CESSION RESULT

In thousands BYN

	Notes	2016	2015 (restated)
Retrocessionaires' share in written premiums	8	(26 843)	(22 029)
Retrocessionaires' share in change in unearned premiums reserve	10	2 914	6 114
Retrocessionaires' share of claims paid	11	8 942	2 296
Retrocessionaires' share in change in outstanding claim technical reserves		(5 143)	(16 717)
Retrocessionaires' commission income	13	740	775
Total retrocession cession result		(19 390)	(29 561)

(21) PROPERTY AND EQUIPMENT

In thousands BYN

	Vehicles	Machinery and equipment	Furniture and office equipment	Total
Initial cost				
Balance at 1 January 2015	36	42	117	195
Additions	39	-	15	54
Disposals	(35)	-	(9)	(44)
Balance at 31 December 2015	40	42	123	205
Additions	-	5	3	8
Disposals	-	(2)	(1)	(3)
Balance at 31 December 2016	40	45	125	210
Accumulated depreciation				
Balance at 1 January 2015	(35)	(30)	(55)	(120)
Depreciation	(3)	(5)	(15)	(23)
Disposals	35	-	9	44
Balance at 31 December 2015	(3)	(35)	(61)	(99)
Depreciation	(5)	(4)	(17)	(26)
Disposals	-	2	1	3
Balance at 31 December 2016	(8)	(37)	(77)	(122)
Balance at 1 January 2015	1	12	62	75
Balance at 31 December 2015	37	7	62	106
Balance at 31 December 2016	32	8	48	88

Notes to the financial statements

(22) FINANCIAL ASSETS HELD TO MATURITY

In thousands BYN

	Currency	Carrying value	Carrying value
		31 December 2016	31 December 2015
Bonds of the Ministry of Finance of the Republic of Belarus	BYN	29 031	21 113
Bonds of OJSC “Belagroprombank”	EUR	2 045	-
		31 076	21 113

Bonds of the Ministry of Finance of the Republic of Belarus are classified as financial assets held to maturity. Bonds were acquired on the following terms: interest income - 0%; maturity date for the part of the bonds - 23 April 2019, and for the remaining part - 23 April 2020. The Company considers this agreement as a transaction with the owner. The result of the bonds' initial recognition at fair value is recognized in the statement of changes in equity.

Bonds of OJSC “Belagroprombank” are classified as financial assets held to maturity. The Company management intends to hold the bonds until the maturity date. According to the issue prospectus, the interest income on the bonds is 4.5%, the maturity date is 24 December 2019, the income is paid on a monthly basis.

(23) FINANCIAL ASSETS AVAILABLE-FOR-SALE

Investments classified as available-for-sale financial assets are shares in other companies which are not quoted and Government bonds.

In thousands BYN

			31 December 2016		31 December 2015 (restated)	
Sector			% owned	Carrying amount	% owned	Carrying amount
OJSC						
“Belagroprombank”	Shares	Bank	4,32%	61 708	4,32%	61 708
OJSC						
“Promagroleasing”	Shares	Leasing company	2,58%	4 115	2,58%	4 115
OJSC						
“Belagroprombank”	Bonds	Bank		-		2 026
OJSC “Belinvestbank”	Bonds	Bank		-		474
				65 823		68 323

There was an impairment of equity investments in financial assets at 31 December 2015. Impairment loss was assessed according to the IFRS by net assets of the Company. Cumulative loss was reclassified to profit and loss for the reporting period.

(24) DEPOSITS WITH BANKS

In thousands BYN

	31 December 2016	31 December 2015
Deposits with banks	86 752	56 393
	86 752	56 393

As at 31 December 2016 and as at 31 December 2016 all deposit amounts were placed in Belarusian financial institutions. As at 31 December 2016 and as at 31 December 2015 deposits in amount of BYN 8,113 thousand and BYN 6,903 thousand, correspondingly, of deposits were provided as the security for the assumed reinsurance contracts and restricted in use.

Notes to the financial statements

(25) RECEIVABLES FROM REINSURANCE ACTIVITIES

In thousands BYN

	31 December 2016	31 December 2015 (restated)
Due from reinsured	22 864	18 221
	22 864	18 221

(26) OTHER RECEIVABLES AND PREPAYMENTS

Other receivables

In thousands BYN

	31 December 2016	31 December 2015 (restated)
Legal expenses due	172	-
Claims due	52	34
Interest income on bonds	1	21
Other	4	5
	229	60

Prepayments

In thousands BYN

	31 December 2016	31 December 2015 (restated)
Property and equipment	2 105	2 105
Distributions to owner	101	958
Taxes, except income tax	113	56
Other	132	44
	2 451	3 163

(27) CASH AND CASH EQUIVALENTS

In thousands BYN

	31 December 2016	31 December 2015
Current accounts with credit institutions	680	675
Deposits under 3 months	150	13 233
Cash and cash equivalents	830	13 908

As at 31 December 2016 and as at 31 December 2015 all deposit amounts were placed in national financial institutions.

(28) CAPITAL AND RESERVES

In 2016 the authorized capital of the Company was increased by BYN 5,874 thousand due to retained earnings. As of 31 December 2016, the Company's authorized capital amounted to BYN 328,915 thousand.

In 2015, the Company's authorized capital was increased by BYN 10,996 thousand due to retained earnings. As of 31 December 2015, the Company's authorized capital amounted to BYN 323,041 thousand (31 December 2014: BYN 312,045 thousand). As of 31 December 2014, the authorized capital was restated for inflation on December 31, 2014 (the effect of hyperinflation was BYN 181,346 thousand).

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognized or impaired.

Notes to the financial statements

The sole shareholder of the Company is the Council of Ministers of the Republic of Belarus. The shareholder has the full voting rights, rights to receive dividends when declared and for the Company's residual assets. Dividend distribution means profit allocation to the owner, details are disclosed in Note 6(m).

The Company's funds distributable to the owner are limited to the amount of distributable funds that are stated in the official statements of the Company, prepared according to Belarusian accounting rules.

