CJSC BTA Bank

Financial statements

Year ended 31 December 2017
together with the audit report of an independent audit firm

Contents

Audit report of an independent audit firm
on the financial statements of
Closed Joint Stock Company BTA Bank
for the period from 1 January 2017 to 31 December 2017

To the Chairman of the Management Board of
Closed Joint Stock Company BTA Bank
Mr. A.V. Doronkevich

To the Shareholders, Board of Directors and Audit Committee of
Closed Joint Stock Company BTA Bank

Opinion

We have audited the financial statements of Closed Joint Stock Company BTA Bank (“the Bank”), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Law No. 56-Z of the Republic of Belarus “On Auditing Activity” of 12 July 2013, national auditing rules effective in the Republic of Belarus and International Standards on Auditing (ISA). Our responsibilities under those rules and standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

Allowance for impairment of loans to customers

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

Due to the significance of loans to customers, which account for 51% of total assets, and the significant use of judgment, the assessment of the allowance for impairment represents a key audit matter.

Our procedures included assessment of the methodology used to calculate allowance for impairment of loans to customers, including analysis of models, testing of input data used in those models, analyzing of the Bank's assumptions used to calculate a collective allowance for impairment, as well as assessment of whether allowances made for loans to legal entities are adequate for the purposes of individual allowance for impairment. With regard to allowance for impairment of significant individually assessed loans, we inspected assumptions used by the Bank to identify impairment indicators, their quantitative assessment, including forecasts of future cash flows, and the measurement of the fair value of the collateral.

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

We reviewed information disclosed in Notes 7 and 22 to the financial statements with regard to allowance for impairment.

Responsibilities of management and the Board of Directors of CJSC BTA Bank for the financial statements

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

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

The Board of Directors of CJSC BTA Bank is responsible for overseeing the Bank’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus No. 56-Z “On Auditing Activity” of 12 July 2013, national auditing rules effective in the Republic of Belarus and ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Law of the Republic of Belarus No. 56-Z “On Auditing Activity” of 12 July 2013, national auditing rules effective in the Republic of Belarus and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee of CJSC BTA Bank regarding, among other matters, the planned scope and timing of the audit, as well as significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Audit partner in charge of the engagement resulting in this audit report of an independent audit firm is P. A. Laschenko.

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<tr>
<td>______________________________
P.A. Laschenko
General Director, FCCA
Ernst & Young LLC</td>
<td>______________________________
I.V. Stankevich
Deputy General Director, Director on Audit, FCCA
Ernst & Young LLC</td>
</tr>
</table>

21 May 2018

Details of the audited entity

Name: Closed Joint Stock Company BTA Bank
Closed Joint Stock Company BTA Bank is registered by the National Bank of the Republic of Belarus on 25 July 2002, registration No. 807000071.
Address: 220123, Republic of Belarus, Minsk, V. Khoruzhey str., 20-2.

Details of the audit firm

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

Statement of management's responsibilities for the preparation and approval of the financial statements

for the year ended 31 December 2017

Management is responsible for the preparation of the financial statements that present fairly the financial position of Closed Joint Stock Company BTA Bank (the "Bank") as at 31 December 2017, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

In preparing the financial statements, management is responsible for:

- selecting and consistently applying the appropriate accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the requirements in IFRSs is insufficient to enable users of the financial statements to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Belarus;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- detecting and preventing fraud and other irregularities.

These financial statements of the Bank for the year ended 31 December 2017 were approved by the Chairman of the Bank's Management Board on 18 May 2018.

On behalf of the Management Board of the Bank:

______________________________	__________________________
A.V. Doronkevich	T.N. Kovaleva
Chairman of the Management Board	Chief Accountant
18 May 2018	18 May 2018
Minsk	Minsk

Statement of financial position

as at 31 December 2017

(in thousands of Belarusian rubles)

	Notes	*2017*	*2016*
Assets			
Cash and cash equivalents	5	26,039	19,268
Amounts due from credit institutions	6	2,059	314
Loans to customers	7	70,439	58,059
Investment securities available for sale	8	30,954	37,741
Property and equipment and intangible assets	9	9,472	8,258
Deferred income tax assets	10	14	138
Other assets	11	427	489
Total assets		**139,404**	**124,267**
Liabilities			
Amounts due to credit institutions	12	6,170	18,751
Amounts due to customers	13	70,871	51,021
Debt securities issued	14	6,245	709
Current income tax liabilities		13	96
Other liabilities	15	503	488
Subordinated loan	16	11,836	11,751
Total liabilities		**95,638**	**82,816**
Equity			
Share capital	17	45,318	45,318
Accumulated loss		(5,742)	(7,678)
Revaluation reserve for financial assets available for sale		(64)	(10)
Revaluation reserve for property and equipment		4,254	3,821
Total equity		**43,766**	**41,451**
Total equity and liabilities		**139,404**	**124,267**

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

A.V. Doronkevich
Chairman of the Management Board

18 May 2018
Minsk

T.N. Kovaleva
Chief Accountant

18 May 2018
Minsk

Statement of comprehensive income

for the year ended 31 December 2017

(in thousands of Belarusian rubles)

	Notes	*2017*	*2016*
Interest income			
Loans to customers		8,922	12,958
Amounts due from credit institutions		306	1,406
Investment securities available for sale		2,350	2,664
		11,578	**17,028**
Interest expense			
Amounts due to customers		(2,190)	(4,154)
Amounts due to credit institutions		(201)	(1,342)
Subordinated loan		(875)	(45)
Debt securities issued		(115)	(30)
		(3,381)	**(5,571)**
Net interest income		**8,197**	**11,457**
Allowance for loan impairment	7	1,470	(2,482)
Net interest income after allowance for loan impairment		**9,667**	**8,975**
Net fee and commission income	19	2,035	2,073
Net gains from foreign currencies:			
- dealing		247	2,567
- translation differences		1,037	1,486
Net losses from investment securities available for sale		(66)	(65)
Other income	20	365	540
Non-interest income		**3,618**	**6,601**
Personnel expenses	21	(6,865)	(6,315)
Depreciation and amortization	9	(483)	(311)
Other operating expenses	21	(3,825)	(3,746)
Non-interest expense		**(11,173)**	**(10,372)**
Profit before tax		**2,112**	**5,204**
Income tax expense	10	(176)	(617)
Net profit		**1,936**	**4,587**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Result of revaluation of buildings		595	792
Deferred income tax expense from revaluation of buildings		(162)	(198)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Fair value revaluation of financial assets available for sale		(120)	(75)
Financial result from investment securities available for sale		66	65
Other comprehensive income for the year		**379**	**584**
Total comprehensive income for the year		**2,315**	**5,171**

Statement of changes in equity

for the year ended 31 December 2017

(in thousands of Belarusian rubles)

	Share capital	*Accumulated loss*	*Revaluation reserve for financial assets available for sale*	*Revaluation reserve for property and equipment*	*Total*
31 December 2015	**26,704**	**(12,265)**	**–**	**3,227**	**17,666**
Additions to share capital	18,614	–	–	–	**18,614**
Total comprehensive income for the year	–	4,587	(10)	594	**5,171**
31 December 2016	**45,318**	**(7,678)**	**(10)**	**3,821**	**41,451**
Total comprehensive income for the year	–	1,936	(54)	433	**2,315**
31 December 2017	**45,318**	**(5,742)**	**(64)**	**4,254**	**43,766**

Statement of cash flows

for the year ended 31 December 2017

(in thousands of Belarusian rubles)

	Notes	2017	2016
Cash flows from operating activities			
Interest received		11,921	17,421
Interest paid		(3,333)	(5,506)
Fees and commissions received		2,296	2,365
Fees and commissions paid		(261)	(288)
Realized gains from dealing in foreign currencies		612	4,018
Personnel expenses paid		(6,865)	(6,315)
Other income received (including recovery of loans previously written-off)		1,089	1,157
Other expenses paid		(3,601)	(4,931)
Cash flows from operating activities before changes in operating assets and liabilities and before income tax		**1,858**	**7,921**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(4,901)	(35)
Loans to customers		(10,917)	(2,793)
Other assets		(16)	(161)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(12,694)	32,284
Amounts due to customers		20,955	(1,702)
Other liabilities		642	75
Net cash flows from operating activities before income tax		**(5,073)**	**35,589**
Income tax paid		(328)	(899)
Net cash from/(used in) operating activities		**(5,401)**	**34,690**
Cash flows from investing activities			
Proceeds from sale of investment securities available for sale		504,642	452,825
Purchase of investment securities available for sale		(497,475)	(491,082)
Proceeds from disposal of property and equipment and intangible assets		11	56
Purchase of property and equipment and intangible assets		(1,254)	(654)
Net cash (used in)/from investing activities		**5,924**	**(38,855)**
Cash flows from financing activities			
Debt securities issued		22,704	2,085
Redemption of debt securities		(16,988)	(1,390)
Net cash from financing activities		**5,716**	**695**
Effect of exchange rate changes on cash and cash equivalents		532	844
Net increase/(decrease) in cash and cash equivalents		**6,771**	**(2,626)**
Cash and cash equivalents at 1 January		**19,268**	**21,894**
Cash and cash equivalents at 31 December	5	**26,039**	**19,268**

Additional information:

In 2016, non-cash operations comprised: non-cash settlement of loans through repossession of collateral of BYN 835 thousand, transfer of funds from the account with amounts received on the share capital formation to the share capital – BYN 18,614 thousand.

