OJSC "Paritetbank"

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2016

PKF
Accountants & business advisers

Our ref № 05-01/34 of March 21, 2017

Independent Auditors' Report

To: the shareholders of Open joint-stock company «Paritetbank»

Our opinion

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing («ISAs» thereafter). Our responsibilities under those standards are further described in the section «Auditor's responsibilities for the audit of the financial statements» of this auditor's report.

We are independent of the OJSC «Paritetbank» in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants («IESBA Code») and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

РЕСПУБЛИКА БЕЛАРУСЬ * ОБЩЕСТВО С ОГРАНИЧЕННОЙ ОТВЕТСТВЕННОСТЬЮ * «ФБК-Бел» * г. МИНСК

Director FBK-Bel — A.G. Reneisky

Auditor in-charge — R.V. Kirslite

Auditors' opinion received on March 21, 2017.

Audited entity

Open joint-stock company «Paritetbank» (OJSC «Paritetbank»);

61a Kiseleva Street, Minsk, 220002, Republic of Belarus;

Information on state registration: registered by the National Bank in the Unified State Register of Legal Entities and Individual Entrepreneurs under registration number 100233809;

Taxpayer's identification number: 100233809.

Independent auditor

FBK-Bel Limited Liability Company (FBK-Bel LLC);

office 201, 22A Logoisky highway, Minsk, 220090, Republic of Belarus;

Information on state registration: registered by the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs on 06 February 2009 under registration number 690398039;

Taxpayer's identification number: 690398039.

Translation from original in Russian language

OJSC "PARITETBANK"

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian rubles)

	Notes	31 December 2016	31 December 2015
ASSETS:			
Cash and cash equivalents	7	28 097	30 467
Amounts due from credit institutions	8	4 451	15 421
Derivative financial instruments	9	19	34 520
Loans to customers	10	189 996	114 066
Securities available-for-sale	11	100 999	33 875
Long-term assets held for sale	12	620	874
Property and equipment	13	28 538	28 547
Intangible assets	14	816	437
Deferred income tax assets	15	-	1 125
Other assets	16	9 474	5 611
TOTAL ASSETS		**363 010**	**264 943**
LIABILITIES AND EQUITY			
LIABILITIES:			
Amounts due to credit institutions	17	70 631	9 447
Amounts due to customers	18	187 428	164 320
Debt securities issued	19	2 113	5 192
Deferred income tax assets		718	-
Other liabilities	16	785	632
TOTAL LIABILITIES		**261 675**	**179 591**
EQUITY:			
Share capital	20	153 754	153 754
Treasury shares		(136)	(136)
Revaluation reserve for investment securities available for sale		(30)	50
Accumulated loss		(52 253)	(68 316)
TOTAL EQUITY		**101 335**	**85 352**
TOTAL LIABILITIES AND EQUITY		**363 010**	**264 943**

Notes on pages 11 to 60 are an integral part of these financial statements.

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

Acting Chairman of the Management Board
D.A. Pankevich
21 March 2017
Minsk

Chief Accountant
I.B. Safronova
21 March 2017
Minsk

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OJSC "PARITETBANK"

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Belarusian rubles)

	Notes	2016	2015
INTEREST INCOME			
Loans to customers		32 469	22 119
Amounts due from credit institutions		2 938	4 591
Securities held-to-maturity		-	143
Securities available-for-sale		8 592	9 313
INTEREST EXPENSE			
Amounts due to customers		(10 804)	(11 862)
Amounts due to credit institutions		(3 363)	(4 975)
Debt securities issued		(937)	(2 285)
NET INTEREST INCOME		28 895	17 044
Loss of initial recognition of financial assets and liabilities		-	(623)
Allowance for loans impairment	10	(4 732)	(13 874)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOANS IMPAIRMENT		24 163	2 547
Net fee and commission income	22	2 643	2 169
Net gains from securities available-for-sale		87	467
Net gains/(losses) from foreign currency transactions:			
- dealing		1 927	5 410
- transaction differences		(201)	(15 064)
Net gains from derivative financial instruments transactions		3 473	17 433
Other income	23	2 248	3 017
NON-INTEREST INCOME		10 177	13 432
Personnel expenses	24	(8 476)	(7 185)
Depreciation and amortization	13, 14	(1 258)	(1 031)
Other operating expenses	24	(7 790)	(6 391)
Other (expenses)/reversal of impairment and provisions	16, 12	2 016	(2 090)
NON-INTEREST EXPENSE		(15 508)	(16 697)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		18 832	(718)
Income tax credit/(charge)	15	(1 843)	735
PROFIT FOR THE YEAR		16 989	17

Notes on pages 11 to 60 are an integral part of these financial statements.

Acting Chairman of the Management Board
D.A. Pankevich
21 March 2017
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

Chief Accountant
I.B. Safronova
21 March 2017
Minsk

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OJSC "PARITETBANK"

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

	Notes	2016	2015
PROFIT FOR THE YEAR		16 989	17
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of securities available-for-sale		(80)	50
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16 909	67

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Acting Chairman of the Management Board
D.A. Pankevich
21 March 2017
Minsk

«ПАРИТЕТБАНК»

Chief Accountant
I.B. Safronova
21 March 2017
Minsk

OJSC "PARITETBANK"

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

	Notes	Share capital	Treasury shares	Accumulated loss	Revaluation reserve for investment securities available for sale	Total equity
31 December 2014		**120 492**	**(136)**	**(68 168)**	**-**	**52 188**
Comprehensive income						
Profit for the year		-	-	17	-	**17**
Other comprehensive income for the year		-	-	-	50	**50**
Total comprehensive income for the year		-	-	17	50	**67**
Transactions with shareholders						
Increase in share capital		33 262	-	-	-	**33 262**
Dividends declared	20	-	-	(165)	-	**(165)**
31 December 2015		**153 754**	**(136)**	**(68 316)**	**50**	**85 352**
Comprehensive income						
Profit for the year		-	-	16 989	-	**16 989**
Other comprehensive income for the year		-	-	-	(80)	**(80)**
Total comprehensive income for the year		-	-	16 989	(80)	**16 909**
Transactions with shareholders						
Dividends declared	20	-	-	(926)	-	**(926)**
31 December 2016		**153 754**	**(136)**	**(52 253)**	**(30)**	**101 335**

Notes on pages 11 to 60 are an integral part of these financial statements.

Acting Chairman of the Management Board
D.A. Pankevich
21 March 2017
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

Chief Accountant
I.B. Safronova
21 March 2017
Minsk

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OJSC "PARITETBANK"

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

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit/(loss) before income tax expense	15	18 834	(718)
Adjustments for:			
Depreciation and amortisation	13,14	1 258	1 031
Allowance for loans impairment	10	4 732	13 874
Charge/(reversal) of allowance for impairment of other assets	16, 12	(2 016)	2 090
(Profit)/loss on disposal of property and equipment and intangible assets		28	(2)
Net change in interest accruals		9 337	3 027
Gain on revaluation of derivative financial instruments	26	(19)	(17 433)
Unused vacation and bonus accrual		216	108
Loss from translation differences		201	15 064
(Profit)/loss on write-off of material assets		(133)	(418)
Repossessed assets under the loan agreements		-	(1 052)
Effect from initial recognition of financial assets and accounting of loans using amortised cost		(301)	397
Cash flows from operating activities before changes in operating assets and liabilities		**32 137**	**15 968**
Net decrease/(increase) in operating assets and liabilities:			
Amounts due from credit institutions		11 147	8 256
Loans to customers		(90 312)	(40 200)
Derivative financial instruments		38 978	(7 507)
Other assets		1 270	(2 876)
Amounts due to credit institutions		64 175	(22 398)
Amounts due to customers		16 454	31 282
Other liabilities		(28)	(12 260)
Net cash (outflow)/inflows from operating activities before income tax		**41 684**	**(45 703)**
Income tax paid		-	-
Net cash (outflow)/inflow from operating activities		**73 821**	**(29 735)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets		(1 656)	(1 023)
Acquisition of securities available-for-sale		(100 763)	(16 018)
Proceeds from sale of property and equipment and intangible assets		-	4
Proceeds from redemption of securities available for sale		32 532	40 142
Proceeds from redemption of securities held-to-maturity		-	1 320
Prepayment for shares		(2 162)	(1 857)
Net cash inflow/(outflow) from investing activities		**(72 049)**	**22 568**

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OJSC "PARITETBANK"

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

	Notes	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Outflow) from redemption (issue) of debt securities		(3 097)	(1 067)
Contribution in share capital		-	14 968
Dividends paid	20	(926)	(165)
Net cash inflow from financing activities		(4 023)	13 736
NET INCREASE /(DECREASE)/ IN CASH AND CASH EQUIVALENTS		(2 251)	6 569
Effect of exchange rates changes on cash and cash equivalents		(119)	3 900
Net increase/(decrease) in cash and cash equivalents		(2 370)	10 469
Cash and cash equivalents as at the beginning of the reporting year		30 467	19 998
Cash and cash equivalents as at the end of reporting the year		28 097	30 467

Notes on pages 11 to 60 are an integral part of these financial statements.