In 2015 the Company acquired bonds of the Ministry of Finance of the Republic of Belarus denominated in Belarusian rubles with maturity date coming on 23 April 2019 for the part of the bonds, and on 23 April 2020 for the remaining part. The interest income on these bonds comprises 0% per annum under the terms of issue. This transaction is recognized by the Company as a transaction with the owner.

At the time of recognition of the financial asset its fair value was determined by discounting future cash flows at a rate of 37.4% (the rate on long-term deposits in the national currency), which reflects the interest rates on such investment instruments. The effect of discounting, as reflected in the statement of changes in equity, amounted to 54 552 million rubles.

(29) OTHER PAYABLES

In thousands BYN

	31 December 2016	31 December 2015
Payables to owner	965	-
Prepayments received under reinsurance contracts	84	17
Other	46	15
Other payables	1 095	32

(30) RELATED PARTIES

In thousands BYN

	2016		2015	
	Related parties transactions	Total per financial statements	Related parties transactions	Total per financial statements
Salary and other personnel costs	97	1 361	77	1 072
- Key management personnel	97		77	

The Company is controlled by the Government of the Republic of Belarus. The Company operates in an economic regime dominated by entities directly or indirectly controlled by the Government of the Republic of Belarus through its government authorities, agencies, affiliations and other organizations (collectively referred to as "government-related entities"). The Company has transactions with other government-related entities including assuming risks in reinsurance, reinsuring the risks; receiving services; depositing money.

These transactions are conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related. The Company has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

Notes to the financial statements

The main counterparties, which are related parties are the state-owned insurance companies: BRUIC "Belgosstrakh", BRUCEII "Beleximgarant", and insurance companies with more than 50 percent of government shareholding: CJSIC "Belneftestrakh", CJSIC "TASK", CJSIC "Promtransinvest", JLLC "Belkoopstrah". The transactions with state-owned insurance companies are listed below.

In thousands BYN

	2016		2015	
	Related parties transactions	Total per financial statements	Related parties transactions	Total per financial statements
Gross written premiums	46 892	62 329	34 394	45 334
<i>State insurers</i>	46 892		34 394	
Acquisition expense	3 066	4 052	2 289	3 166
<i>State insurers</i>	3 066		2 289	
Retrocessionaires' share in written premiums	4 814	26 843	1 770	22 029
<i>State insurers</i>	4 814		1 770	
Retrocessionaires' commission income	252	740	141	775
<i>State insurers</i>	252		141	
Claims paid	13 156	17 738	3 237	7 337
<i>State insurers</i>	13 156		3 237	
Retrocessionaires' share in claims paid	498	8 492	1 396	2 296
<i>State insurers</i>	498		1 396	

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In thousands BYN

	31 December 2016		31 December 2015	
	Related parties transactions	Total per financial statements	Related parties transactions	Total per financial statements
Receivables from reinsurance	16 177	22 864	14 688	18 221
State insurers	16 177		14 688	
Payables from reinsurance	1 532	1 949	1 201	1 575
State insurers	1 532		1 201	
Receivables from retrocession	236	1 279	183	1 331
State insurers	236		183	
Payables from retrocession	1 397	6 957	774	7 732
State insurers	1 397		774	
Other receivables	84	1 095	-	32
State insurers	84		-	
RBNS	10 219	33 201	11 220	28 429
State insurers	10 219		11 220	
Retrocessionaires' share in RBNS	2 776	6 214	5 762	10 732
State insurers	2 776		5 762	

According to the Order of the President of the Republic of Belarus #530 dated 26 August 2006 (with following changes and amendments) insurance companies with more than 50 percent of government shareholding are obliged to invest their own funds and insurance reserves in the state owned banks. Their own funds may be invested in government securities, securities of the National Bank, the local executive and administrative bodies, securities of state-owned banks and OJSC "Bank for Development of the Republic of Belarus", unless otherwise established by the President of the Republic of Belarus, real estate, and directed to the formation of statutory funds of organizations, in which the said insurance organizations are the property owners (founders, participants). According to letter #12-03-01-12/1073 dated 20 July 2010 received from State Property Committee, OJSC "BPS-Bank" is included into the list of banks allowed for the investing of their funds by the insurance companies with more than 50 percent of government shareholding. All bank accounts of the Company as at 31 December 2016 and as at 31 December 2015 are opened in state-owned banks or OJSC "BPS-Bank".

(31) NUMBER OF EMPLOYEES

	2016	2015
Average number of employees	59	57

(32) REMAINING MATURITIES OF INSURANCE LIABILITIES

31 December 2016			31 December 2015		
Gross liabilities	Retrocessionaires' share	Net liabilities	Gross liabilities	Retrocessionaires' share	Net liabilities

Notes to the financial statements

Unearned premiums and unexpired risks technical reserves	60 454	(30 846)	29 608	50 340	(26 562)	23 778
Outstanding claim technical reserves	41 315	(6 214)	35 101	31 740	(10 732)	21 008
Total	101 769	(37 060)	64 709	82 080	(37 294)	44 786
Less than 1 year	62 821	(14 898)	47 923	52 735	(19 546)	33 189
From 1 to 5 years	34 825	(20 117)	14 708	25 672	(14 660)	11 012
More than 5 years	4 123	(2 045)	2 078	3 673	(3 088)	585

(33) RISK MANAGEMENT

a) Risk and risk management

The objective of risk management performed by the Company is to protect the interests of stakeholders, i.e. insured and shareholders of the Company, and the risk management. Risk management includes a set of measures the performance of which requires involvement of each staff member within the scope of their competency. The Company's risk management includes:

- Capital sufficiency requirements and capital management;
- Insurance risk identification and risk management;
- Financial risk identification and management;
- Operational risks identification and management.

b) Solvency requirements and Capital management

The Company's objectives when managing capital are to comply with minimum capital requirements stipulated by the Instruction on the criteria and evaluation of insurance organizations' solvency, approved by the Decree of Ministry of Finance of the Republic of Belarus on 10 March 2007 No.73 and with requirements to minimal share capital, established in the Decree of the President of the Republic of Belarus dated 25 August 2006 № 530 "On Insurance Operations". The minimal required share capital according to the Decree is EUR 5 000 000. The Company is obliged to hold the minimum amount of capital required to run the business. The minimum required capital is calculated based on the statutory accounting records and must be maintained at all times throughout the year and to safeguard the Company's ability to continue as a going concern.