(in thousands of Belarusian rubles)

1. Principal activities

Closed Joint Stock Company BTA Bank (the "Bank") was formed under the laws of the Republic of Belarus. The Bank was formed under the Articles of Association dated 25 April 2002 as Closed Joint Stock Company Astanaeksimbank and registered in the Republic of Belarus by Resolution No. 147 of the National Bank of the Republic of Belarus dated 25 July 2002 in the Uniform State Register of Legal Entities and Individual Entrepreneurs under No. 807000071.

Pursuant to the decision of the General Meeting of the Shareholders of the Bank dated 28 March 2008 (Minutes No. 4) the Bank was renamed to Closed Joint Stock Company BTA Bank (CJSC BTA Bank).

The Bank's registered legal address is: 220123, Minsk, V. Khoruzhey str., 20-2.

The Bank has established and operated five Banking Service Centers ("BSC"): BSC "Brest general office", BSC "Vitebsk general office", BSC "Mogilev general office", BSC "Gomel general office" and BSC "Grodno general office". The structure of the Parent Bank includes one Additional Office No. 2.

As at 31 December, the shareholders of the Bank are as follows:

Shareholder	***2017, %***	***2016, %***
JSC BTA Bank (Republic of Kazakhstan)	99.9	99.9
Other	0.1	0.1
Total	**100.0**	**100.0**

JSC BTA Bank (Republic of Kazakhstan) is the ultimate parent of the Bank. Kenes Khamitovich Rakishev is the ultimate beneficiary.

2. Basis of preparation

General

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

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in accordance with the Belarusian accounting and banking legislation and related instructions. These financial statements have been prepared using accounting records in accordance with Belarusian Accounting Standards, as adjusted and reclassified in order to comply with IFRS.

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

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The Bank's functional currency is the Belarusian ruble. The Belarusian ruble is also the presentation currency of these financial statements. All values are rounded to the nearest thousand unless otherwise indicated.

(in thousands of Belarusian rubles)

3. Summary of accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The respective information is disclosed in Note 25.

Fair value measurement

The Bank measures financial instruments, such as investment securities available for sale, derivatives and non-financial assets such as buildings, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 23.

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

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

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

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

Financial assets

Initial recognition

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

Date of recognition

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

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

Reclassification of financial assets

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

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

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

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

Cash and cash equivalents

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

Derivative financial instruments

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

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, debt securities issued and subordinated loans. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Borrowings (continued)

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the carrying amount on initial recognition.

Gains and losses are recognized in profit or loss when the borrowings are derecognized, as well as through the amortization process.

Leases

i. Finance – Bank as lessor

The Bank recognizes lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance lease receivables are recognized as loans to customers in the amount of the Bank's net investment in finance leases. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct cost are included in the initial measurement of the lease receivables.

ii. Operating - Bank as lessee

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

iii. Operating − Bank as lessor

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

Measurement of financial instruments at initial recognition

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Measurement of financial instruments at initial recognition (continued)

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

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

Offsetting of financial assets and liabilities

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

- the normal course of business;
- the event of default; and
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

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

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

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

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

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Impairment of financial assets (continued)

Renegotiated loans

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

The accounting treatment of such restructuring is as follows:

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

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

Write-off of loans

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial guarantees

In the ordinary course of business, the Bank gives guarantees. Financial guarantees are contracts that reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees include letters of credit, acceptances and guarantees of contractual payments.

Guarantees also include performance guarantees which provide compensation if a specified party fails to perform under a contract, guarantees provided to tender participants, guarantees of customs payments and other types of guarantees. Such contracts do not transfer credit risk.

Guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Belarus. Current tax expense is calculated based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income by items of income or expense that are taxable or deductible in other years and further excludes items that are never taxable or deductible. Current income tax liabilities are calculated using tax rates that have been enacted by the end of the reporting period.

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

Deferred tax liabilities are generally recognized for all taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer highly probable that taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax regulations that have been enacted or substantively enacted at the reporting date.

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

The Republic of Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are included in other operating expenses.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Property and equipment

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

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

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

The remaining groups of property and equipment, excluding buildings, are carried at historical cost adjusted for inflation before 1 January 2015, less any accumulated depreciation and any accumulated impairment losses, if any. Such cost includes the cost of replacing part of equipment recognized when that cost is incurred if the recognition criteria are met.

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

	Years
Buildings	100
Structures	9
Furniture and fixtures	1-10
Computers and office equipment	5
Motor vehicles	7-9

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

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

An item of property and equipment is derecognized upon sale or when no future economic benefits are expected from its continuing use. Gains or losses on sale or other disposal of property and equipment are determined as the difference between the sale price and the carrying amount of property and equipment and are recognized in profit or loss.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. 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 1 to 10 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 annually at each financial year-end. Intangible assets are amortized on a straight-line basis.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Intangible assets (continued)

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

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Ordinary shares are classified as equity. Share capital is measured at restated cost.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

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

Fee and commission income

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

Fee and commission income earned from services that are provided over a certain period of time

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

Fee and commission income from providing transaction services

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

Foreign currency translation

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

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

The official exchange rates of the National Bank of the Republic of Belarus at 31 December were as follows:

	2017	***2016***
US dollar (USD) / Belarusian ruble (BYN)	1.9727	1.9585
Euro (EUR) / Belarusian ruble (BYN)	2.3553	2.0450
100 Russian rubles (RUB) / Belarusian ruble (BYN)	3.4279	3.2440

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Bank plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. The Bank is in the process of quantifying the effect of adoption of IFRS 9, however no reasonable estimate of this effect is yet available.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a “solely payment of principal and interest” (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a “basic lending arrangement,” such as instruments containing embedded conversion options or “non-recourse” loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a “hold to collect” basis are measured at amortized cost
- Instruments that are managed on a “hold to collect and for sale” basis are measured at fair value through other comprehensive income (FVOCI)
- Instruments that are managed on other basis will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remain largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

The Bank expects to continue measuring at fair value all financial assets currently held at fair value.

Trading debt and equity securities will continue to be classified as FVPL. Debt securities currently classified as available for sale are expected to be measured at FVOCI under IFRS 9, as the Bank expects not only to hold these assets to collect contractual cash flows, but also to sell a significant amount on a relatively frequent basis. The vast majority of loans are expected to satisfy the SPPI criterion and will continue to be measured at amortized cost; however, some of the loans will be reclassified as FVPL.

(b) Impairment

IFRS 9 requires the Bank to record an allowance for expected credit losses (ECL) on all of its debt financial assets at amortized cost or FVOCI, as well as loan commitments and financial guarantees. The allowance is based on the ECL associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the allowance is based on the ECL over the life of the asset. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the lifetime ECL.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application will be required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective method by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018, without restating comparative information.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (IFRS 9 and IFRS 16 *Leases*). As a result, the majority of the Bank's income will not be impacted by the adoption of this standard.

The Bank currently does not expect a material effect from application of IFRS 15.

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

The IASB issued amendments to IFRS 2 *Share-based Payments*, which cover the following three aspects: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of share-based payments with net settlement features for withholding tax obligations; accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Bank does not expect any effect from application of these amendments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life and non-life insurance, direct insurance and re-insurance) regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will assess the potential effect of IFRS 17 on its financial statements.