Acting Chairman of the Management Board
D.A. Pankevich
21 March 2017
Minsk

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I.B. Safronova
21 March 2017
Minsk

1. ORGANIZATION

Commercial Bank "Poisk" (hereinafter - the "Bank") was registered by the National Bank of the Republic of Belarus (hereinafter – "NB RB") under No. 5 on 15 May 1991. In 1992 the Bank was reorganized as SCB "Poisk" (Meeting of shareholders dated 12 March 1992, Minutes No. 1) and registered in NB RB on 2 July 1992 under No. 5. Since 1999 the Republic of Belarus has been the principal shareholder of the Bank. On 21 November 2000 NB RB registered amendments and additions to the Statute of SCB "Poisk", approved by the meeting of the Bank's shareholders on 21 September 2000 (Minutes No. 2) and related to the change in the name to the OJSC "Bank "Poisk". On 26 March 2004 the General Meeting of Shareholders of OJSC "Bank "Poisk" (Minutes No. 2) decided to rename OJSC "Bank "Poisk" to OJSC "Paritetbank". The changes were registered by the NB RB on 5 May 2004 under No. 5.

The Bank was granted banking license No. 5 dated 27 October 2014 for the following banking operations:

- attracting monetary means of legal and natural persons in accounts and deposits;
- placement of attracted monetary means in the own name and at the own costs on the conditions of repayment, interest payment, and maturity;
- opening and operating accounts of natural and legal persons;
- settlement and/or cash services to natural and legal persons, including correspondent banks;
- currency exchange transactions;
- sale of precious metals and in the cases stipulated by the National Bank;
- issuing bank guarantees;
- trust management of monetary means under a contract of trust management of monetary means;
- issuance (emission) of bank payment cards;
- issuance (emission) of electronic money;
- issuance of securities confirming acceptance of monetary means in deposits and placement thereof in the accounts;
- financing against monetary claim assignment (factoring);

(in thousands of Belarusian rubles)

- providing natural and legal persons with special premises or strongboxes located therein for bank safekeeping of documents and valuables (monetary means, securities, precious metals and precious stones, etc.);

- carriage of cash monetary means, payment instructions, precious metals and precious stones and other valuables between banks and non-bank credit and financial organizations, their separate and structural divisions, and delivery of such valuables to customers of banks and non-bank credit and financial organizations.

The Bank also holds a license for securities and stock exchange operations.

The Bank has 18 structural divisions in the Republic of Belarus and a head office located in Minsk and having its registered address at 61a Kiseleva Street, 220002 Minsk, Republic of Belarus.

As of 31 December 2016 and 2014, the Bank's share capital was distributed among its shareholders as follows:

Shareholder	31 December 2016	31 December 2015
Administration of the President of the Republic of Belarus	99.83%	54.75%
The National Bank of the Republic of Belarus	-	44.92%
Other (legal and natural person)	0.17%	0.33%

Information on investments in associates of the Bank is presented below:

Name	Country of operation	Share 2016	Share 2015	Type of activity
LLC "Investment Company "Paritet"	Republic of Belarus	50.0%	50.0%	Finance lease

In 2013 the Bank ceased recognition of investments in associate company by expensing the carrying the amount of the investments in the Bank's profit or loss account.

Total unrecognized Bank's share in loss for the 2016 and 2015 years are BYN 61 thousand and BYN 405 thousand respectively. Unrecognized Bank's share in the associate's accumulated loss as of 31 December 2016 and 31 December 2015 is BYN 307 thousand и 272 thousand, respectively.

2. OPERATING ENVIRONMENT OF THE BANK

Republic of Belarus. The Republic of Belarus displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation which contributes to the challenges faced by banks operating in the Republic of Belarus.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe and Russia, which is the main export markets for Belarus, and other risks could have significant negative effects on the Belarusian financial and corporate sectors. Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 11.

Starting from 1 January 2015 the Republic of Belarus ceased to be a hyperinflatory economy. Annual inflation decreased from 108.7 % in 2011 to 21.8%, 16.5% and 16.2% in 2012, 2013 and 2014, respectively. Entities are not required to apply IAS 29 "Financial reporting in hyperinflatory economy" starting from the year ending 31 December 2014.

The future economic development of the Republic of Belarus is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described 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 best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. Fair value of financial instruments traded in an active market is measured the same even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for

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assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps, foreign exchange forwards.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are convertible to known amounts of cash within a day and which are subject to an insignificant risk of changes in value. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the National Bank of Belarus. Mandatory cash balances with the National Bank of the Republic of Belarus represent mandatory reserve deposits with the Central Bank of the Republic of Belarus, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory cash balances with the National Bank of the Republic of Belarus are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss - is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investments classified as loans and receivables. Debt investment securities are classified by the Bank into "loans and receivables" measurement category if there is no active market for such securities and the Bank does not intend to sell them immediately or in the nearest term.

Such investment securities are accounted at amortised costs similarly to loans and advances to customers and disclosed within "Loans and advances to customers" line in the statement of financial position.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Property and equipment. Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying amount of property and equipment is reviewed for impairment. In case of any indication of impairment there is estimated the recoverable amount, which is the higher of the asset's fair value less costs to sell and its value as a result of its use. The carrying amount is reduced to its recoverable amount and an impairment loss is recognized in profit or loss for the year.

An impairment loss recognized for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use, or its fair value less costs to sell.

Expenditures for repairs and renewals are expensed as incurred and are included in other operating expenses, unless they are subject to capitalization.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Period for property and equipment depreciation, years
Buildings and constructions	8 – 100
Computers	2 – 10
Motor vehicles	7 – 10
Office furniture and other property and equipment	5 – 10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 15 years (for land rights up to 50 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Finance lease receivables. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments.

Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Bank uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, rather than through continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Due to credit institutions. Amounts due to credit institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds and debentures issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, and currency and interest rate swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse.

Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Belarusian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Belarus, Belarusian ruble ("BYN").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the National Bank of Belarus at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the National Bank of Belarus, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

At 31 December 2016, the principal rate of exchange used for translating foreign currency balances was USD 1 = BYN 1.9585 (2015: USD 1 = BYN 1.8569).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Belarus state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in accordance with statutory legislation and local acts of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis.

Allowance for loans impairment. The Bank regularly reviews its loans and receivables to assess impairment. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

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

Deferred tax assets. Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Useful lives of property and equipment. The Bank reviews useful lives of property and equipment at least at each financial year-end. If expectations differ from previous estimates, changes are treated as changes in accounting estimates. These estimates may have a material impact on the carrying amounts of property and equipment and on depreciation recognized in the statement of profit or loss.