In order to ensure the stability of the insurer's financial activities, the insurance company should constantly have at its disposal own funds, which should be equal to or larger than a determined solvency margin, calculated on the basis of financial statements, compiled in accordance with the legislation of the Republic of Belarus.

Notes to the financial statements

<i>In thousands BYN</i>	31 December 2016	31 December 2015 (restated)
Solvency margin based on premiums received	11 334	8 784
Solvency margin based on claims paid	4 573	2 599
Solvency margin (the largest amount)	11 334	8 784
Reinsurance ratio	0,8	0,5
Solvency margin adjusted by reinsurance ratio	9 067	4 392
Total capital to calculate capital adequacy (own funds)	155 474	152 691
Capital adequacy surplus	146 407	148 299

c) Insurance risk identification and risk management

The business of assumed reinsurance represents the transfer of risk from the reinsured to the reinsurer and management of this risk.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its assumed reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to mitigate significantly financial risks.

Management is monitoring on an on-going basis the adherence of the underwriting authorities. Those transactions requiring special authorization are subject to the special attention of the Management of Company and the Insurance Committee in particular.

d) Basic products features

The terms and conditions of assumed reinsurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from assumed reinsurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

The main objective of reinsurance is the provision of reinsurance protection to the insurance/reinsurance companies.

There are the following main insurance products of the Company:

- aviation reinsurance;
- property reinsurance;
- pecuniary reinsurance (including the risk of outstanding credit occurrence insurance);
- motor reinsurance;
- transport reinsurance (CASCO);
- liability reinsurance;
- marine reinsurance;
- accident reinsurance;
- medical expenses reinsurance.

The evaluation of the Company's main insurance products and means by which the risks connected with them are managed are given below.

Notes to the financial statements

Aviation reinsurance

Aviation reinsurance is a common name for the complex of property, personal and liability reinsurance, which results from the usage of aviation transport and protects the valuable interest of individuals and legal entities in case of the occurrence of events, set by the insurance contract or legislation.

Order and conditions of aviation insurance are specific and require the detailed description. This is stipulated by the following factors:

- aviation insurance deals with unique risks differing from other types of property;
- significant part of the insured amounts provides for the coordination of activities between insurer and reinsurer;
- aviation risks may lead to enormous and cumulative losses;
- aviation insurance is strongly connected with a global insurance market;
- aviation insurance is regulated both by national and international law;
- the special developed infrastructure is required for conduction of aviation insurance operations;
- aviation risks require a high demand for the professional training of specialists in charge of the insurance process.

The goal of civil aviation insurance is the protection of interests of aircraft operators, passengers and third parties. It includes:

- liability insurance of air carrier against damage caused to passengers, baggage, mail, cargo;
- liability insurance of aircraft operators against damage caused to third parties;
- insurance of aircraft crew and other aviation personnel;
- aircraft insurance;
- insurance of aerial work requester's employees, personnel, connected with the provision of technological process during the aerial works.

Reinsurance of aviation risks may be provided in case of an extensive retrocession system. From the insured amount point of view aviation risks are the largest ones from all lines of business (dozens and thousands of millions of dollars). Therefore, in order to reinsure such risks the global insurance market's services are required. This cannot be done without retrocession contracts with international insurance brokers.

Property reinsurance

This reinsurance covers losses incurred as a result of damage to the property of individuals and legal entities. Assumed reinsurance portfolio of the Company for this line of business includes the following types of reinsurance:

- catastrophic risks reinsurance;
- building and construction risks reinsurance;
- citizens' homestead reinsurance;
- citizens' buildings reinsurance;
- companies' property reinsurance;
- reinsurance of animals belonging to legal entities;
- cash counter reinsurance;
- reinsurance of space risks;
- reinsurance of energy risks and etc.

According to the limit policy of the Company there are limits of some types of provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings. When assuming the contracts in reinsurance the risks are thoroughly appraised and there is performed the analysis of:

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- the information on the object of reinsurance (its characteristics, period of reinsurance, location);
- the information on the amount of cover (specification of risks);
- economic indicators (insurance amount, premiums, deductibles, priority of the reinsured, order of reinsurance premium payment);
- historical information on loss development;
- the existence of the cumulation risk;
- other available data related to the risks' estimation.

Pecuniary reinsurance (including the risk of outstanding debt repayment)

Pecuniary (financial) risk is a risk of losses arising from the breach of obligations by the counterparty of the policyholder connected with the entrepreneurial activities of the policyholder.

This insurance covers losses incurred as a result of the neglect (not proper fulfillment) of obligations by the policyholder's counterparty for the following types of transactions:

- non-delivery, incomplete delivery of goods, non-transfer of property (goods), non-fulfillment of works, services by the time set in contract;
- repayment of debt issued by insured;
- rent, including leasing;
- payment of cash (transfer of a dwelling premise) in terms and in amounts (within the nominal value) provided for by the terms of the bond issue;
- storage keeping;
- pledging of security (guarantee).

In order to minimize the losses, connected with insurance (reinsurance) of pecuniary risks, qualitative and thorough analysis of customer's, debtor's, issuer's financial performance is performed, using the data from the financial statements, then the decision whether it's possible to assume these risks in reinsurance is made by the Insurance Committee.

The majority of pecuniary risks are assumed in reinsurance from the following insurance companies: BRUIC "Belgosstrakh", BRUCEII "Beleximgarant", CJSIC "Promtransinvest".

Motor reinsurance

Since 1 June 2007 the Republic of Belarus is a full member of the International "Green Card" insurance system. The Company has been ceding Belarusian "Green Card" certificates since 2008. Ceding retrocessionaire is CJSC «Marsh - Insurance Brokers».

The Company assumes in reinsurance on first and second levels of the obligatory reinsurance contract on Belarusian "Green Card" certificates.