Transfers of Investment Property − Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property, and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank does not expect a material effect from application of these amendments.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Annual improvements 2014-2016 cycle (issued in December 2016)

These improvements include:

IFRS 1 First-time Adoption of International Financial Reporting Standards − deletion of short-term exemptions for first time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. The amendment is effective from 1 January 2018. This amendment is not applicable to the Bank.

IAS 28 Investments in Associates and Joint Ventures − clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made separately for each investment at initial recognition.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018. The Bank does not expect a material effect from application of these amendments.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. The Interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Since the Bank's current practice is in line with the Interpretation, the Bank does not expect any effect on its financial statements.

(in thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation also addresses the assumptions an entity makes about the examination of tax treatments by taxation authorities, as well as how it considers changes in facts and circumstances.

The Interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank will apply interpretation from its effective date. Since the Bank operates in a complex tax environment, applying the Interpretation may affect its financial statements and the required disclosures. In addition, the Bank may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements are applied for annual reporting periods beginning on or after 1 January 2019 and include:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation

These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when:

- A party to a joint operation obtains control over the joint operation (IFRS 3)
- A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Bank does not expect any effect on its financial statements.

IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognize all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs – borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and should be disclosed. The Bank does not expect any effect on its financial statements.

(in thousands of Belarusian rubles)

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management should apply assumptions and estimates concerning carrying amounts of assets and liabilities that are not readily apparent from other source. Estimates and underlying assumptions are based on historical experience and other factors that are considered to be reasonable in certain circumstances. Actual outcomes may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables for impairment. The Bank's allowances for loan impairment are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because:

(a) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience; and

(b) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record allowances, which could have a material impact on its financial statements in future periods.

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

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

The management of the Bank believes that the allowance gives objective evidence of incurred losses from impairment of loans and receivables based on current economic position of borrowers.

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.

Fair value of buildings

As at 31 December 2017, buildings were revalued based on their fair value. The fair value of buildings was determined by independent appraisers using the respective valuation techniques and information on transactions in the domestic real estate market.

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 comprehensive income.

(in thousands of Belarusian rubles)

5. Cash and cash equivalents

As at 31 December, cash and cash equivalents comprise:

	2017	*2016*
Cash on hand	4,422	4,382
Current accounts with credit institutions	11,040	11,098
Current accounts with the National Bank of the Republic of Belarus	10,577	3,788
Cash and cash equivalents	**26,039**	**19,268**

6. Amounts due from credit institutions

As at 31 December, amounts due from credit institutions comprise:

	2017	*2016*
Obligatory reserves with the National Bank of the Republic of Belarus	726	214
Guarantee deposits with credit institutions	101	100
Letter of credit settlements	1,232	–
Amounts due from credit institutions	**2,059**	**314**

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

Guarantee deposits are amounts placed as collateral for settlements using plastic cards and international payment systems.

7. Loans to customers

As at 31 December, loans to customers comprise:

	2017	*2016*
Corporate lending	43,137	48,345
Entrepreneurs lending	4,258	4,050
Consumer lending	24,737	8,696
Total loans to customers	**72,132**	**61,091**
Less: allowance for impairment	(1,693)	(3,032)
Loans to customers	**70,439**	**58,059**

Allowance for impairment of loans to customers

The movements in the allowance for impairment on loans during 2017 are as follows:

	Corporate lending	*Entrepreneurs lending*	*Consumer lending*	*Total*
1 January 2017	**2,355**	**233**	**444**	**3,032**
Charge for the year	(1,257)	(27)	(186)	**(1,470)**
Amounts written off	(683)	(9)	(189)	**(881)**
Repayment of amounts written off	720	–	292	**1,012**
31 December 2017	**1,135**	**197**	**361**	**1,693**

Repayment of amounts previously written off in 2017 is BYN 18 thousand. Repayment of amounts written off in the previous period is recognized through reduced expenses for allowance in the current period.

(in thousands of Belarusian rubles)

7. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

The movements in the allowance for impairment on loans during 2016 are as follows:

	Corporate lending	*Entrepreneurs lending*	*Consumer lending*	*Total*
1 January 2016	**2,612**	**74**	**350**	**3,036**
Charge for the year	2,137	225	120	**2,482**
Amounts written off	(2,964)	(84)	(440)	**(3,488)**
Repayment of amounts written off	570	18	414	**1,002**
31 December 2016	**2,355**	**233**	**444**	**3,032**

Repayment of amounts previously written off in 2016 is BYN 763 thousand.

As at 31 December 2017, analysis of credit quality of loans outstanding is as follows:

	Corporate lending	*Entrepreneurs lending*	*Consumer lending*	*Total*
Neither past due nor impaired loans	**3,615**	**–**	**–**	**3,615**
Individually impaired loans	26,614	866	342	**27,822**
Allowance	(1,006)	(162)	(112)	**(1,280)**
Individually impaired loans less allowance	**25,608**	**704**	**230**	**26,542**
Collectively impaired loans	12,906	3,393	24,395	**40,694**
Allowance	(129)	(34)	(249)	**(412)**
Collectively impaired loans less allowance	**12,777**	**3,359**	**24,146**	**40,282**

As at 31 December 2016, analysis of credit quality of loans outstanding is as follows:

	Corporate lending	*Entrepreneurs lending*	*Consumer lending*	*Total*
Neither past due nor impaired loans	**5,064**	**–**	**–**	**5,064**
Individually impaired loans	35,418	598	1,036	**37,052**
Allowance	(2,273)	(176)	(366)	**(2,815)**
Individually impaired loans less allowance	**33,145**	**422**	**670**	**34,237**
Collectively impaired loans	7,863	3,452	7,660	**18,975**
Allowance	(82)	(57)	(78)	**(217)**
Collectively impaired loans less allowance	**7,781**	**3,395**	**7,582**	**18,758**

(in thousands of Belarusian rubles)

7. Loans to customers (continued)

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 - real estate, equipment, inventory, rights to receivables, property rights, cash deposits and guarantees;
- For entrepreneurs and consumer lending - vehicles and guarantees.

The Collateral Division 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 at 31 December 2017, the Bank had a concentration of loans represented by BYN 22,489 thousand due from the ten largest borrowers (31% of gross loan portfolio) (2016: BYN 27,780 thousand, or 57%). An allowance of BYN 737 thousand was recognized against these loans (2016: BYN 1,104 thousand).

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

	2017	***2016***
Trading enterprises	29,318	36,397
Individuals	24,737	8,696
Manufacturing	3,163	4,614
Real estate transactions	4,428	3,062
Entrepreneurs	4,258	4,050
Transport	1,844	1,147
Construction	487	737
Other	3,897	2,388
Total	**72,132**	**61,091**

Finance lease receivables

Included in corporate and entrepreneurs lending portfolio is net investment in finance leases. The analysis of finance lease receivables as at 31 December 2017 is as follows:

	Not later than 1 year	***Later than 1 year and not later than 5 years***	***Total***
Finance lease receivables	306	228	**534**
Unearned future finance income on finance leases	(47)	(28)	**(75)**
Net investment in finance leases	**259**	**200**	**459**

The analysis of finance lease receivables as at 31 December 2016 is as follows:

	Not later than 1 year	***Later than 1 year and not later than 5 years***	***Total***
Finance lease receivables	241	92	**333**
Unearned future finance income on finance leases	(25)	(4)	**(29)**
Net investment in finance leases	**216**	**88**	**304**

(in thousands of Belarusian rubles)

8. Investment securities available for sale

As at 31 December, investment securities available for sale comprise:

	2017	*2016*
Bonds of the National Bank of the Republic of Belarus	25,370	37,741
Resident bank's bonds	5,584	–
Investment securities available for sale	**30,954**	**37,741**

As at 31 December 2017, securities available for sale are represented by various bonds issued by the National Bank of the Republic of Belarus denominated in US dollars and Belarusian rubles, as well as bond packages of resident banks denominated in US dollars and Euro.

As at 31 December 2016, securities available for sale are represented by a package of bonds of the National Bank of the Republic of Belarus of 59th issue in US dollars and two packages of the short-term bonds of the National Bank of the Republic of Belarus denominated in Belarusian rubles.