Impairment of non-financial assets. The carrying value of the Bank's non-financial assets, except for deferred tax assets, is reviewed at each reporting date to determine any indication of impairment. If there is any such indication of impairment the recoverable amount of an asset is estimated. The recoverable amount of other non-financial asset is the largest value of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows independently of the other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

- The following amended standards became effective for the Bank from 1 January 2016, but did not have any material impact on the Bank:
- IFRS 14 "Regulatory Deferral Accounts" (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 11 – "Accounting for Acquisitions of Interests in Joint Operations" (issued in 6 May 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 16 and IAS 38 – "Acceptable methods of depreciation and amortization" (issued in 12 May 2014 and effective for annual periods beginning on or after 1 January 2016).

- Amendments to IAS 16 and IAS 41 – "Agriculture: Bearer Plants" (issued in 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Amendments to IAS 27 – "Amended by Equity Method in Separate Financial Statements" (issued in 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Amendments to IFRS 10 and IAS 28 – "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" (issued 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Amendments to IAS 1 – "Disclosure Initiative" (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016 года)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – "Investment Entities: Applying the Consolidation Exception" (issued in December 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 г. (issued in 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Bank has not early adopted:

IFRS 9 "Financial Instruments". In July 2014, the IASB issued the final version of IFRS 9 "Financial Instruments" which reflects all phases of the financial instruments project and replaces IAS 39 "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Bank's management believes that adoption of IFRS 9 may have a significant impact on the reported indicators of financial assets and financial liabilities. At the same time, a reasonable assessment of the impact of IFRS 9 requires a detailed analysis.

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. IFRS 15 will replace all currently existing standards on revenue recognition, including the IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

A key principle of IFRS 15 is that the organization should recognize revenue at the moment or during the transfer of goods or services to customers in the amount of corresponding payment, as a company expects to receive in exchange for goods and services. In particular, it proposes to apply a single standard model consisting of five stages, to all contracts with customers.

The Standard introduces a much clearer guidance on issues of accounting, as the moment of revenue recognition, allowance for variable compensation, costs associated with the conclusion and execution of contracts and others. In addition, the Standard introduces a new disclosure requirements.

The Bank's management expects that the adoption of IFRS 15 could have a significant impact on the amount and timing of revenue recognition in the future. However, it is not possible to assess the impact of the adoption of IFRS 15 before a detailed analysis.

IFRS 16 "Leases". The Standard becomes effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15. IFRS 16 replaces IAS 17 "Leases" and its interpretations. The standard excludes the current double-counting model for tenants and requires the company to reflect the majority of leasing contracts on a balance sheet as a single-model, excluding the difference between operating and financial leasing.

The Bank's management expects that the adoption of IFRS 16 in the future may have an impact on the financial statements. However, it is not possible to assess the impact of applying IFRS 16 before undertaking a detailed analysis.

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture". The IASB has not yet determined the effective date. Early application of amendments is permitted. The amendments clarify that in a transaction involving an associate or joint venture, the degree of recognition of profit or loss depends on whether the assets sold or contributed as a contribution to the capital by the business, so that:

- the entire amount of profit or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets that are business (whether or not it is in the subsidiary enterprise);

- part of a gain or loss is recognized when a transaction between an investor and an associate or joint venture includes assets that are not a business, even if those assets are located in the subsidiary.

The Bank's management has not yet analyzed the possible impact of new amendments on the financial position or financial performance of the Bank.

Amendments to IAS 7 "Statement of Cash Flows". According to the amendments, new disclosures are required that will help users of the financial statements to assess changes in liabilities for financial activities, including changes in cash flows, as well as changes unrelated to cash (such as the impact of foreign exchange gains and losses, changes from acquisitions Or loss of control over subsidiaries, changes in fair value).

The Bank's management does not expect that the initial application of the amendments will have a significant impact on the presentation of the financial statements.

Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses". The amendments clarify the accounting for deferred tax assets related to debt instruments measured at fair value. In particular, the amendments clarify that unrealized losses on a debt instrument, measured at fair value, increase the deductible temporary difference, whether by selling or using the owner of the debt instrument, expects to recover the carrying amount of the debt instrument.

The management of the Bank does not expect that the initial application of the amendments will have a significant impact on the financial statements.

(in thousands of Belarusian rubles)

7. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash on hand	12 248	9 997
Current accounts with the National Bank of the Republic of Belarus	13 736	18 178
Current accounts with other credit institutions	2 113	2 292
Total cash and cash equivalents	**28 097**	**30 467**

As of 31 December 2016 BYN 1 726 thousand (2015 год – BYN 1 164 thousand) was placed on current accounts and interbank deposits with internationally recognized banks which are the main counterparties of the Bank in performing international settlements, in particular, the share of banks in OECD countries is about 55%, the share of the CIS countries is about 45%.

8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As of 31 December 2015 and 31 December 2014 amounts due from credit institutions comprised:

	31 December 2016	31 December 2015
Obligatory reserve with the NB RB	736	1 201
Guarantee deposits	196	186
Cash placed in Belarusian banks	-	14 034
Term deposits	3 519	-
Amounts due from credit institutions	**4 451**	**15 421**

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

Guarantee deposits are represented by funds placed as security for liabilities. The Bank's ability to withdraw these deposits is limited.

Term deposits are funds placed in banks of the Republic of Belarus for a period of not more than 90 days in Belarusian rubles.

9. DERIVATIVES FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

	2016	2015
	Asset	Asset
Foreign exchange contracts		
Swaps - foreign	19	7

(in thousands of Belarusian rubles)

Swaps - domestic	-	34 513
Total derivative assets/ liabilities	19	34 520

In the table above domestic contracts represent deals with Belarusian entities and foreign contracts represent deals with counterparties which are non-Belarusian entities.

As of 31 December 2016 and 31 December 2015, the Bank had positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

10. LOANS TO CUSTOMERS

As of 31 December 2016 and 31 December 2015 loans to customers comprised:

	31 December 2016	31 December 2015
Corporate lending	167 672	100 650
Consumer lending	28 972	19 072
Total loans to customers	**196 644**	**119 722**
Less: allowance for impairment	(6 648)	(5 656)
Loans to customers less allowance for impairment	**189 996**	**114 066**

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

	Corporate lending	Consumer lending	Net investment in finance leases	Total
As of 1 January 2016	5 144	512	-	5 656
Charge/(reversal) for the year	4 622	110	-	4 732
Amounts written off	(3 246)	(494)	-	(3 740)
As of 31 December 2016	6 520	128	-	6 648
Individual impairment	5 052	-	-	5 052
Collective impairment	1 468	128	-	1 596
	6 520	128	-	6 648

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(in thousands of Belarusian rubles)

Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	46 060	-	-	46 060

	Corporate lending	Consumer lending	Net investment in finance leases	Total
As of 1 January 2015	6 334	949	5	7 288
Charge/(reversal) for the year	14 306	(437)	5	13 874
Amounts written off	(15 496)	-	(10)	(15 506)
As of 31 December 2015	5 144	512	-	5 656
Individual impairment	3784	-	-	3 784
Collective impairment	1 360	512	-	1 872
	5 144	512	-	5 656
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	48 228	-	-	48 228

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2016, amounted to BYN 906 thousand (2015 - BYN 3 294 thousand).

Loans may be written off through the use of the allowance account in cases when it was determined that the probability of repayment is remote upon the decision of the Board of Directors.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, inventory and accounts receivable;
- For consumer lending - surety, charges over residential properties and vehicles;

(in thousands of Belarusian rubles)

- For finance lease - usually no additional collateral to the leased equipment is obtained.

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

Concentration of loans to customers

As of 31 December 2016, the Bank had a concentration of loans in the amount of BYN 106 529 thousand due from ten largest independent third party borrowers or 57% of gross loan portfolio (2015: BYN 69 766 thousand or 58% of gross loan portfolio). An individual impairment allowance of BYN 4 036 thousand was recognized against these loans as of 31 December 2016 (2015 - BYN 2 529 thousand).