Liability reinsurance

Liability insurance (reinsurance) covers losses associated with the emergence of the policyholder liabilities for damages to third parties on account of any act or omission by the insured. The Company assumes in reinsurance the following types of third party liability reinsurance:

- third party liability insurance of legal entities;
- third party liability insurance of minor ships' owners;
- third party liability insurance against non-fulfillment of public contract's obligations;
- third party liability insurance of reactor operator;
- third party liability insurance against nuclear damage;
- third party liability insurance against harm caused due to professional activity;

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- third party liability custom authorities insurance;
- third party liability insurance of customs warehouses' owners;
- third party liability insurance of commodity producer;
- third party liability insurance of carrier and forwarder;
- third party liability insurance of high-threat organizations;
- third party liability insurance of employer;
- third party liability insurance against harm caused to third parties;
- third party liability insurance of local carriers;
- liability insurance against forced business interruption;
- cancellation of mass, cultural, sports and other entertainment activities insurance.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings.

Transport reinsurance (CASCO)

Transport insurance means the reinsurance of risks connected with compensation of losses which arise from damage to, destruction or loss of vehicle. This line of business is represented by assuming in reinsurance the following types of insurance:

- individuals' vehicle insurance;
- legal entities' vehicle insurance;
- insurance of agricultural machines;
- insurance of ships;
- rail transport insurance.

Marine reinsurance

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. The Company assumes in reinsurance the following groups of marine insurance agreements:

- contractual - it supposes the contract of marine insurance is concluded with insurer, which for the certain fee (premium) undertakes the responsibility to reimburse losses resulting from a claim accident to the insured or insurance beneficiary;
- mutual - it takes part at mutual insurance clubs. The main feature of mutual insurance is the reimbursement of possible losses of the member of the mutual insurance club from the mutual fund composed from the club members' fees.

The Company assumes in reinsurance the following types of marine insurance agreements:

- marine (river) CASCO - the insurance of ship's hull and equipment. The main risks covered include:
 - collision of ships;
 - damage of freight due to bad weather conditions;
 - running aground;
 - fire, explosion, lightning stroke;
 - general accident;
 - other risks
- freight insurance. Freight gross value is insured, including ship owner's profit and costs of insurance.

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Ship owner's third party liability insurance is usually maintained through insurance clubs on these clubs' conditions.

Since 2007 The Company has been reinsuring marine risks, including risks of Closed Joint Stock Company "Belarusian Potash Company" and since 2011 - OJSC "Belarusian Potash Company". Reinsurance of marine risks in mentioned above amounts is possible when there is an extensive reinsurance system, involving reinsurance capacity of the worldwide insurance market. This is impossible without retrocession contracts with worldwide insurance brokers. Ceding of risks is performed on the facultative quota share basis. Ceding broker on the foreign markets is Filhet Allard Maritime (France), Willis Ltd. (UK).

The Company assumes for reinsurance three main options:

- all risks;
- including responsibility for particular accident;
- excluding responsibility for particular accident.

Accident reinsurance

Accident insurance provides a benefit in the event damage to health or death of the insured, it also allows to compensate costs of treatment and losses due to disablement.

The Company offers reinsurance cover on the following types of risk:

- accident and disease insurance during the trip abroad;
- accident insurance at the expense of legal entities;
- accident insurance of individuals, etc.

In order to minimize the risks connected with assuming the above mentioned risks in reinsurance the Company thoroughly appraises them, analyzes the historical information on losses, the information about the object of insurance, the existence of cumulation on risk, other available data related to the level of risk's estimation.

It is worth mentioning that the Company strictly limits the reinsurance of risks connected with accident and disease insurance during a trip abroad due to a high possibility of cumulation of these risks.

Medical expenses reinsurance

Since 2016 the Company carries out risk reinsurance under voluntary medical insurance contracts. Voluntary insurance of medical expenses is based on the insurance contract concluded between the insured and the insurance organization, according to which, in exchange for the insurance premium paid by the insured, the insurance organization assumes the obligations of organization and payment for rendering medical services to the insured person in accordance with the conditions of the medical insurance program prescribed in the insurance contract and made according to the preferences of the insured.

Risks under voluntary medical expenses insurance contracts accepted for reinsurance from the following insurance organizations of the Republic of Belarus: BRUCEII "Beleximgarant" and BRUSP "Belgosstrakh".

e) Insurance risk concentration

Within the assumed reinsurance process, concentrations of risk may arise where a particular event or series of events could affect heavily the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Company's management is aware that there is an insurance concentration risk. Insurance risk concentration may occur as a result of different coincidences and regularities. Most often risk

Notes to the financial statements

concentration is observed in a specific type of insurance in which private persons are insured; e.g. with personal accident insurance this occurs when a Company of persons suffers from a personal accident and all of these persons have been insured in the Company. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an economic and geographic area in total, for which several risks are assumed in reinsurance by the Company. When assuming in reinsurance such risks, an obligatory precondition is the assessment of the company's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. The Company develops an action plan to be used in case of occurrence of the insured event. When evaluating financial risks, the tendencies of economic growth and the risks that might affect this area are studied.

The Company's key methods in managing these risks are two-fold. Firstly, the underwriting department monitors losses on reinsurance portfolio on the lines of activities. Secondly, the risk is managed through the use of retrocession. The Company purchases retrocessional coverage for various classes of its liabilities and business.

The Company assesses the costs and benefits associated with the reinsurance program on an ongoing basis. In addition, the Company uses the diversification between different types of reinsurance.

f) Catastrophes

The Company's management is aware that catastrophe risks are possible. The Company assumes risks from different geographical areas and these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but they may occur.

In order to minimize the impact of catastrophe risk on the Company, retrocession is used. In addition, facultative reinsurance (retrocession) is purchased for large risks.

g) Insurance risk management

In order to restrict insurance risk, the Company has developed different control and management mechanisms. The Company has the Insurance Committee which has responsibility for monitoring the risks underwritten by the Company and the retrocessional coverage of the Company. Key performance indicators that are important to the achievement of financial objectives are identified and monitored to identify any unusual or unexpected trends or relationships.

In order to minimize insurance risks, the Company has developed and uses the quality management system, which describes all processes and reserves that are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed.