9. Property and equipment and intangible assets

The movements in property and equipment and intangible assets for 2017 are as follows:

	Buildings	*Structures*	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Constructio n in progress*	*Intangible assets*	*Total*
Cost/ revalued amount								
31 December 2016	**7,183**	**105**	**1,542**	**923**	**178**	**15**	**564**	**10,510**
Additions	–	91	399	179	27	60	498	**1,254**
Disposals	–	–	(39)	(42)	(18)	–	(103)	**(202)**
Transfers	–	–	15	–	–	(15)	–	**–**
Revaluation	405	–	–	–	–	–	–	**405**
31 December 2017	**7,588**	**196**	**1,917**	**1,060**	**187**	**60**	**959**	**11,967**
Accumulated depreciation								
31 December 2016	**–**	**29**	**1,231**	**759**	**64**		**169**	**2,252**
Depreciation charge	75	15	124	88	19		162	**483**
Disposals	–	–	(39)	(41)	(17)		(68)	**(165)**
Revaluation	(75)	–	–	–	–		–	**(75)**
31 December 2017	**–**	**44**	**1,316**	**806**	**66**		**263**	**2,495**
Net book value								
31 December 2016	**7,183**	**76**	**311**	**164**	**114**	**15**	**395**	**8,258**
31 December 2017	**7,588**	**152**	**601**	**254**	**121**	**60**	**696**	**9,472**

(in thousands of Belarusian rubles)

9. Property and equipment and intangible assets (continued)

The movements in property and equipment and intangible assets for 2016 are as follows:

	Buildings	*Structures*	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Construction in progress*	*Intangible assets*	*Total*
Cost/ revalued amount								
31 December 2015	**5,622**	**84**	**1,466**	**806**	**201**	**–**	**266**	**8,445**
Additions	835	21	76	117	115	15	310	**1,489**
Disposals	–	–	–	–	(138)	–	(12)	**(150)**
Revaluation	726	–	–	–	–	–	–	**726**
31 December 2016	**7,183**	**105**	**1,542**	**923**	**178**	**15**	**564**	**10,510**
Accumulated depreciation								
31 December 2015	**–**	**20**	**1,122**	**718**	**192**		**105**	**2,157**
Depreciation charge	66	9	109	41	10		76	**311**
Disposals	–	–	–	–	(138)		(12)	**(150)**
Revaluation	(66)	–	–	–	–		–	**(66)**
31 December 2016	**–**	**29**	**1,231**	**759**	**64**	**–**	**169**	**2,252**
Net book value								
31 December 2015	**5,622**	**64**	**344**	**88**	**9**	**–**	**161**	**6,288**
31 December 2016	**7,183**	**76**	**311**	**164**	**114**	**15**	**395**	**8,258**

Fully depreciated property and equipment and intangible assets as at 31 December 2017 and 31 December 2016 amounted to BYN 1,630 thousand and BYN 1,221 thousand, respectively. As at 1 January 2018, property and equipment paid but not put into operation amounted to BYN 60 thousand.

The Bank engaged an independent appraiser to determine the fair value of its buildings. The fair value is determined based on the combination of the income and comparative methods. The date of the revaluation was 31 December 2017. If the buildings were measured using the historical cost model, the carrying amounts would be as follows:

	2017	*2016*
Cost	3,265	3,265
Accumulated depreciation and impairment	(359)	(326)
Net carrying amount	**2,906**	**2,939**

10. Taxation

The income tax expense comprises:

	2017	*2016*
Current tax charge	214	1,080
Deferred income tax charge/(credit) – origination and reversal of temporary differences	124	(265)
Less: deferred tax income recognized in other comprehensive income	(162)	(198)
Income tax expense/ (benefit)	**176**	**617**

Belarusian legal entities have to file individual tax declarations. The income tax rate for banks was 25% for 2017 and 2016.

(in thousands of Belarusian rubles)

10. Taxation (continued)

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:

	2017	*2016*
Profit before tax	**2,112**	**5,204**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**528**	**1,301**
Non-taxable income on state securities	(560)	(653)
Non-deductible expenditures	235	129
Mandatory revaluation of property and equipment in accordance with the local laws	(22)	(160)
Tax benefit for sponsorship	(5)	–
Income tax expense	**176**	**617**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2015	*In profit for the year*	*In other comprehensive income*	*2016*	*In profit for the year*	*In other comprehensive income*	*2017*
Tax effects of temporary differences							
Loans to customers	128	(122)	–	6	60	–	66
Property and equipment	70	145	(198)	17	23	(162)	(122)
Settlements on contributions to the share capital	(248)	248	–	–	–	–	–
Other assets	(111)	165	–	54	(68)	–	(14)
Amounts due from credit institutions	(43)	22	–	(21)	53	–	32
Allowance for impairment of other assets	77	5	–	82	(30)	–	52
Net deferred tax assets/(liabilities)	**(127)**	**463**	**(198)**	**138**	**38**	**(162)**	**14**

11. Other assets

As at 31 December, other assets comprise:

	2017	*2016*
Other financial assets		
Receivables on state duty	75	34
Receivables on other operations	44	56
Lease receivables	–	126
Other financial assets	216	81
	335	**297**
Less: allowance for impairment of other financial assets	(265)	(171)
	70	**126**
Other non-financial assets		
Prepaid taxes other than income tax	190	69
Prepaid expenses	62	29
Materials and inventory	46	32
Prepayments for property and equipment	2	144
Other prepayments	5	79
Other non-financial assets	52	10
	357	**363**
Other assets	**427**	**489**

(in thousands of Belarusian rubles)

11. Other assets (continued)

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

31 December 2015	**34**
Charge	137
31 December 2016	**171**
Charge	94
31 December 2017	**265**

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

12. Amounts due to credit institutions

As at 31 December, amounts due to credit institutions comprise:

	2017	***2016***
Time deposits	32	1,075
Short-term loans	6,097	17,627
Other	41	49
Amounts due to credit institutions	**6,170**	**18,751**

13. Amounts due to customers

As at 31 December, amounts due to customers include the following:

	2017	***2016***
Current accounts	15,517	10,494
Time deposits	55,354	40,527
Amounts due to customers	**70,871**	**51,021**
Including:		
Held as security against loan commitments	69	528

As at 31 December, amounts due to customers include accounts with the following types of customers:

	2017	***2016***
Legal entities	45,555	31,011
Individuals	25,316	20,010
Amounts due to customers	**70,871**	**51,021**

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

As at 31 December 2017, revocable deposits due to individuals amounted to BYN 4,627 thousand or 17% of time deposits due to individuals.

As at 31 December 2016, revocable deposits due to individuals amounted to BYN 9,780 thousand or 59% of time deposits due to individuals.

(in thousands of Belarusian rubles)

13. Amounts due to customers (continued)

An analysis of customer accounts by economic sector as at 31 December 2017 and 2016 follows:

	2017	*2016*
Individuals	25,316	20,010
Trade	8,648	17,574
Leases	8,414	–
Real estate construction	8,241	5,248
Manufacturing	7,939	2,159
Transport and communication	2,779	78
Insurance	–	327
Other	9,534	5,625
Amounts due to customers	**70,871**	**51,021**

14. Debt securities issued

As at 31 December 2017, the Bank placed BYN-denominated bonds of 14th issue on the secondary market maturing in November 2022 with 7% yield declared at placement. According to the Charter, raised funds were used to finance the Bank's activities.

As at 31 December 2016, the Bank placed USD-denominated bonds of 12th issue on the secondary market maturing in July 2017 with 7% p.a. yield declared at placement.

15. Other liabilities

As at 31 December, other liabilities comprise:

	2017	*2016*
Other financial liabilities		
Vacation provision	235	261
Derivative financial liabilities	102	–
Accrued expenses	39	45
Other settlements	124	77
	500	**383**
Other non-financial liabilities	3	105
Total	**503**	**488**

16. Subordinated loan

As at 31 December, subordinated loan comprise:

Counterparty	*Interest rate on the nominal value*	*Maturity*	*Currency*	*2017*	*2016*
JSC Kazkommertsbank (Republic of Kazakstan)	7.56%	25 September 2023	USD	11,836	11,751

In the event of the Bank's liquidation the subordinated loan will be repaid after the claims of all other creditors are settled.

(in thousands of Belarusian rubles)

17. Equity

As at 31 December 2016 and 2017, authorized share capital of the Bank was paid in full and amounted to BYN 45,318 thousand or 1,388 ordinary shares with a nominal value of BYN 17,829.53 each.

The share capital of the Bank was contributed by the shareholders in Belarusian rubles and they are entitled to dividends and any equity distribution in Belarusian rubles.