During the years 2009-2011 the Bank issued construction loans to the employees working for one of its customers, which is a related party to the Bank. The nominal loans issued as at 31 December 2016 and 2015 amounted to BYN 783 thousand and BYN 1 507 thousand, respectively. The loans were issued with a maturity of up to 20 years bearing interest of 4.75% per annum, which is much lower than market rate level for similar financial instruments. These loans were issued using amounts received from this customer as deposits and placed in the Bank at an interest rate of 0.01% with maturity of 3 years, which is also much lower than market rate. Deposits were closed in 2013. In accordance with customer agreement at the date of loan issue the balance between the deposit placed and loans issued by the Bank had to be not less than the established ratio, moreover the client had no option to withdraw the placed deposit before expiry of a 3-year period The Bank bears all credit risks in the event the loans issued will not be repaid. Loans issued and the deposit placed are initially recognized at approximate fair value using corresponding discount methods and the effective interest rate method with subsequent measurements at amortized cost.

Loans are issued primarily to customers in the Republic of Belarus, operating in the following sectors:

	31 December 2016	31 December 2015
Trade and catering	50 342	42 602
Individuals	28 972	19 072
Petrochemistry	41 415	18 988
Industry	48 376	15 260
Construction	9 285	1 138
Transport	464	1 679
Leasing companies	10 463	10 843
Agriculture	4 570	5
Real estate transactions	1 383	2 332
Individual entrepreneurs	40	104
Other	1 334	7 699
Total loans to customers	**196 644**	**119 722**
Less: allowance for impairment	(6 648)	(5 656)
Total loans to customers less allowance for impairment	**189 996**	**114 066**

(in thousands of Belarusian rubles)

11. INVESTMENTS SECURITIES

Securities available-for-sale are as follows:

	31 December 2016	31 December 2015
Government bonds	-	1 857
Bonds issued by National Bank of the Belarus	87 395	15 278
Corporate bonds	13 604	16 740
Securities available-for-sale	**100 999**	**33 875**
Allowance for impairment	-	-
Total securities available-to-sale	**100 999**	**33 875**

Corporate bonds of banks as of December 31, 2016 is represented by securities of JSCB "ASB Belarusbank", intended for sale.

12. LONG-TERM ASSETS HELD FOR SALE

As of 31 December 2016 and 31 December 2015, assets held for sale included property (primarily, real estate) transferred to the Bank as repayment of loans in the amount of BYN 620 thousand and BYN 874 thousand, respectively.

Proceeds from the sale of property transferred to the Bank as repayment of loans amounted to BYN 299 thousand and 418 thousand in 2016 and 2015, respectively.

Long-term assets held for sale are measured at fair value. In 2016 allowance for impairment was charged in the amount of BYN 73 thousand based on the results of an independent appraisal of the fair value of the property transferred to the Bank as repayment of loans.

13. PROPERTY AND EQUIPMENT

Property and equipment is presented as follows:

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2016	27 225	913	328	3 358	267	32 091
Additions	53	793	70	255	-	1 171
Transfers	-	-	-	-	-	-
Disposals	(29)	(196)	(65)	(533)	-	(823)

(in thousands of Belarusian rubles)

As of 31 December 2016	27 249	1 510	333	3 080	267	32 439
Accumulated depreciation						
As of 1 January 2016	1 281	467	245	1 551	-	3 544
Depreciation charge	487	228	41	396	-	1 152
Disposals	(29)	(196)	(65)	(505)	-	(795)
As of 31 December 2016	1 739	499	221	1 442	-	3 901
Net book value:						
As of 1 January 2015	25 944	447	83	1 807	267	28 547
As of 31 December 2015	25 510	1 012	112	1 638	267	28 538

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2015	8 215	1 066	476	3 213	802	13 772
Additions	18 500	22	-	645	-	19 167
Transfers	535	-	-	-	(535)	-
Disposals	(25)	(174)	(149)	(500)	-	(848)
As of 31 December 2015	27 225	914	327	3 358	267	32 091
Accumulated depreciation						
As of 1 January 2015	1 057	465	342	1 661	-	3 525
Depreciation charge	249	176	51	388	-	864
Disposals	(25)	(174)	(148)	(498)	-	(845)
As of 31 December 2015	1 281	467	245	1 551	-	3 544
Net book value:						
As of 1 January 2015	7 158	601	134	1 552	802	10 247
As of 31 December 2015	25 944	447	82	1 807	267	28 547

In 2016, from long-term assets held for sale were excluded items in the amount of BYN 10 thousand and were classified to the category "Property and equipment".

14. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

	2016	2015
Cost		
As at 1 January	580	560
Additions	486	151
Disposals	-	(130)

(in thousands of Belarusian rubles)

As at 31 December	1 066	581
Accumulated depreciation		
As at 1 January	144	107
Amortization charges	106	167
Disposals	-	(130)
As at 31 December	250	144
Net book value:		
As at 1 January	437	453
As at 31 December	816	437

15. TAXATION

The tax rate for banks for profits other than on government securities was 25% in 2016. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	31 December 2016	31 December 2015
Loss before income tax expense	18 832	(718)
Statutory tax rate	25 %	25%
Theoretical income tax saving at the statutory rate	**4 708**	**(180)**
Tax exempt income	(2 361)	(1 223)
Non-deductible expenses:		
- charity	-	33
- remuneration, bonuses and financial assistance to employees	190	68
- other	312	183
Change in deferred tax rate		-
Effect of changes in the tax base for property and equipment due to the revaluation for tax purposes	(290)	(161)
Effect of other permanent differences	(642)	9
Non-deductible income	(73)	14
Unrecognised other potential deferred tax assets	-	522
Income tax (credit)/charge	**1 843**	**(735)**

Differences between IFRS and tax legislation of the Republic of Belarus give rise to temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and income tax calculation. The tax consequences of movements in these temporary differences recorded at the rate of 25% are as follows:

(in thousands of Belarusian rubles)

Tax effect of deductible/(taxable) temporary differences:	As of 31 December 2016	Credited/ (charged) to profit or loss	As of 31 December 2015	Credited/ (charged) to profit or loss	Asof l January 2015
Derivative financial assets	(5)	(5)	-	(292)	292
Amount due from credit institution	(16)	8	(23)	(2)	(21)
Loans to customers	(2 279)	(1 920)	(359)	322	(681)
Investment securities	(13)	(278)	265	328	(63)
Property and equipment and intangible assets	1 222	275	947	130	817
Assets held for sale	(1)	(1)	-	58	(58)
Other assets	393	129	264	143	121
Derivative financial liabilities	-	(4)	4	4	-
Other liabilities	(20)	(47)	27	43	(16)
Net deferred tax assets	**(718)**	**(1 843)**	**1 125**	**734**	**391**

16. OTHER ASSETS AND LIABILITIES

	31 December 2016	31 December 2015
Accrued income	2 235	2 107
Receivables	275	664
Shares in other banks	144	144
Prepayments for share	5 876	3 714
Less: allowance for impairment	-	(2 090)
Total other financial assets	**8 530**	**4 539**
Other prepayments	723	682
Taxes reimbursable, other than income tax	132	24
Materials	-	237
Materials	89	129
Total other non-financial assets	**944**	**1 072**
Total other assets	**9 474**	**5 611**
Settlements with other creditors	237	182
Total financial liabilities	**237**	**182**
Other non-financial liabilities:		
Settlements with employees	346	254
Taxes payable other than income tax	54	66
Other	148	130

(in thousands of Belarusian rubles)

Total non-financial liabilities	**548**	**450**
Total other liabilities	**785**	**632**

A reconciliation of the allowance for impairment of other financial assets is as follows:

	2016	2015
Allowance for impairment as of 1 January	**2 090**	-
Charge/(reversal) for the year	(2 090)	2 090
Allowance for impairment as of 31 December	-	**2 090**

17. AMOUNT DUE TO CREDIT INSTITUTIONS

As of 31 December 2016 and 31 December 2015 amounts due to credit institutions comprise:

	31 December 2016	31 December 2015
Current accounts	50	48
Loans	70 581	9 399
Amounts due to credit institutions	**70 631**	**9 447**

The structure of loans received from other banks presented by counterparty banks as of December 31, 2016 is as follows:

	Country of registration of the counterparty bank	Loans, thousands of rubles	Share, %
CJSC "MTBank"	the Republic of Belarus	5 877	8.33
CJSC "BSB Bank"	the Republic of Belarus	4 705	6.66
OJSC "Bank BelVEB"	the Republic of Belarus	19 437	27.54
CJSC "TC Bank"	the Republic of Belarus	4 278	6.06
OJSC "BNB-Bank"	the Republic of Belarus	1 959	2.78
CJSC "Idea Bank"	the Republic of Belarus	1 567	2.22
CJSC "BTA Bank"	the Republic of Belarus	3 374	4.78
CJSC Bank VTB (Belarus)	the Republic of Belarus	6 473	9.17
Total for the Republic of Belarus		**47 670**	**67.54**
PJSC "Transcapitalbank"	Russian Federation	20 963	29.7
Interstate Bank	Russian Federation	1 948	2.76
Total for the Russian Federation		**22 911**	**32.46**
Total		**70 581**	**100.00**

(in thousands of Belarusian rubles)

The structure of loans received from other banks in the context of foreign currencies as of December 31, 2016 is presented in the table:

	Amount in loan currency, thousands	Equivalent, thousands of Belarusian rubles	Share, %
U.S. dollar	17 819	34 901	49.45
Euro	16 169	33 066	46.85
Russian ruble	80 589	2 614	3.70
Total	**x**	**70 581**	**100.00**

As of December 31, 2016, interbank loans were obtained mainly for the period of not more than 3 days.

The syndicated loan drawn on September 14, 2016 from the syndicate of Russian creditors (PJSC "Transcapitalbank", PJSC "Promsvyazbank", "Novikombank" JSC, "J&T Bank" JSC) in the amount of USD 6.5 million and USD 4.0 million has the longest maturity which is 182 days.

18. AMOUNT DUE TO CUSTOMERS

As of 31 December 2016 and 31 December 2015 amounts due to customers comprise:

	31 December 2016	31 December 2015
Current accounts	23 894	17 639
Term deposits	163 534	146 681
Amounts due to customers	**187 428**	**164 320**

As of 31 December 2016 amounts due to the largest customers amounted to BYN 45 946 thousand (32%) (2015 - BYN 52 645 thousand (31%)). Term deposits include deposits of individuals in the amount of BYN 94 052 thousand (2015- BYN 81 447 thousand).

In case when term deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	31 December 2016	31 December 2015
State organizations	63 065	46 829
Private enterprises	25 234	30 779
Individuals	99 129	86 712
Amounts due to customers	**187 428**	**164 320**

19. DEBT SECURITIES ISSUED

(in thousands of Belarusian rubles)

Debt securities issued by the Bank as of 31 December 2016 and 31 December 2015 comprise the following types of bond issues:

	Nominal currency	Nominal rate	Maturity date	31 December 2016
Bonds held by legal entities	BYN	22	27.06.2017	2 064
	RUB	10	03.11.2017	49
Total debt securities issued				**2 113**

	Nominal currency	Nominal rate	Maturity date	31 December 2015
Bonds held by legal entities	BYN	28	27.06.2016	3 017
	BYN	29	27.06.2017	2 064
	USD	5.5	27.06.2016	111
Total debt securities issued				**5 192**

20. SHARE CAPITAL

Movements in issued, authorized and fully paid share capital is presented below:

	Number of shares		Nominal amount, BYN.		Inflation adjustment	Total, BYN thousand
	Preferred	Ordinary	Preferred	Ordinary		
31 December 2014	18 838 294	109 437 306 773	6	32 831	87 655	120 492
Increase in share capital	-	110 873 511 333	-	33 262	-	332,620
31 December 2015	18 838 294	220 310 818 106	6	66 093	87 655	153 754
31 December 2016	18 838 294	220 310 818 106	6	66 093	87 655	153 754

According to the Bank's Charter, as of 31 December 2016 and 2015 the authorized and fully paid share capital comprised 220 310 818 106 and 220 310 818 106 respectively shares with a par value of BYN 0.0003 each (at historical value). The par value of shares of OJSC "Paritetbank" remained unchanged and is BYN 0.0003.

Total amount of preferred shares as of 31 December 2016 and 31 December 2015 is BYN 6 thousand.

The share capital of the Bank was contributed by the shareholders in Belarusian rubles. Shareholders are entitled to dividends in Belarusian rubles.

In 2016 the Bank declared dividends in the total amount of BYN 926 thousand (2015 - BYN 165 thousand).

In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from retained and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the local accounting standards.

21. COMMITMENTS AND CONTINGENCIES

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. Belarusian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period. The Bank's management believes that the Bank applies tax accounting approaches that will be accepted by tax authorities as fully compliant with valid tax legislation of the Republic of Belarus.

As Belarusian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Capital expenditure commitments. At of 31 December 2016 and 31 December 2015, the Bank has no material contractual capital expenditure commitments in respect of property and equipment and in respect of software and other intangible assets.

Operating lease commitments. The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2016 and 31 December 2015.

Compliance with covenants. The Bank complies with financial covenants in respect of its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

(in thousands of Belarusian rubles)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since all Bank's commitments to extend credit can be revocable without a material adverse change in the borrower performance.

As of 31 December 2016 and 31 December 2015, the Bank's commitments and contingencies comprise:

	31 December 2016	31 December 2015
Commitments and contingencies		
Credit related commitments	-	346
Commitment to extend credit	5 108	3 130
Letters of credit	96	-
Guarantees issued	8 207	2 179
Commitments and contingencies (before deducting collateral)	13 411	5 655
Less: deposits held as collateral for letters of credit	(196)	(186)
Commitments and contingencies	13 215	5 469

22. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

	31 December 2016	31 December 2015
Settlement operations	3 629	2 703
Currency conversion operations	55	220
Fee and commission income	**3 684**	**2 923**
Settlement operations	884	527
Currency conversion operations	13	14
Other	144	213
Fee and commission expense	**1 041**	**754**
Net fee and commission income	2 643	2 169

Other Fee and commission expense include expenses on transactions with securities in the amount of BYN 69 thousand (2015 – BYN 158 thousand), expenses for operations of reinforcement in cash in the amount of BYN 26 thousand (2015 – BYN 25 thousand), for other operations – BYN 49 thousand (2015 – BYN 30 thousand).

(in thousands of Belarusian rubles)

23. OTHER INCOME

Other income comprises:

	31 December 2016	31 December 2015
Fines and penalties received	403	2 089
Income from debt previously written-off	1 498	498
Income from operating rent	25	9
Income from sale of other assets	315	418
Dividends	7	3
Total other income	**2 248**	**3 017**

24. NON-INTEREST EXPENSE

Non-interest expense comprise:

	31 December 2016	31 December 2015
Salaries and bonuses	6 423	5 456
Social security costs	2 053	1 729
Staff costs	**8 476**	**7 185**
Payments to individuals deposits insurance fund	573	685
Occupancy and rent	859	675
Software maintenance	978	645
Repair and maintenance of property and equipment	294	226
Services of automated interbank settlement system	917	666
Operating taxes	475	775
Communications	288	226
Utilities	461	333
Security	392	318
Legal, audit and consulting services	414	318
Transportation	121	101
Office supplies	349	155
Charity	200	130
Marketing and advertising	363	230
Transportation of documents and values	139	100
Business trips and related expenses	42	62
Rent and leasing payments	28	38
Insurance	31	48
Printing expense	10	15

(in thousands of Belarusian rubles)

Operating costs	180	154
Expenses from disposal of other property	166	-
Plastic cards	96	96
Deductions to the PTUO of JSC "Paritetbank"	61	49
Other	353	346
Other operating expense	**7 790**	**6 391**

25. RISK MANAGEMENT

Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

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

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Risk Committee

The Risk Committee headed by the Independent Director is responsible for monitoring of the risk management strategy implementation and execution of decisions adopted by the Bank's Supervisory Board with regard to the Bank's risk profile and risk tolerance, assessing the effectiveness of the Bank's risk management system and providing complex solutions to issues related to the analysis of key banking risks and development of the relevant risk management policies.