Many claims and subsequent recoveries take several years to materialize. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk, employing a substantial degree of experience and judgment. The level of such provisions has been set on the basis of information which is currently available. Whilst the Company considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability may vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed at least annually and, if adjustments prove necessary, they will be reflected in future financial statements.

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h) Sensitivity analysis for insurance liabilities

The process used to undertake sensitivity analysis on the assumptions used is intended to assess the likely scenarios of changes in estimates. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and prudent assumptions are used, where in prior years there is insufficient information to make a reliable best estimate of claims development.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying reinsurance contracts, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the creation of the IBNR reserve and URR reserve. However, considering the current market situation, the Company believes that inflation and currency exchange rate fluctuations are most variable assumption.

The table below presents the change in RBNS as at 31 December 2016 in the case if the annual inflation is 10 percent or deflation is 10 percent.

In thousands BYN

Currency	RBNS as at 31 December 2016	RBNS if annual inflation is 10%	RBNS if annual deflation is 10%
BYN	2 035	2 035	2 035
USD	7 694	8 463	6 925
EUR	7 390	8 129	6 651
RUB	16 082	17 690	14 474
	33 201	36 317	30 085

In thousands BYN

	31 December 2016	
	USD/BYN 10%	USD/BYN -10%
Effect on profit before income tax	(769)	769
Effect on equity	(577)	577

	31 December 2016	
	EUR/BYN 10%	EUR/BYN -10%
Effect on profit before income tax	(739)	739
Effect on equity	(554)	554

	31 December 2016	
	RUB/BYN 10%	RUB/BYN -10%
Effect on profit before income tax	(1 608)	1 608
Effect on equity	(1 206)	1 206

Notes to the financial statements

i) Claims development

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim table discloses a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such adjustments made in the prior years may be included as part of the adjustments made during the last year.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of technical reserves as at 31 December 2016 as adequate.

Financial statements for the year ended 31 December 2010 were the Company's first financial statements prepared in accordance with IFRSs and the following table represents claim development analysis for the seven-year period IFRSs have been applied to.

Claim development analysis as at 31 December 2016, thousand BYN

	Year of insurance event occurrence								
	2009	2010	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims at end of accident year	7 997	5 219	5 051	5 715	11 084	34 163	14 654	30 253	30 253
- one year later (2010)	7 243	4 928	5 561	2 905	7 949	8 911	16 368	-	16 368
- two years later (2011)	7 239	5 382	7 270	2 701	13 710	9 422	-	-	9 422
- three years later (2012)	7 133	4 601	7 526	4 310	9 924	-	-	-	9 924
- four years later (2013)	7 698	4 264	8 523	3 311	-	-	-	-	3 311
- five years later (2014)	7 790	4 206	8 196	-	-	-	-	-	8 196
- six years later (2015)	7 893	4 200	-	-	-	-	-	-	4 200
- seven years later (2016)	7 873	-	-	-	-	-	-	-	7 873
Cumulative payments to date	7 873	4 199	8 135	3 229	6 763	4 088	6 736	7 209	48 232
Outstanding claims technical reserves at 31 December 2016	-	1	61	82	3 161	5 334	9 632	23 044	41 315

Claim development analysis as at 31 December 2015, thousand BYN

	Year of insurance event occurrence								
	2009	2010	2011	2012	2013	2014	2015		Total
Estimate of cumulative claims at end of accident year	7 996	5 219	5 051	5 715	11 083	34 163	14 653		14 653
- one year later (2010)	7 242	4 929	5 561	2 904	7 949	8 910	-		8 910
- two years later (2011)	7 238	5 383	7 269	2 701	13 709	-	-		13 709

Notes to the financial statements

- three years later (2012)	7 131	4 600	7 526	4 309	-	-	-	4 309
- four years later (2013)	7 696	4 264	8 523	-	-	-	-	8 523
- five years later (2014)	7 789	4 207	-	-	-	-	-	4 207
- six years later (2015)	7 892	-	-	-	-	-	-	7 892
Cumulative payments to date	7 872	4 200	5 554	2 407	4 883	3 561	1 986	30 463
Outstanding claims technical reserves at 31 December 2015	<u>20</u>	<u>7</u>	<u>2 969</u>	<u>1 902</u>	<u>8 826</u>	<u>5 349</u>	<u>12 667</u>	<u>31 740</u>

j) Financial risks and risk management

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below there is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business.

The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, are exposed to financial risk as follows:

- *Market risk*: changes to the market situation may adversely affect the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, equity price risk and currency risk;
- *Credit risk*: failure to fulfill contractual obligations may cause financial losses to the Company,
- *Liquidity risk*: under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

Market risk

Market risk arises from open positions in interest rate, currency and prices for equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The objective of market risk management is to manage and control market risk exposures of the Company within acceptable parameters (set out and regularly reviewed by the management of the Company), while optimizing the income.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Company's income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

The following interest rate repricing analysis tables presents the Company's financial assets and liabilities analysis according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing:

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Analysis of financial assets and liabilities subject to rate repricing as at 31 December 2016

In thousands BYN

	<u>Interest rate</u>	<u>Non- interest bearing</u>	<u>Fixed interest rate</u>	<u>Floating interest rate</u>	<u>Total</u>
Financial assets					
Financial assets available-for sale		65 823	-	-	65 823
Financial assets held to maturity in FCC	4,5%	2 045	-	-	2 045
Financial assets held to maturity in BYN	37.4%	-	29 031	-	29 031
Deposits with banks	2.0%-13.8%	4 027	70 379	12 346	86 752
Receivables from reinsurance activities		22 864	-	-	22 864
Receivables from retrocession activities		1 279	-	-	1 279
Cash and cash equivalents	0.01%-6.0%	680	150	-	830
Part of other receivables		225	-	-	225
Retrocessionaires' share in unearned premium technical reserve		30 846	-	-	30 846
Retrocessionaires' share in outstanding claim technical reserve		6 214	-	-	6 214
Total financial assets		131 958	101 605	12 346	245 909
Financial liabilities					
Payables from reinsurance activities		(1 949)	-	-	(1 949)
Payables from retrocession activities		(6 957)	-	-	(6 957)
Part of other payables		(107)	-	-	(107)
Unearned premiums and unexpired risks technical reserves		(60 454)	-	-	(60 454)
Outstanding claim technical reserves		(41 315)	-	-	(41 315)
Total financial liabilities		(110 782)	-	-	(110 782)