Uncertificated shares were issued by the Bank in the form of records on accounts and registered in the State Securities Register under No. 5-200-01-14950.

No dividends were declared or paid by the Bank in 2017 and 2016.

The Bank's equity includes accumulated loss and balance sheet items revaluation reserve.

Balance sheet items revaluation reserve presents the results of revaluation of buildings and financial assets available for sale.

18. Commitments and contingencies

Operating environment

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. The Belarusian economy continues to display characteristics typical of an economy in transition. These characteristics include low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of Belarus. The stability of the Belarusian economy is largely dependent upon the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2017, the Belarusian government and the National Bank of the Republic of Belarus continued to be focused on the stabilization of the financial market. To increase the effectiveness of the use of the refinancing rate as an instrument of fiscal and monetary policy, the National Bank of the Republic of Belarus gradually reduced the rate from 18% in January 2017 to 11% at the year-end. In October 2017, the Management Board of the National Bank of the Republic of Belarus decided to reduce the rate for the mandatory sale of foreign currency proceeds from 20% to 10%. These measures had a positive impact on the Belarusian ruble as GDP increased by 2.4% in 2017 after falling by 2.6% in the previous year. Inflation also significantly slowed down. As a result, the inflation rate in 2017 was 4.6% (2016: 10.6%). In 2017, a growth in banks' problem assets came to a halt.

On 4 July 2017 the banking system transferred to the International Bank Account Number (IBAN) and the Bank Identification Code (BIC).

During 2017, the Republic of Belarus continued to increase its government debt. As at 1 January 2018, external government debt amounted to USD 16.7 billion, showing a year-on-year increase by USD 3.1 billion, or 22.6%. In 2017, the Ministry of Finance of the Republic of Belarus placed two series of Eurobonds for USD 1.4 billion with a yield of 6.875% and 7.625%, and in February 2018 for USD 600 million, for 12 years at 6.2% per annum.

In January 2018, the Ministry of Finance of the Republic of Belarus fully redeemed the Eurobonds placed on the international financial market on 26 January 2011 in the amount of USD 800 million.

In October 2017, Standard & Poor's upgraded the Republic of Belarus's long-term foreign currency and local currency sovereign credit ratings to "B" and retained a stable outlook; short-term foreign currency and local currency sovereign credit ratings were confirmed at "B". The upgrade of the long-term credit rating was due to growing GDP and a stronger external liquidity position of Belarus.

In February 2018, Fitch Ratings upgraded the Republic of Belarus's long-term foreign currency and local currency issuer default ratings from "B-" to "B" with a stable outlook.

In March 2018, international rating agency Moody's upgraded the sovereign rating of the Republic of Belarus to "B3" (previously - "Caa1") with a stable outlook.

(in thousands of Belarusian rubles)

18. Commitments and contingencies (continued)

Operating environment (continued)

In April 2018, Standard & Poor's confirmed B/B long-term and short-term foreign currency and local currency sovereign credit ratings of the Republic of Belarus with a stable outlook.

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

Legal

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

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and customs regulations, continue to evolve. Legislation and regulations are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review by the authorities for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

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

As at 31 December 2017, management of the Bank believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

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

	2017	***2016***
Credit-related commitments		
Undrawn loan commitments, cancellable	5,408	3,947
Financial guarantees issued and similar commitments	117	67
Commitments and contingencies	**5,525**	**4,014**

(in thousands of Belarusian rubles)

19. Net fee and commission income

Net fee and commission income comprises:

	2017	*2016*
Operations with customers	1,049	2,025
Current account replenishment	964	134
Currency exchange operations	12	21
Other	273	183
Fee and commission income	**2,298**	**2,363**
Bank plastic cards operations	(96)	(91)
Transactions with banks	(91)	(94)
Currency exchange operations	(41)	(13)
Other	(35)	(92)
Fee and commission expense	**(263)**	**(290)**
Net fee and commission income	**2,035**	**2,073**

20. Other income

Other income comprises:

	2017	*2016*
Fines and penalties received	124	192
Rental income	95	241
Gains on disposal of property and equipment	–	56
Gains on sale of other assets	1	17
Other	145	34
Other income	**365**	**540**

21. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2017	*2016*
Salaries and bonuses	5,387	4,955
Social security costs	1,478	1,360
Personnel expenses	**6,865**	**6,315**
Communications	892	90
Software	446	1,192
Rent	379	466
Taxes other than income tax	226	303
Utility expenses	226	184
Marketing and advertising	200	97
Security	145	114
Repair expenses	129	243
Contributions to deposit insurance fund	116	118
Impairment and provisions	94	137
Audit services	91	100
Office supplies	81	103
Information and advisory services	70	56
Transportation expenses	53	187
Charity	44	–
Loss on disposal of property and equipment and intangible assets	26	–
Fines/penalties written off	–	30
Other	607	326
Other operating expenses	**3,825**	**3,746**

(in thousands of Belarusian rubles)

22. Risk management

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other 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 responsibility for approval of strategy and principles of risk management, design of effective system of risk management and internal controls lies within the Board of Directors. The Risk Committee was created to assist the Board of Directors in executing this function. There are also separate independent bodies responsible for managing and monitoring risks.

Board of Directors

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

Risk Committee

The Risk Committee is responsible for the risk management system maintenance and supervision of the risk management divisions; assessment of the effectiveness of the Bank's risk management system; provision of the information to the Board of Directors on identified (based on risk reports) significant issues, facts of abuse and deficiencies in the Bank's activities that affect the risk level of the Bank and may result in adverse consequences.

Management Board

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

Credit Committee

The Credit Committee is mainly responsible for implementing and improving the Bank's Credit policy, developing decisions on credit operations and defining their key parameters. The Committee assesses the quality of cumulative claims of the Bank in respect of loans granted, guarantees and other active operations subject to credit risk.

Asset and Liability Management Committee

The Committee is responsible for determining the policy of effective management of assets and liabilities, allowing to maximize profit while minimizing risks and following prudential ratios and statutory acts. The Committee performs complex financial risk management, coordinates the activities of the Bank's units in the field of risk management in order to reach the optimal balance of risks and profitability.

Bank Risk Department

The Bank Risk Department is responsible for developing methods of identification, analysis and measurement of key bank risks (credit, operational, interest, currency, commodity, country, reputational, strategic, liquidity and stock market risks), developing, introducing and monitoring compliance with the limit policy, as well as implementing and maintaining risk-related procedures to ensure an independent control process. The Bank Risk Department is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. This department also presents reports on credit, operational, interest, currency, commodity, country, reputational, strategic, liquidity and stock market risk levels to the Management Board and the Board of Directors.

(in thousands of Belarusian rubles)

22. Risk management (continued)

Risk management structure (continued)

Financial Controlling Department

Financial Controlling Department is responsible for operational management and ongoing monitoring of the Bank's liquidity in terms of the compliance with the liquidity ratios, as well as for the coordination of the strategic planning process, development and compliance with target planned performance indicators, Bank's activity planning and control over plan execution.

Internal audit

Risk management processes throughout the Bank are audited annually by the Internal Audit Department that examines both the adequacy of the procedures and the Bank's compliance with them as well as submits proposals on improvement of the risk management system and internal controls. The Internal Audit Department presents the results of all assessments to the Management Board of the Bank, and reports its findings to the Audit Committee and the Board of Directors.

Risk measurement and reporting systems

The Bank's risks are measured using scenario methods that enable to assess the level of risk in different circumstances.

Monitoring and controlling risks is primarily based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity when capital adequacy is calculated.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Risk Committee, Management Board, Assets and Liabilities Management Committee, and the Credit Committee. The reports include aggregate credit exposure, liquidity ratios, levels of operational, interest and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. The Board of Directors (Risk Committee) receives a comprehensive report on loan portfolio and the Bank's financial position once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

Risk mitigation

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

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

Excessive risk concentration

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

(in thousands of Belarusian rubles)

22. Risk management (continued)

Credit risk

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

Key risk management stages:

- risk identification;
- risk measurement – quantitative description of identified risks (probability and amount of possible losses);
- selection of risk management methods while assessing their comparative effectiveness;
- decision-making and direct impact on the risk;
- monitoring of the accepted credit risk and control over the procedures being used.

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

- monitoring of issued credit instruments 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;
- for the purposes of general compliance with certain loan portfolio parameters established by Credit policy and other Bank's documents, regulating Bank's credit activity.