Audit Committee

The Audit Committee headed by the Independent Director is responsible for overall management and effective functioning of internal control system, internal audit function of the Bank and selection of and cooperation with audit firms.

Management Board

The Management Board has the responsibility for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Financial Committee

The Financial Committee's objective is to implement uniform financial policies for financial resource management for the purpose of securing regular growth of the Bank's revenue and enhancing efficiency of financial resources used.

Credit Committee

The Credit Committee is responsible for complex credit risk management, coordinates the activities of the Bank's divisions in the field of credit risk management in order to reach the optimal balance of credit risks and yields.

Risk Controlling Department

The department performs qualitative and quantitative assessment of banking risks, provides analytical and methodological support in analysing and managing risks, informs the Bank's management bodies on the level of assumed risks.

Bank Treasury

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

Internal audit

Risk management processes throughout the Bank are audited annually by the audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The audit function discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Audit Committee and Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using various risk measurement tools: scenario methods which allow assessing the level of risk in various case scenarios, client risk assessments, stress-testing and other.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity while performing calculations of capital adequacy and other prudential regulations.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Supervisory Board, the Management Board, the Risk Committee and the Financial and Credit Committees (within their competence). The reports include aggregate credit exposure, liquidity ratios, levels of operational and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. On a quarterly basis, the Supervisory Board receives a report on Bank's implementation of Strategic development plan that provides the information about performance and financial result.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by local statutory requirements to manage exposures resulting from changes in interest rates, foreign currencies, equity price, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

- monitoring of credit instruments issued by the corresponding structural units of the Bank;

- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;

- control over customers' fulfilment of conditions upon credit and similar agreements.

Control of the accepted credit risk level in relation to amounts placed within banks acting as counteragents to the Bank includes the following:

- analysis of negative financial and non-financial information while applying previously set limits (performed by the risk controlling department);

- routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank.

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for clients attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

(in thousands of Belarusian rubles)

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

The Bank receives collateral and guarantees from entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

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

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

The maximum exposure to credit risk equals to the carrying amount of financial assets.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. Such agreements expose the Bank to risks similar to loan risks, which are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset before allowance for loans.

	Notes	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total 31 December 2016
Cash and cash equivalents	7	28 097	-	-	**28 097**
Amounts due from credit institutions	9	4 451	-	-	**4 451**
Loans to customers:					
Corporate lending	10	114 463	7 169	46 060	**167 692**
Consumer lending	10	28 598	374	-	**28 972**

(in thousands of Belarusian rubles)

Investment securities	11	100 999	-	-	**100 999**
Other financial assets	16	8 530	-	-	**8 530**
Total		**285 138**	**7 543**	**46 060**	**338 741**

	Notes	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total 31 December 2015
Cash and cash equivalents	7	30 467	-	-	**30 467**
Amounts due from credit institutions	9	15 421	-	-	**15 421**
Loans to customers:					
Corporate lending	10	50 083	2 339	48 229	**100 651**
Consumer lending	10	18 776	296	-	**19 072**
Investment securities	11	33 875	-	-	**33 875**
Other financial assets	16	4 539	-	2 090	**6 629**
Total		**153 161**	**2 635**	**50 319**	**206 115**

Geographical concentration

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

	31 December 2016				31 December 2015			
	Belarus	OECD	CIS and other countries	Total	Belarus	OECD	CIS and other countries	Total
Cash and cash equivalents	26 372	967	758	**28 097**	29 168	638	661	**30 467**
Amounts due from credit institutions	4 255	196	-	**4 451**	15 235	186	-	**15 421**
Derivative financial instruments	-	-	19	**19**	34 513	-	7	**34 520**
Loans to customers	189 996	-	-	**189 996**	114 066	-	-	**114 066**
Securities available-for-sale	100 999	-	-	**100 999**	33 875	-	-	**33 875**
Other financial assets	2 654		5 876	**8 530**	825	-	3 714	**4 539**
Total financial assets	**324 276**	**1 1 163**	**6 653**	**332 092**	**227 682**	**824**	**4 375**	**232 881**
Amounts due to credit Institutions	47 718	-	22 913	**70 631**	9 447	-	-	**9 447**
Derivative financial								

instruments	-	-	-	-	-	-	-	-
Amounts due to customers	186 208	-	1220	**187 428**	163 349	-	971	**164 320**
Debt securities issued	2 113	-	-	**2 113**	5 192	-	-	**5 192**
Other financial liabilities	237	-	-	**237**	182	-	-	**182**
Total financial liabilities	**236 276**	**-**	**24 133**	**260 409**	**178 170**	**-**	**971**	**179 141**
Net position on assets and liabilities	**88 000**	**1 163**	**(17 480)**	**71 683**	**49 512**	**824**	**3 404**	**53 740**

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs.

In addition, the Bank maintains a cash deposit (obligatory reserve) with the NB RB, the amount of which depends on the level of customer funds attracted.
The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2016 and 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2016	**Carrying amount**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to credit institutions	70 631	70 885	-	-	-	70 885
Amounts due to customers	187 428	64 862	61 868	79 163	-	205 893
Debt securities issued	2 113	2 114	-	-	-	2 114
Other financial liabilities	237	233	-	4	-	237
Commitments and contingencies	13 215	13 215	-	-	-	13 215
Total undiscounted financial liabilities	**273 624**	**151 309**	**61 868**	**79 167**	**-**	**292 344**

(in thousands of Belarusian rubles)

	Carrying amount	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	9 447	10 030	-	-	-	10 030
Amounts due to customers	164 320	35 699	63 081	65 656	-	164 436
Debt securities issued	5 192	5 554	-	-	-	5 554
Other financial liabilities	182	178	1	3	-	182
Commitments and contingencies	5 469	5 469	-	-	-	5 469
Total undiscounted financial liabilities	**184 610**	**56 930**	**63 082**	**65 659**	**-**	**185 671**

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

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

Market risk

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

Market risk- non-trading

Interest rate risk

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

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

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

(in thousands of Belarusian rubles)

Increase in basis points 2016	Sensitivity of net interest income 2016	Sensitivity of equity 2016
500	16 445	13 850

Decrease in basis points 2016	Sensitivity of net interest income 2016	Sensitivity of equity 2016
(500)	(16 445)	(13 850)

Increase in basis points 2015	Sensitivity of net interest income 2015	Sensitivity of equity 2015
500	14 503	10 740

Decrease in basis points 2015	Sensitivity of net interest income 2015	Sensitivity of equity 2015
(500)	(14 503)	(10 688)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRB regulations. Positions are monitored by Risk controlling department on a daily basis.
The tables below indicate the Bank's level of currency risk:

	BYN	1 USD = 1.9585	1 EUR= 2.045	100 RUB= 3.244	Other currencies	31 December 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	18 808	4 202	2 909	1 962	216	28 097
Derivative financial instruments	-	-	-	19	-	19
Amounts due from credit institutions	4 255	196	-	-	-	4 451
Securities available-for-sale	24 596	76 403	-	-	-	100 999
Loans to customers	66 606	66 741	53 185	3 464	-	189 996
Other financial assets	1 932	6 518	80	-	-	8 530
TOTAL FINANCIAL ASSETS	**116 197**	**154 060**	**56 174**	**5 445**	**216**	**332 092**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	1	34 935	33 070	2 624	1	70 631
Amount due to customers	56 203	104 894	22 225	4 104	2	187 428
Debt securities issued	2 064	-	-	49	-	2 113
Other financial liabilities	214	23	-	-	-	237
TOTAL FINANCIAL LIABILITIES	**58 482**	**139 852**	**55 295**	**6 777**	**3**	**260 409**
NET CURRENCY POSITION	**57 715**	**14 208**	**879**	**(1 332)**	**213**	**71 683**

(in thousands of Belarusian rubles)