Notes to the financial statements

Analysis of financial assets and liabilities subject to rate repricing as at 31 December 2015 (restated)

<i>In thousands BYN</i>	Interest rate	Non- interest bearing	Fixed interest rate	Floating interest rate	Total
Financial assets					
Financial assets available-for sale	25%	65 823	2 500	-	68 323
Financial assets held to maturity	37.4%	-	21 113	-	21 113
Deposits with banks	5.5%-27.0%	6 903	39 059	10 431	56 393
Receivables from reinsurance activities		18 221	-	-	18 221
Receivables from retrocession activities		1 331	-	-	1 331
Cash and cash equivalents	0.01%-6.0%	8	13 269	631	13 908
Part of other receivables		55	-	-	55
Retrocessionaires' share in unearned premium technical reserve		26 562	-	-	26 562
Retrocessionaires' share in outstanding claim technical reserve		10 732	-	-	10 732
Total financial assets		129 635	75 941	11 062	216 638
Financial liabilities					
Payables from reinsurance activities		(1 575)	-	-	(1 575)
Payables from retrocession activities		(7 732)	-	-	(7 732)
Part of other payables		(19)	-	-	(19)
Unearned premiums and unexpired risks technical reserves		(50 340)	-	-	(50 340)
Outstanding claim technical reserves		(31 740)	-	-	(31 740)
Total financial liabilities		(91 406)	-	-	(91 406)

Notes to the financial statements

The Company is subject to interest risk mainly on deposits with banks and investments held to maturity nominated in Belarusian rubles at floating interest depending on the interest rate stated by the National Bank of the Republic of Belarus. Interest rates for assets are mostly fixed and the Company does not have interest bearing liabilities as at 31 December 2016 and as at 31 December 2015.

The table below represents impact on income and equity of change in floating interest rates as at the reporting date with assumption that all other terms are unchangeable:

<i>In thousands BYN</i>	31 December 2016		31 December 2015 (restated)	
	Interest rate	Interest rate	Interest rate	Interest rate
	5%	-5%	5%	-5%
Effect on profit before income tax	617	(617)	553	(553)
Effect on equity	463	(463)	415	(415)

Currency risk

The Company has assets and liabilities denominated in several foreign currencies. Currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

According to the approved policy of the Company insurance premium currency matches the currency of the undertaken reinsurance obligations.

An analysis of the sensitivity of the Company's net income for the year and its equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2016 and 31 December 2015 and a simplified scenario of a change in EUR, USD and RUB to BYN exchange rates is as follows (in thousands BYN):

<i>In thousands BYN</i>	31 December 2016		31 December 2015 (restated)	
	USD/BYN	USD/BYN	USD/BYN	USD/BYN
	10%	-10%	20%	-5%
Effect on profit before income tax	2 700	(2 700)	4 687	(1 172)
Effect on equity	2 025	(2 025)	3 516	(879)

	31 December 2016		31 December 2015 (restated)	
	EUR/BYN	EUR/BYN	EUR/BYN	EUR/BYN
	10%	-10%	20%	-5%
Effect on profit before income tax	2 174	(2 174)	4 666	(1 167)
Effect on equity	1 631	(1 631)	3 500	(875)

	31 December 2016		31 December 2015 (restated)	
	RUB/BYN	RUB/BYN	RUB/BYN	RUB/BYN
	10%	-10%	20%	-5%
Effect on profit before income tax	(830)	830	(501)	125
Effect on equity	(622)	622	(376)	94

The following table provides the analysis of the Company's financial assets and liabilities by currency profile:

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Company's financial assets and liabilities currency profile as at 31 December 2016

In thousands BYN

	<u>BYN</u>	<u>USD</u>	<u>EUR</u>	<u>RUB</u>	<u>Other</u>	<u>Total</u>
Financial assets						
Financial assets available-for-sale	65 823	-	-	-	-	65 823
Financial assets held to maturity	29 031	-	2 045	-	-	31 076
Deposits with banks	1 347	44 381	30 025	10 999	-	86 752
Receivables from reinsurance activities	2 073	10 604	4 572	4 601	1 014	22 864
Receivables from retrocession activities	62	744	332	141	-	1 279
Cash and cash equivalents	190	171	227	242	-	830
Part of other receivables	52		100		73	225
Retrocessionaires' share in unearned premium technical reserve	1 696	24 299	2 146	2 705	-	30 846
Retrocessionaires' share in outstanding claim technical reserve	920	1 293	2 203	1 798	-	6 214
Total financial assets	101 194	81 492	41 650	20 486	1 087	245 909
Financial liabilities						
Payables from reinsurance activities	(256)	(1 051)	(396)	(174)	(72)	(1 949)
Payables from retrocession activities	(386)	(3 545)	(506)	(2 520)	-	(6 957)
Part of other payables	(107)	-	-	-	-	(107)
Unearned premiums and unexpired risks technical reserves	(4 245)	(40 323)	(9 810)	(6 076)	-	(60 454)
Outstanding claim technical reserves	(2 532)	(9 575)	(9 196)	(20 012)	-	(41 315)
Total financial liabilities	(7 526)	(54 494)	(19 908)	(28 782)	(72)	(110 782)
Open currency position	93 668	26 998	21 742	(8 296)	1 015	135 127

Notes to the financial statements

Company's financial assets and liabilities currency profile as at 31 December 2015 (restated)