The Bank Risk Department performs monthly loan portfolio analysis and classification to assess the required allowance for possible losses, the results of which are communicated to the Bank's Credit Committee. The extended analysis of the loan portfolio is performed by the Bank Risk Department on a quarterly basis. The Management Board and Board of Directors are informed on its results.

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

- analysis of negative financial and non-financial information while applying previously set limits (performed by the Bank Risk Department);
- routine and subsequent control over compliance with the set limits (sublimits) for banks acting as counterparties to the Bank executive units directly operating within the set limits (sublimits), and by the Bank Risk Department.

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.

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 assigns 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.

(in thousands of Belarusian rubles)

22. Risk management (continued)

Credit-related commitments risks

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

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 amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

Credit quality per class of financial assets

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

Financial assets are classified based on current credit ratings assigned by the internationally recognized rating agencies. The highest possible rating is AAA. In 2017 and 2016, according to the Standard and Poor's international rating agency the sovereign credit rating of the Republic of Belarus in foreign currency was equivalent to B-.

Credit quality per class of financial instruments for 2017 is as follows:

	Neither past due nor impaired					
	High grade	***Standard grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Cash and cash equivalents, except for cash on hand	10,577	11,040	–	–	–	**21,617**
Amounts due from credit institutions	726	1,333	–	–	–	**2,059**
Loans to customers:						
- Corporate lending	–	16,393	–	–	25,608	**42,001**
- Small business lending	–	3,358	–	–	704	**4,062**
- Consumer lending	–	24,146	–	–	230	**24,376**
Other	–	70	–	–	–	**70**
Debt investment securities						
- available for sale	25,370	5,584	–	–	–	**30,954**
Total financial assets	**36,673**	**61,924**	**–**	**–**	**26,542**	**125,139**

(in thousands of Belarusian rubles)

22. Risk management (continued)

Credit quality per class of financial assets (continued)

Credit quality per class of financial instruments for 2016 is as follows:

	Neither past due nor impaired					
	High grade	***Standard grade***	***Sub-standard grade***	***Past due but not impaired***	***Individually impaired***	***Total***
Cash and cash equivalents, except for cash on hand	3,788	11,098	–	–	–	**14,886**
Amounts due from credit institutions	214	100	–	–	–	**314**
Loans to customers:						
- Corporate lending	–	12,845	–	–	33,145	**45,990**
- Small business lending	–	3,395	–	–	422	**3,817**
- Consumer lending	–	7,582	–	–	670	**8,252**
Other	–	126	–	–	–	**126**
Debt investment securities						
- available for sale	37,741	–	–	–	–	**37,741**
Total financial assets	**41,743**	**35,146**	**–**	**–**	**34,237**	**111,126**

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 5 days for legal entities and 30 days for individuals or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses the impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan, advance or loan with impairment evidence on an individual basis. Items considered when determining allowance amounts include financial performance indicators, their changes in the period of loan servicing, evaluation of the quality of loan servicing, the realizable value of collateral. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated as of each reporting date with each portfolio reviewed separately.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no objective evidence of the impairment in an individual assessment yet. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, existence of loans past due as at the reporting date (over 5 days for legal entities and over 30 days for individuals) until the time the loan is identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank’s overall policy.

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

(in thousands of Belarusian rubles)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to meet its payment obligations as 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 credit facilities that it can access to meet liquidity needs. In addition, the Bank maintains a cash deposit (obligatory reserve) with the National Bank of the Republic of Belarus, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the National Bank of the Republic of Belarus. As at 31 December 2017 and 2016, these ratios were as follows:

	Required minimum ratio	***2017***	***2016***
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities within 30 days)	70%	153	158
"Short-Term Liquidity Ratio" (assets receivable within a year / liabilities repayable within a year)	1	2.5	2.7
"Instant Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20%	253	382

Analysis of financial liabilities by remaining contractual maturities

The tables below show non-derivative financial liabilities at 31 December 2017 and 2016 by their remaining contractual maturities. The amounts in the tables represent contractual undiscounted cash flows and gross credit commitments. Such undiscounted cash flows differ from the amounts included in the statement of financial position since these amounts are based on discounted cash flows.

Where amounts payable are not fixed, the amount in the table is determined based on the conditions existing as at the end of the reporting period. Currency payments are recalculated using the spot exchange rate as at the end of the reporting period.

Financial liabilities as at 31 December 2017	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to credit institutions	6,035	8	172	–	**6,215**
Amounts due to customers	44,857	22,346	4,646	–	**71,849**
Debt securities issued	–	–	6,352	–	**6,352**
Other financial liabilities	398	102	–	–	**500**
Subordinated loan	221	674	3,579	12,493	**16,967**
Financial guarantees issued and similar commitments	117	–	–	–	**117**
Undrawn loan commitments	5,408	–	–	–	**5,408**
Total undiscounted financial liabilities	**57,036**	**23,130**	**14,749**	**12,493**	**107,408**

(in thousands of Belarusian rubles)

22. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities as at 31 December 2016	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***More than 5 years***	***Total***
Amounts due to credit institutions	18,782	–	–	–	**18,782**
Amounts due to customers	43,011	7,226	3,213	–	**53,450**
Debt securities issued	709	–	–	–	**709**
Other financial liabilities	383	–	–	–	**383**
Subordinated loan	222	666	4,439	16,844	**22,171**
Financial guarantees issued and similar commitments	67	–	–	–	**67**
Undrawn loan commitments	3,947	–	–	–	**3,947**
Total undiscounted financial liabilities	**67,121**	**7,892**	**7,652**	**16,844**	**99,509**

Liquidity requirements to support calls under guarantees and import letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under these commitments.

Maturity analysis of assets and liabilities

The table below represents analysis of financial assets and liabilities as at 31 December 2017 in accordance with contractual maturities specified by the Bank:

	Less than 3 months	***3 to 12 months***	***More than 1 year***	***Undefined maturity***	***Total***
Cash and cash equivalents	26,039	–	–	–	**26,039**
Amounts due from credit institutions	2	–	1,232	825	**2,059**
Loans to customers	15,585	19,111	35,743	–	**70,439**
Investment securities available for sale	14,142	11,228	5,584	–	**30,954**
Other financial assets	70	–	–	–	**70**
Total	**55,838**	**30,339**	**42,559**	**825**	**129,561**
Amounts due to credit institutions	6,170	–	–	–	**6,170**
Amounts due to customers	44,431	21,894	4,546	–	**70,871**
Debt securities issued	–	–	6,245	–	**6,245**
Other financial liabilities	398	102	–	–	**500**
Subordinated loan	–	–	11,836	–	**11,836**
Total	**50,999**	**21,996**	**22,627**	**–**	**95,622**
Net position	**4,839**	**8,343**	**19,932**	**825**	**33,939**

(in thousands of Belarusian rubles)

22. Risk management (continued)

Maturity analysis of assets and liabilities (continued)

The table below represents analysis of financial assets and liabilities as at 31 December 2016 in accordance with contractual maturities specified by the Bank:

	Less than 3 months	*3 to 12 months*	*More than 1 year*	*Undefined maturity*	*Total*
Cash and cash equivalents	19,268	–	–	–	**19,268**
Amounts due from credit institutions	–	–	–	314	**314**
Loans to customers	24,110	16,632	17,317	–	**58,059**
Investment securities available for sale	37,741	–	–	–	**37,741**
Other financial assets	126	–	–	–	**126**
Total	**81,245**	**16,632**	**17,317**	**314**	**115,508**
Amounts due to credit institutions	18,751	–	–	–	**18,751**
Amounts due to customers	41,263	6,655	3,103	–	**51,021**
Debt securities issued	709	–	–	–	**709**
Other financial liabilities	383	–	–	–	**383**
Subordinated loan	–	–	11,751	–	**11,751**
Total	**61,106**	**6,655**	**14,854**	**–**	**82,615**
Net position	**20,139**	**9,977**	**2,463**	**314**	**32,893**

The maturity analysis does not reflect the historical stability of current accounts and time deposits which are included in amounts due to customers. Their liquidation has historically taken place over a longer period than indicated in the table above. These balances are included in amounts due in up to three months.

In accordance with the Banking Code of the Republic of Belarus, the Bank is required to repay time revocable deposits within five days upon demand of a depositor. The time irrevocable deposits cannot be early withdrawn at the initiative of a depositor without the Bank's authorization. However, the Bank does not expect that all customers will request repayment at original maturity. These balances are therefore included in liabilities in accordance with their contractual maturities.