	BYN	1 USD = 1.8569	1 EUR= 2.03	100 RUB= 2.5533	Other currencies	31 December 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	22 135	3 919	2 625	1 671	117	30 467
Derivative financial instruments	34 482	5	33	-	-	34 520
Amounts due from credit institutions	15 211	186	21	3	-	15 421
Securities available-for-sale	16 654	12 116	5 105	-	-	33 875
Loans to customers	38 842	52 951	20 324	1 949	-	114 066
Other financial assets	825	3 714	-	-	-	4539
TOTAL FINANCIAL ASSETS	**128 149**	**72 891**	**28 108**	**3 623**	**117**	**232 888**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	-	3 762	5 685	-	-	9 447
Amount due to customers	46 327	94 975	18 055	4 962	1	164 320
Debt securities issued	5 081	111	-	-	-	5 192
Other financial liabilities	161	21	-	-	-	182
TOTAL FINANCIAL LIABILITIES	**51 569**	**98 869**	**23 740**	**4 962**	**1**	**179 141**
NET CURRENCY POSITION	**76 580**	**(25 978)**	**4 368**	**(1 339)**	**116**	**53 747**

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2016 and 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYN, with all other variables held constant on the statement of comprehensive income (due to the availability of non-trading monetary assets and liabilities the fair value of which is currency sensitive). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

	31 December 2016		31 December 2015	
	BYN/USD	BYN/USD	BYN/USD	BYN/USD
	10.0%	-10.0%	30.0%	-30.0%
Effect on profit after tax	840	(840)	(8 908)	8 908
Effect on equity	840	(840)	(2 644)	2 644

	31 December 2016		31 December 2015	
	BYN/EUR	BYN /EUR	BYN/EUR	BYN/EUR
	10.0%	-10.0%	30.0%	-30.0%

(in thousands of Belarusian rubles)

Effect on profit after tax	88	(88)	(1 311)	1 311
Effect on equity	88	(88)	(1 311)	1 311
	31 December 2016		**31 December 2015**	
	BYN/RUB 10.0%	BYN/RUB -10.0%	BYN/RUB 30.0%	BYN/RUB -30.0%
Effect on profit after tax	(133)	133	(402)	402
Effect on equity	(133)	133	(402)	402

Operational risk

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

26. FAER VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs having a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2016	**Level 2**	**Level 3**	**Total**
Financial assets			
Derivative financial instruments	19	-	19
Securities available-for-sale	100 999	-	100 999
	101 018	-	101 018

31 December 2015	**Level 2**	**Level 3**	**Total**
Financial assets			
Derivative financial instruments	38	34 482	34 520
Securities available-for-sale	33 875	-	33 875
	68 395	34 482	68 395

(in thousands of Belarusian rubles)

Financial instruments recorded at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated currency swaps with the National Bank of the Republic of Belarus. These derivatives are valued using the discounting cash flows model. The model incorporates various non-observable assumptions, which include market rate volatilities.

Movements in Level 3 financial instruments measured at fair value.

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

	As of 1 January 2016	Gains/ losses on transactions with derivatives	Disposal	As of 31 December 2016
Financial assets				
Derivative financial instruments	34 482	3 363	(37 845)	-
Total level 3 financial assets	34 482	3 363	(37 845)	-

	As of 1 January 2015	Gains/ losses on transactions with derivatives	Disposal	As of 31 December 2015
Financial assets				
Derivative financial instruments	21 607	12 875	-	34 482
Total level 3 financial assets	21 607	12 875	-	34 482

The data used for fair value measurement of derivative financial instruments was as follows: for the foreign currency denominated part in 2016 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 5.169% (in 2015 the Bank used the rate of 7.126%); for the BYN denominated part of the instrument the Bank used the non-risk rate of 25.0% in 2016 and of 29.5% in 2015.

(in thousands of Belarusian rubles)

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements.

	Carrying amount as of 31 December 2016	Fair value as of 31 December 2016	Carrying amount as of 31 December 2015	Fair value as of 31 December 2015
Financial assets				
Cash and cash equivalents	28 097	28 097	30 467	30 467
Derivative financial assets	19	19	34 520	34 520
Amounts due from credit institutions	4 451	4 451	15 421	15 421
Loans to customers	189 996	189 996	114 066	114 066
Securities available-for-sale	100 999	100 999	33 875	33 875
Other financial assets	8 530	8 530	4 539	4 539
Financial liabilities				
Amount due to credit institutions	70 631	70 631	9 447	9 447
Amount due to customers	187 428	187 428	164 320	164 320
Debt securities issued	2 113	2 113	5 192	5 192
Other financial liabilities	237	237	182	182

Financial assets and financial liabilities for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short terms maturity (less than three months) it is assumed that the carrying amount approximates their fair value. Tins assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

(in thousands of Belarusian rubles)

The table below shows an analysis of assets and liabilities based on their contractual settlement terms as of 31 December 2016.

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	28 097	-	-	-	-	28 097
Amounts due from credit institutions	3 581	-	-	196	674	4 451
Derivative financial instruments	19	-	-	-	-	19
Loans to customers	89 607	44 389	46 936	7 064	2 000	189 996
Securities available-for-sale	19 891	67 713	-	13 395	-	100 999
Other financial assets	2 510	-	5 876	-	144	8 530
TOTAL FINANCIAL ASSETS	**143 705**	**112 102**	**52 812**	**20 655**	**2 818**	**332 092**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	70 631	-	-	-	-	70 631
Amount due to customers	63 910	54 782	68 736	-	-	187 428
Debt securities issued	2 113	-	-	-	-	2 113
Other financial liabilities	233	-	4	-	-	237
TOTAL FINANCIAL LIABILITIES	**136 887**	**54 782**	**68 740**	**-**	**-**	**260 409**
OPEN BALANCE POSITION	**6 818**	**57 320**	**(15 928)**	**20 655**	**2 818**	**71 683**

(in thousands of Belarusian rubles)

The table below shows an analysis of assets and liabilities based on their contractual settlement terms as of 31 December 2015.

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	30 467	-	-	-	-	30 467
Amounts due from credit institutions	-	-	14 034	-	1 387	15 421
Derivative financial instruments	34 520	-	-	-	-	34 520
Loans to customers	2 718	36 646	58 022	16 493	187	114 066
Securities available-for-sale	12 836	5 004	-	16 035	-	33 875
Other financial assets	680	-	3 714	-	145	4 539
TOTAL FINANCIAL ASSETS	**81 221**	**41 650**	**72 770**	**32 528**	**1 719**	**229 888**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	9 447	-	-	-	-	9 447
Amount due to customers	35 674	63 037	65 609	-	-	164 320
Debt securities issued	5 192	-	-	-	-	5 192
Other financial liabilities	178	1	3	-	-	182
TOTAL FINANCIAL LIABILITIES	**50 491**	**63 038**	**65 612**	**-**	**-**	**179 141**
OPEN BALANCE POSITION	**30 730**	**(21 388)**	**10 158**	**32 528**	**1 719**	**50 747**

Significant mismatch in the liquidity position from 3 up to 12 months is caused by significant portion of customer accounts classified into the category "Demand and less than 1 month". The Bank's management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. The Bank's management believes that the Bank will be able to attract sufficient interbank borrowings to finance potential customer short-term funds withdrawal. The Bank has positive cumulative expected liquidity gap for all other maturity periods.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

(in thousands of Belarusian rubles)

28. RELATED PARTY DISCLOSURES

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

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

The Republic of Belarus acting through state agencies controls the Bank's activities as well as directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Bank performs the following banking transactions with these entities: lending, attracting deposits, cash and settlement operations, exchange operations, providing guarantees, and transactions with securities and derivatives. Transactions with state-related entities constitute a significant part of the Bank's operations:

	2016			2015		
	Shareholders, Republic of Belarus	**Key management personnel**	**Other related parties**	**Shareholders, Republic of Belarus**	**Key management personnel**	**Other related parties**
Cash and cash equivalents	-	-	14 044	18 178	-	-
Amounts due from credit institutions	-	-	736	1 201	-	-
Loans as of 1 January	-	89	61 454	-	78	6 177
Loans outstanding as of 31 December	-	157	87 648	-	89	61 454
Less: allowance for impairment as of 31 December	-	-	(319)	-	-	(1 849)
Loans outstanding as of 31 December, less allowance	-	157	87 329	-	89	59 605
Securities available-for-sale	-	-	100 999	15 279	-	16 396
Derivative financial instruments	-	-	-	34 482	-	-
Amounts due to customers as of 1 January	-	550	33 612	-	348	11 509
Amounts due to customers as of 31 December	23 000	515	41 180	-	550	33 612
Amounts due to credit institutions	-	-	40	26 098	-	-
Commitments and guarantees issued	-	-	5 581	-	-	-

(in thousands of Belarusian rubles)

	2016			2015		
	Shareholders, Republic of Belarus	Key management personnel	Other related parties	Shareholders, Republic of Belarus	Key management personnel	Other related parties
Interest income	-	35	18 683	5	36	10 634
Impairment charge for loans	-	-	-	-	-	1 369
Interest expense	5 110	430	2 335	6 056	43	2 040
Net fee and commission income/(expense)	-	-	655	-	-	514
Net gains from derivative financial instruments transactions	-	-	-	17 434	-	-
Other income				-	-	992
Other operating expenses	-	-	93	-	-	-

Compensation to key management personnel comprises the following:

	2016	2015
Salaries and other short-term benefits	1 010	704
Social security costs	343	239
Total key management personnel compensation	**1 353**	**943**

29. SEGMENT ANALYSIS

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking - representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

(in thousands of Belarusian rubles)

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level and are based on different business and decision-making processes.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Belarusian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) Financial information is not restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies";

(ii) loan provisions are recognised based on Belarusian legislation and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

(iii) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(iv) income taxes are not allocated to segments;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method;

(vi) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities:

	Retail banking	Corporate banking	Unallocated	As of 31 December 2016
Interest income	7 406	36 593	-	43 999
Interest expense	(4 498)	(10 606)	-	(15 104)
Net interest income	2 908	25 987	-	28 895
Allowance for impairment	(354)	(4 378)		(4 732)
Net fee and commission income	639	2 004	-	2 643
Net gains from securities available-for-sale	-	87	-	87
Net gains/(losses) from foreign currency transactions:				
- dealing	21	1 906	-	1 927
- transaction differences	-	-	(201)	(201)
Net gains from derivative financial	-	3 473	-	3 473

(in thousands of Belarusian rubles)

instruments transactions				
Other income	83	1 697	468	2 248
Personnel expenses	-	-	(8 476)	(8 476)
Depreciation and amortization	-	-	(1 258)	(1 258)
Other operating expenses	-	-	(7 790)	(7 790)
Release/(expenses) of allowance for other assets	2 012	4	-	2 016
Segment result	5 309	30 780	(17 257)	18 832
Income tax benefit	-		(1 843)	(1 843)
Net profit/(loss) for the year	5 309	30 780	(19 100)	16 989

	Retail banking	Corporate banking	Unallocated	As of 31 December 2015
Interest income	6 442	29 613	111	36 166
Interest expense	(4 866)	(14 256)	-	(19 122)
Net interest income	1 576	15 357	111	17 044
Loss of initial recognition of financial assets and liabilities	-	(623)	-	(623)
(Expenses)/release of allowance for loans impairment	492	(12 885)	(1 481)	(13 874)
Net fee and commission income	494	1 690	(15)	2 169
Net gains from securities available- for-sale	-	467	-	467
Net gains/(losses) from foreign currency transactions:				
- dealing	-	3 792	1 618	5 410
- transaction differences	-	(16 447)	1 383	(15 064)
Net gains from derivative financial instruments transactions	-	17 433	-	17 433
Other income	12	-	3 005	3 017
Personnel expenses	-	-	(7 185)	(7 185)
Depreciation and amortization	-	-	(1 031)	(1 031)
Other operating expenses	-	-	(6 391)	(6 391)
Release/(expenses) of allowance for other assets	1	21	(2 112)	(2 090)
Segment result	2 575	8 805	(12 098)	(718)
Income tax benefit	-	-	735	735
Net profit/(loss) for the year	2 575	8 805	(11 363)	17

30. CAPITAL ADEQUACY

The main regulator of the banking system is the National Bank of the Republic of Belarus (NBRB), which sets and monitors the Bank's capital adequacy.

To support the requirements on capital management, NBRB requires banks to maintain the ratio of the Bank's capital to total risk-weighted assets. The ratio is calculated based on the financial statements prepared under National Financial Reporting Standards. The risk degree is determined according to the ratio of credit risks of NBRB specific to individual asset classes. As of 31 December 2016 the regulatory capital of the Bank is BYN 91 670 thousand, core capital is BYN 72 863 thousand. As of 31 December 2016 the regulatory capital adequacy ratio is 33% (standard – 10%), the core capital adequacy ratio is 22% (standard – 4.5%).

In accordance with the regulations the minimal level of regulatory capital should not be less than 50 190 thousand Belarusian rubles for the bank that has the right to conduct banking operations on attracting funds from individuals who are not individual entrepreneurs to accounts and (or) deposits and (or) opening and maintaining bank accounts of such individuals as of 31 December 2016.

As of 31 December 2016 and 31 December 2015 the Bank complied with the above requirements of the capital.

During 2016 the Bank did not comply with credit risk limit for one borrower (group of related borrowers) established at a rate of not exceeding 25 % of regulatory capital, in particular:

1) For the period from 1 January 2016 to 30 November 2016 in connection with the participation of "Paritetbank" OJSC in financing of agricultural organizations including "Agrocombinat "Machulishchy" holding by means of bond purchase and providing interbank loan to JSC "SB Belarusbank" according to President order №101rp from 23.05.2014 "Some issues on "Agrocombinat "Machulishchy" holding", and President order №165rp from 24.09.2015 "Procurement of feed grain, protein raw materials and payment for it". The maximum credit risk ratio on JSC "SB Belarusbank" was 61.8% of regulatory capital during 2016. "Paritetbank" OJSC prepared and appealed to the National Bank of the Republic of Belarus with a letter asking not to apply supervisory measures No. 04-29/23910 of 2 September, 2014. The National Bank of the Republic of Belarus will make decisions on the application of supervisory measures for these violations (a letter of the National Bank of the Republic of Belarus No. 47-14/108 of 15 September, 2014).

2) Due to increase of the loan amounts of the borrowers resulting from the changes in exchange rates of Belarusian ruble against foreign currencies:

- to JSC "Evrotorginvestbank" and related counterparty LLC "Eurotorg" for the period from 01 January 2016 to 31 January 2016. The maximum credit risk ratio on "Evrotorginvestbank" and related LLC "Eurotorg" was at 26.8% of the regulatory capital in the aforementioned period.

No any supervisory measures have been applied to the Bank since the date of non-compliance matters described above.

31. EVENTS AFTER THE END OF THE REPORTING PERIOD

The date of approval of the financial statements for issue coincides with the date of signing.

For the period starting from 1 January 2017 to 20 March 2017 official currency exchange rate of USD and EUR decreased by 3.86 % and 0.96 % respectively, official currency exchange rate of RUB increased by 1.18 %.

A new Supervisory Board composed of three new independent directors was elected by the decision of the General Shareholders Meeting of the Bank (Minutes No. 1 of 10.02.2017).

The liabilities on the syndicated loan received from the syndicate of Russian creditors (PJSC "Transcapitalbank", PJSC "Promsvyazbank", JSC "Novikombank", "J & End Bank" JSC) were fulfilled on 15 March 2017.

It is planned to switch to the international structure of account numbers from 04 July 2017 when the Resolution of the Board of the National Bank of the Republic of Belarus of 27 July 2015 No. 440 "About the account number structure" comes into effect.

Acting Chairman of the Management Board D.A. Pankevich

Chief Accountant I.B. Safronova

Date of signature: 21 March 2017