<i>In thousands BYN</i>	BYN	USD	EUR	RUB	Other	Total
Financial assets						
Financial assets available-for-sale	66 297	-	2 026	-	-	68 323
Financial assets held to maturity	21 113	-	-	-	-	21 113
Deposits with banks	758	25 038	25 268	5 329	-	56 393
Receivables from reinsurance activities	1 884	9 476	4 204	2 281	376	18 221
Receivables from retrocession activities	54	940	142	195	-	1 331
Cash and cash equivalents	27	12 262	1 519	100	-	13 908
Part of other receivables	53	-	2	-	-	55
Retrocessionaires' share in unearned premium technical reserve	1 498	22 948	516	1600	-	26 562
Retrocessionaires' share in outstanding claim technical reserve	527	6 456	3 315	434	-	10 732
Total financial assets	92 211	77 120	36 992	9 939	376	216 638
Financial liabilities						
Payables from reinsurance activities	(261)	(848)	(297)	(145)	(24)	(1 575)
Payables from retrocession activities	(394)	(5 166)	(371)	(1 799)	(2)	(7 732)
Part of other payables	(3)	(1)	(15)	-	-	(19)
Unearned premiums and unexpired risks technical reserves	(4 152)	(37 142)	(4 995)	(4 051)	-	(50 340)
Outstanding claim technical reserves	(6 781)	(10 526)	(7 984)	(6 449)	-	(31 740)
Financial liabilities	(11 591)	(53 683)	(13 662)	(12 444)	(26)	(91 406)
Open currency position	80 620	23 437	23 330	(2 505)	350	125 232

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

The Company's investment portfolio is not sensitive to financial instruments market price risk as at 31 December 2016 and 31 December 2015, as there are no financial instruments with quoted market price in the investment portfolio.

Credit risk

Credit risk is the risk incurred by failure of contractual parties to meet their liabilities or changes in credit worthiness of the contractual parties.

Carrying amounts versus estimated fair values

The carrying amounts of financial assets do not differ significantly from their estimated fair values.

Maximum credit risk

Exposure to maximum credit risk is managed through the regular analysis of the ability of to meet interest and capital repayment obligations and by changing these exposures where appropriate.

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In thousands BYN

	31 December 2016		31 December 2015 (restated)	
	Gross	Net	Gross	Net
Maximum credit risk				
Financial assets available-for-sale	65 823	65 823	68 323	68 323
Financial assets held to maturity	31 076	31 076	21 113	21 113
Deposits with banks	86 752	86 752	56 393	56 393
Receivables from reinsurance activities	22 864	22 864	18 221	18 221
Receivables from retrocession activities	1 279	1 279	1 331	1 331
Cash and cash equivalents	830	830	13 908	13 908
Part of other receivables	225	225	55	55
Retrocessionaires' share in unearned premium technical reserve	30 846	30 846	26 562	26 562
Retrocessionaires' share in outstanding claim technical reserve	6 214	6 214	10 732	10 732
Total	245 909	245 909	216 638	216 638

Investment analysis by ratings as at 31 December 2016, in thousands BYN:

Fitch rating	Deposits with banks	Financial assets available-for-sale	Financial assets held to maturity	Total
B-	31 792	-	29 031	60 823
Not rated	54 960	65 823	2 045	122 828
	86 752	65 823	31 076	183 651

Receivables from reinsurance activities

Reinsurance amounts receivable are monitored by management on a periodic basis and contracts are cancelled if appropriate notification has been provided to the insured and the amounts due are not paid.

Retrocessions

The Company cedes retrocession in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets and liabilities, income and expenses arising from ceded retrocession contracts are presented separately from the related assets, liabilities, income and expenses from the related reinsurance contracts because the retrocession arrangements do not relieve the Company from its direct obligations to its reinsured.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as retrocessional assets. Rights under contracts that do not transfer significant insurance risk are accounted as for financial instruments.

Retrocessional premiums for ceded retrocession are recognized as expenses on a basis that is consistent with the recognition basis for the premiums on the related assumed reinsurance contracts. For general insurance business, retrocessional premiums are recognized as expenses over the period that the retrocessional coverage is provided to the Company based on the expected pattern of the reinsured risks. The unearned portion of ceded retrocessional premiums is included in retrocessional assets.

The net amounts paid to a retrocessionaire at the inception of a contract may be less than the reinsurance assets recognized by the Company in respect of its rights under such contracts.

Notes to the financial statements

Retrocessional assets include recoveries due from retrocessionaires in respect of claims paid. These are classified as receivables and are included within reinsurance and other receivables in the statement of financial position.

Retrocessional assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the retrocessionaire.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys both facultative and obligatory proportional and non- proportional retrocession.

Retrocession contains credit risk, and such retrocessional recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of retrocessionaires on an ongoing basis and reviews its retrocessional arrangements periodically.

During 2016 and 2015, there have been no cases where a retrocessionaire had not met its liabilities to the Company.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Company manages its asset and liability structure in order to meet its obligations as and when they fall due. The potential liquidity risk is limited by investing a certain amount of funds in short term deposits and other funds with a high degree of liquidity.

The tables below show the allocation of the Company's financial assets and liabilities to maturity groups based on the time remaining from the reporting date to the contractual maturity dates as at 31 December 2016 and 31 December 2015:

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Maturity dates of the Company's financial assets and liabilities as at 31 December 2016

In thousands BYN

	Up to 12 months	From 1 to 5 years	More than 5 years	No fixed term	Total
Financial assets					
Financial assets available-for-sale	-	-	-	65 823	65 823
Financial assets held to maturity	-	31 076	-	-	31 076
Deposits with banks	86 752	-	-	-	86 752
Receivables from reinsurance activities	17 012	5 325	527	-	22 864
Receivables from retrocession activities	1 211	68	-	-	1 279
Cash and cash equivalents	830	-	-	-	830
Part of other receivables	225	-	-	-	225
Retrocessionaires' share in unearned premium technical reserve	8 683	20 117	2 046	-	30 846
Retrocessionaires' share in outstanding claim technical reserve	6 214	-	-	-	6 214
Total financial assets	120 927	56 586	2 573	65 823	245 909
 Payables from reinsurance activities	 (1 562)	 (354)	 (33)	 -	 (1 949)
Payables from retrocession activities	(6 227)	(727)	(3)	-	(6 957)
Part of other payables	(107)	-	-	-	(107)
Unearned premiums and unexpired risks technical reserves	(21 502)	(34 826)	(4 126)	-	(60 454)
Outstanding claim technical reserves	(41 315)	-	-	-	(41 315)
	<u>(70 713)</u>	<u>(35 907)</u>	<u>(4 162)</u>	<u>-</u>	<u>(110 782)</u>
Financial liabilities					
 Financial assets and liabilities maturities gap	 50 214	 20 679	 (1 589)	 65 823	 135 127