Prepayment risk

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

The management believes that the Bank is not exposed to prepayment risk.

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 exchange rates and equity prices. The market risk is managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

(in thousands of Belarusian rubles)

22. Risk management (continued)

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 at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as of 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

	2017					
Currency	***Increase in percentage points***	***Sensitivity of net interest income***	***Effect on other comprehensive income***	***Decrease in percentage points***	***Sensitivity of net interest income***	***Effect on other comprehensive income***
BYN	5%	1,123	40	(5%)	(1,123)	(45)
EUR	1%	64	1	(1%)	(64)	(1)
USD	1%	(114)	70	(1%)	114	(74)

	2016					
Currency	***Increase in percentage points***	***Sensitivity of net interest income***	***Effect on other comprehensive income***	***Decrease in percentage points***	***Sensitivity of net interest income***	***Effect on other comprehensive income***
BYN	5%	927	23	(5%)	(927)	(31)
EUR	1%	13	−	(1%)	(13)	−
USD	1%	20	7	(1%)	(20)	(7)

(in thousands of Belarusian rubles)

22. Risk management (continued)

Geographical concentration

The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2017 is set out below:

	Belarus	*Kazakhstan*	*CIS countries*	*Other countries*	*31 December 2017 Total*
Financial assets					
Cash and cash equivalents	24,399	244	866	530	**26,039**
Amounts due from credit institutions	2,059	–	–	–	**2,059**
Loans to customers	70,439	–	–	–	**70,439**
Investment securities available for sale	30,954	–	–	–	**30,954**
Other financial assets	65	–	5	–	**70**
Total financial assets	**127,916**	**244**	**871**	**530**	**129,561**
Financial liabilities					
Amounts due to credit institutions	6,138	–	32	–	**6,170**
Amounts due to customers	69,742	166	447	516	**70,871**
Debt securities issued	6,245	–	–	–	**6,245**
Other financial liabilities	500	–	–	–	**500**
Subordinated loan	–	11,836	–	–	**11,836**
Total financial liabilities	**82,625**	**12,002**	**479**	**516**	**95,622**
Open position	**45,291**	**(11,758)**	**392**	**14**	

Financial assets and liabilities have generally been recorded based on the country where the counterparty is located. Cash on hand has been recorded based on the country, in which they are physically held. The geographical concentration of the Bank's financial assets and liabilities as at 31 December 2016 is set out below:

	Belarus	*Kazakhstan*	*CIS countries*	*Other countries*	*31 December 2016 Total*
Financial assets					
Cash and cash equivalents	13,670	87	553	4,958	**19,268**
Amounts due from credit institutions	314	–	–	–	**314**
Loans to customers	58,059	–	–	–	**58,059**
Investment securities available for sale	37,741	–	–	–	**37,741**
Other financial assets	86	–	40	–	**126**
Total financial assets	**109,870**	**87**	**593**	**4,958**	**115,508**
Financial liabilities					
Amounts due to credit institutions	1,075	17,675	1	–	**18,751**
Amounts due to customers	50,205	197	544	75	**51,021**
Debt securities issued	709	–	–	–	**709**
Other financial liabilities	383	–	–	–	**383**
Subordinated loan	–	11,751	–	–	**11,751**
Total financial liabilities	**52,372**	**29,623**	**545**	**75**	**82,615**
Open position	**57,498**	**(29,536)**	**48**	**4,883**	

(in thousands of Belarusian rubles)

22. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's financial position and cash flows are exposed to fluctuations in foreign exchange rates.

The Bank has sets internal limits for open position by currency calculated using VaR method for a historical selection of 80 trading days. These limits comply with the minimum requirements set by the National Bank of the Republic of Belarus. The Bank takes measures to minimize open positions for currencies with significantly fluctuating exchange rate exposure. Decisions on foreign currency position optimization are approved by the Asset and Liabilities Management Committee.

The table below indicates the currencies to which the Bank has significant exposure as at 31 December 2017 and 2016, on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble on the statement of comprehensive income (due to the existence of non-trading monetary assets and liabilities whose fair value is sensitive to changes in the currency rate). The effect on equity does not differ from the effect on the statement of comprehensive income. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2017*	*Effect on profit before tax 2017*	*Increase in currency rate in % 2016*	*Effect on profit before tax 2016*
USD	30%	63	30%	(571)
EUR	30%	1,314	30%	(23)

Currency	*Decrease in currency rate in % 2017*	*Effect on profit before tax 2017*	*Decrease in currency rate in % 2016*	*Effect on profit before tax 2016*
USD	(5%)	(10)	(5%)	95
EUR	(5%)	(219)	(5%)	4

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The 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.

(in thousands of Belarusian rubles)

23. Fair value measurement

Fair value of assets and liabilities carried at fair value

IFRS defines fair value as 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.

Fair value of financial instruments not carried at fair value on a recurring basis

	Carrying amount 2017	*Fair value 2017*	*Unrecognized gain/(loss) 2017*	*Carrying amount 2016*	*Fair value 2016*	*Unrecognized gain/(loss) 2016*
Financial assets						
Cash and cash equivalents	26,039	26,039	–	19,268	19,268	–
Amounts due from credit institutions	2,059	2,059	–	314	314	–
Loans to customers	70,439	70,439	–	58,059	58,059	–
Financial liabilities						
Amounts due to credit institutions	6,170	6,170	–	18,751	18,751	–
Amounts due to customers	70,871	70,871	–	51,021	51,021	–
Subordinated loan	11,836	11,836	–	11,751	11,751	–
Debt securities issued	6,245	6,245	–	709	709	–
Total unrecognized change						

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

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their carrying amount approximates their fair value. Such financial assets and liabilities are cash and cash equivalents, amounts due to credit institutions and other financial assets and liabilities. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Fixed and variable rate financial instruments

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

The management believes that the fair value of loans to customers, amounts due to customers, subordinated loan and debt securities issued as at 31 December 2017 does not significantly differ from the carrying amount as the interest rates on these liabilities approximate their market rates.

(in thousands of Belarusian rubles)

23. Fair value measurement (continued)

Levels of fair value hierarchy

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

	Fair value measurement using			
At 31 December 2017	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Investment securities available for sale	30,954	–	–	**30,954**
Property and equipment – buildings	–	–	7,588	**7,588**
Assets for which fair values are disclosed				
Cash and cash equivalents	26,039	–	–	**26,039**
Amounts due from credit institutions	–	2,059	–	**2,059**
Loans to customers	–	70,439	–	**70,439**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	6,170	–	**6,170**
Amounts due to customers	–	70,871	–	**70,871**
Subordinated loan	–	11,836	–	**11,836**
Debt securities issued	–	–	6,245	**6,245**

(in thousands of Belarusian rubles)

23. Fair value measurement (continued)

At 31 December 2016	*Fair value measurement using* *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value				
Investment securities available for sale	37,741	–	–	**37,741**
Property and equipment – buildings	–	–	7,183	**7,183**
Assets for which fair values are disclosed				
Cash and cash equivalents	19,268	–	–	**19,268**
Amounts due from credit institutions	–	314	–	**314**
Loans to customers	–	58,059	–	**58,059**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	18,751	–	**18,751**
Amounts due to customers	–	51,021	–	**51,021**
Subordinated loan	–	11,751	–	**11,751**
Debt securities issued	–	–	709	**709**

In 2017, there were no transfers between the fair value hierarchy levels.

(in thousands of Belarusian rubles)

23. Fair value measurement (continued)

Levels of fair value hierarchy (continued)

The tables below present information on the determination of the fair value of assets and liabilities carried at fair value on a recurring basis, as well as of assets and liabilities the carrying amount of which differs from their fair value and is disclosed in the financial statements (in particular, the valuation techniques and inputs used).

Assets/liabilities	***Fair value at 31 December 2017***	***Fair value at 31 December 2016***	***Fair value hierarchy***	***Valuation techniques and key inputs***
Investment securities available for sale	30,954	37,741	Level 1	Quoted bid prices in an active market
Property and equipment – buildings	7,588	7,183	Level 3	Independent valuation based on market and income methods

According to the property and equipment valuation model developed by an independent appraiser, the fair value is measured based on a combination of the income and market approaches, each assigned with a 50% weighting. According to the market approach, the market value of property and equipment items was measured by the appraisers using compensation adjustments, and under the income approach – the yield capitalization method. Changes in the weighting of income and market approaches, selling prices used, rent rates and the resulting gross multiplier are unobservable inputs having an impact on measurement of investments.