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Maturity dates of the Company's financial assets and liabilities as at 31 December 2015 (restated)

In thousands BYN

	Up to 12 months	From 1 to 5 years	More than 5 years	No fixed term	Total
Financial assets					
Financial assets available-for-sale	2 500	-	-	65 823	68 323
Financial assets held to maturity	-	21 113	-	-	21 113
Deposits with banks	29 110	27 283	-	-	56 393
Receivables from reinsurance activities	12 302	5 705	214	-	18 221
Receivables from retrocession activities	1 287	44	-	-	1 331
Cash and cash equivalents	13 908	-	-	-	13 908
Part of other receivables	55	-	-	-	55
Retrocessionaires' share in unearned premium technical reserve	8 814	14 660	3 088	-	26 562
Retrocessionaires' share in outstanding claim technical reserve	10 732	-	-	-	10 732
Total financial assets	78 708	68 805	3 302	65 823	216 638
Payables from reinsurance activities	(1 121)	(430)	(24)	-	(1 575)
Payables from retrocession activities	(7 265)	(465)	(2)	-	(7 732)
Part of other payables	(19)	-	-	-	(19)
Unearned premiums and unexpired risks technical reserves	(20 995)	(25 672)	(3 673)	-	(50 340)
Outstanding claim technical reserves	(31 740)	-	-	-	(31 740)
Financial liabilities	(61 140)	(26 567)	(3 699)	-	(91 406)
Financial assets and liabilities maturities gap	17 568	42 238	(397)	65 823	125 232

Liquidity risk management specific to insurance and reinsurance companies is connected with the monitoring of insurance liabilities.

Operating risks and risk management

Operational risks arise from deficiencies and errors in processes which may occur due to staff error or under the influence of external factors. These risks are managed by internal control, internal processes and procedures and monitoring of performance.

(34) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments measured in accordance with IFRS (IFRS) 7 "Financial Instruments: Disclosures" is presented in the table below. 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 estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

Net asset value and fair value of financial assets and liabilities and levels of the fair value hierarchy is presented below:

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As at 31 December 2016

	Net asset value							Fair value
	Assets available- for-sale	Assets held to maturity	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets available for sale	65 823	-	-	-	-	-	65 823	65 823
Financial assets held to maturity	-	31 076	-	-	-	2 045	54 572	56 617
Deposits with banks	-	-	86 752	-	-	-	-	-
Receivables from reinsurance activities	-	-	22 864	-	-	-	-	-
Receivables from retrocession activities	-	-	1 279	-	-	-	-	-
Part of other receivables	-	-	225	-	-	-	-	-
Cash and cash equivalents	-	-	830	-	-	-	-	-
							120	
	65 823	31 076	111 950	-	-	2 045	395	122 440
Financial liabilities								
Payables from reinsurance activities	-	-	-	(1 949)	-	-	-	-
Payables from retrocession activities	-	-	-	(6 957)	-	-	-	-
Part of other payables	-	-	-	(107)	-	-	-	-
	-	-	-	(9 013)	-	-	-	-

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As at 31 December 2015 (restated)

	Net asset value							Fair value
	Assets available- for-sale	Assets held to maturity	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets								
Financial assets available for sale	68 323	-	-	-	-	2 500	65 823	68 323
Financial assets held to maturity	-	21 113	-	-	-	-	28 581	28 581
Deposits with banks	-	-	56 393	-	-	-	-	-
Receivables from reinsurance activities	-	-	18 221	-	-	-	-	-
Receivables from retrocession activities	-	-	1 331	-	-	-	-	-
Part of other receivables	-	-	55	-	-	-	-	-
Cash and cash equivalents	-	-	13 908	-	-	-	-	-
	68 323	21 113	89 908	-	-	2 500	94 404	96 904
Financial liabilities								
Payables from reinsurance activities	-	-	-	(1 575)	-	-	-	-
Payables from retrocession activities	-	-	-	(7 732)	-	-	-	-
Part of other payables	-	-	-	(19)	-	-	-	-
	-	-	-	(9 326)	-	-	-	-

During the year ended 31 December 2016 and the year ended 31 December 2015 the Company did not change the levels of the fair value hierarchy.

The company did not disclose information on the fair value of cash and cash equivalents, deposits with banks, payables and receivables, as their net assets value is approximately equal to their fair value.

(35) UNCERTAINTIES

Economy of the Republic of Belarus

The economy of the Republic of Belarus has recently been characterized by high rates of inflation, significant changes in foreign currency exchange rates, a relatively high level of taxation and a high degree of State regulation. Business legislation of the Republic of Belarus constantly changes. Future economic development to a large extent depends on the effectiveness of measures taken by the Belarusian government and is outside the control of the Company. The recoverability of the Company's assets, its ability to maintain or pay debts as they mature and future activities of the Company depend on the future direction and results of the economic policy of the government of the Republic of Belarus. Management of the Company has made its best estimates of recoverability and classification assets and liabilities. However, uncertainty stated above may remain and have significant influence on the operations of the Company

Legislation

Certain provisions of Belarusian business and tax legislation in particular may contain different treatments and may be applied inconsistently by different state institutions. In addition,

Notes to the financial statements

interpretations made by Management may be different from official interpretations and compliance established by law may be challenged by the authorities. As a result, the Company may be subject to additional tax payments and fines and other preventive actions.

Management of the Company considers that it has made the required tax and other payments. The previous financial years remain open for consideration by the authorities.

(36) SUBSEQUENT EVENTS

During the period from 31 December 2016 to the reporting date, the refinancing rate of the National Bank of the Republic of Belarus decreased from 18% to 15%.

According to the Letter of the Ministry of the Republic of Belarus # 13-1-19 dd. March 13, 2017, the Company is required to transfer to state specialized budgetary fund of national development part of its income for 2016 in the amount of BYN 3 million.