24. Related party disclosures

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

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

(in thousands of Belarusian rubles)

24. Related party disclosures (continued)

The volumes of related party transactions, outstanding balances at the year-end, and related expenses and income for the year are as follows:

	Shareholders	*Key management personnel*	*Shareholders*	*Key management personnel*
Loans at 1 January	–	**6**	–	**5**
Loans issued during the year	–	12	–	6
Loan repayments during the year	–	6	–	5
Loans outstanding at 31 December, gross	–	**12**	–	**6**
Amounts due from credit institutions at 1 January	**87**	–	**54**	–
Amounts due from credit institutions placed during the year	1,066	–	19,833	–
Amounts due from credit institutions received during the year	1,084	–	19,800	–
Other movements, including attributable to changes in the related party structure	(69)	–	–	–
Amounts due from credit institutions at 31 December	–	–	**87**	–
Amounts due to customers at 1 January	–	**57**	–	–
Amounts due to customers received	–	26	–	57
Amounts due to customers repaid	–	32	–	–
Amounts due to customers at 31 December	–	**51**	–	**57**
Amounts due to credit institutions and subordinated loan at 1 January	**29,428**	–	**19,608**	–
Amounts due to credit institutions and subordinated loan received during the year	1,580	–	111,514	–
Amounts due to credit institutions and subordinated loan repaid during the year	19,225	–	101,901	–
Other movements, including attributable to changes in the related party structure	(11,751)	–	207	–
Amounts due to credit institutions and subordinated loan at 31 December	**32**	–	**29,428**	–
Interest expense on amounts due to credit institutions and subordinated loan	510	1	1356	2
Loan commitments less allowance for impairment	–	3	–	9

Compensation to key management personnel comprises:

	2017	*2016*
Salaries and other short-term benefits	544	381
Social payments	39	33
Social security costs	101	63
Total key management personnel compensation	**684**	**477**

(in thousands of Belarusian rubles)

25. Changes in liabilities arising from financing activities

	Debt securities issued	*Total liabilities from financing activities*
Carrying amount at 31 December 2015	**–**	**–**
Proceeds from issue	2,085	**2,085**
Redemption	(1,390)	**(1,390)**
Foreign currency translation	(9)	**(9)**
Other	23	**23**
Carrying amount at 31 December 2016	**709**	**709**
Proceeds from issue	22,704	**22,704**
Redemption	(16,988)	**(16,988)**
Foreign currency translation	(225)	**(225)**
Other	45	**45**
Carrying amount at 31 December 2017	**6,245**	**6,245**

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued.

26. Capital management

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using the ratios established by the National Bank of the Republic of Belarus in supervising the Bank.

The main objective of the Bank's capital management is to ensure the Bank's compliance with externally imposed capital and maintaining a strong credit rating and healthy capital ratios required for the implementation of its business and maximize shareholder value.

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

Capital adequacy ratio of the National Bank of the Republic of Belarus

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets, computed based on Belarusian Accounting Standards. At 31 December, the Bank's capital adequacy ratio calculated on this basis was as follows:

	2017	*2016*
Main capital	34,619	28,928
Additional capital used for calculation of regulatory capital	20,713	23,652
Total regulatory capital	**55,332**	**52,580**
Risk-weighted assets used for calculation of capital adequacy ratio	**90,268**	**89,971**
Regulatory capital adequacy ratio	**61.30%**	**57.22%**

As at 1 January 2018, the Bank's regulatory capital was BYN 52.75 million. In 2017, capital gains were attributable to internal sources, mainly to the Bank's profit.

As at 31 December 2017, no obligatory ratios set by the National Bank of the Republic of Belarus were violated.

(in thousands of Belarusian rubles)

27. Operating segments

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segment reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

The Bank identifies the following operating segments (lines of business) by the customer type, nature of business processes and type of the performed transactions (rendered services):

- **Corporate business** – settlements and cash services to legal entities and individual entrepreneurs, attraction of deposits, provision of loans and performance of other active operations, currency transactions, rendering of services on emission and operation of bank plastic cards, trade financing
- **Retail business** – attraction of deposits and provision of loans, cash and settlements operations and currency transactions, rendering of services on emission and operation of bank plastic cards of individuals.

There is an also the **financial business** operating segment that involves interbank transactions with securities and derivatives.

Each segment performs activities according to the Bank's business plan approved for the current year.

The main objective of the segment is to perform planned tasks in accordance with performance indicators established in the business plan of the Bank.

Assets and liabilities, income and expenses of the Bank are distributed between the segments in full. Direct income, own assets and liabilities of the segments are attributed to the segment based on their origination.

The assets of the segment comprise: loans to customers, securities, mandatory reserves with the National Bank of the Republic of Belarus and deposits with the National Bank of the Republic of Belarus. Liabilities of the segment comprise: amounts due to customers (current and term), securities issued, subordinated loans and deposits with the National Bank of the Republic of Belarus.

Customers operating in the Republic of Belarus are a source of the Bank's income.

The Bank classifies the operating segment if either of the following applies:

- The operating segment's income (including income from external customers and other operating segments) makes at least 10% of the total income of all operating segments for the same reporting period
- The operating segment's assets make at least 10% of the total assets of all operating segments for the same reporting period.

The disclosures on reporting segments are based on the accounting records in accordance with the requirements of the Belarusian laws.

(in thousands of Belarusian rubles)

27. Operating segments (continued)

Information on the Bank's operating segments for 2017 is presented in the table below:

Item	*Corporate business*	*Retail business*	*Financial business*	*Adjustments*	*Total*
Revenue					
Interest income	6,450	2,458	2,657	13	**11,578**
Net fee and commission income	1,143	976	(81)	(3)	**2,035**
Net gains/(losses) on foreign currency transactions and derivatives	11	3	1,370	(100)	**1,284**
Other income	1,040	403	(234)	(910)	**299**
Total revenue	**8,644**	**3,840**	**3,712**	**(1,000)**	**15,196**
Interest expense	1,559	754	1,064	4	**3,381**
Allowance for loan impairment	(699)	243	–	(1,014)	**(1,470)**
Personnel expenses	3,488	2,704	672	1	**6,865**
Other operating expenses	1,793	2,109	303	103	**4,308**
Segment expenses	**6,141**	**5,810**	**2,039**	**(906)**	**13,084**
Income tax expense	455	(13)	(249)	(17)	**176**
Financial result	**2,048**	**(1,957)**	**1,922**	**(77)**	**1,936**
Segment assets	**52,364**	**31,602**	**48,447**	**6,991**	**139,404**
Segment liabilities	**59,521**	**26,286**	**10,547**	**(716)**	**95,638**

Information on the Bank's operating segments for 2016 is presented in the table below:

Item	*Corporate business*	*Retail business*	*Financial business*	*Adjustments*	*Total*
Revenue					
Interest income	10,073	3,176	4,064	(285)	**17,028**
Net fee and commission income	1,690	651	(85)	(183)	**2,073**
Net gains/(losses) on foreign currency transactions and derivatives	–	–	4,960	(907)	**4,053**
Other income	500	110	(65)	(70)	**475**
Total revenue	**12,263**	**3,937**	**8,874**	**(1,445)**	**23,629**
Interest expense	3,751	1,026	1,368	(574)	**5,571**
Allowance for loan impairment	2,383	(3)	(115)	217	**2,482**
Personnel expenses	3,140	2,493	634	48	**6,315**
Other operating expenses	1,609	1,764	371	313	**4,057**
Segment expenses	**10,883**	**5,280**	**2,258**	**4**	**18,425**
Income tax expense	344	–	795	(522)	**617**
Financial result	**1,036**	**(1,343)**	**5,821**	**(927)**	**4,587**
Segment assets	**54,789**	**9,183**	**60,592**	**(297)**	**124,267**
Segment liabilities	**32,767**	**20,276**	**30,142**	**(369)**	**82,816**

(in thousands of Belarusian rubles)

28. Events after the reporting period

From 1 January 2018, the National Bank established the amount of regulatory provisions deposited with the National Bank at the level of 17% (instead of 15%).

On 14 February 2018, the refinancing rate decreased from 11% to 10.5% per annum and the rate on permanently available and bilateral transactions of the National Bank on the current bank liquidity maintenance decreased from 12% to 11.75% per annum.