CJSC «Joint Stock Bank of Reconversion and Development»

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

For the year ended 31 December 2017

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Board of Directors, Audit Committee,

To Management of CJSC "Joint Stock Bank of Reconversion and Development",

To the National Bank of the Republic of Belarus

Ref. number: 04-05/39

Date: 04 May 2018

Opinion

Information about the Auditee:

Bank: CJSC "Joint Stock Bank of Reconversion and Development" (CJSC "RRB-Bank")

Location: 18 Krasnozvyozdnaya Street, postal code 220034 Minsk, Republic of Belarus

Information on the state registration: CJSC "Joint Stock Bank of Reconversion and Development" is registered upon the decision on the Board of the National Bank of the Republic of Belarus dated 22 February 1994, registration number 37

Payer's identification number: 100361187

We have audited the accompanying annual financial statements of CJSC "Joint Stock Bank of Reconversion and Development" (hereinafter - "the "Bank"), which comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income, the statements of changes in equity and 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 aspects the financial position of CJSC "RRB-Bank" as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRS").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those 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 Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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. Each matter specified below includes the information on how the corresponding matter had been addressed during our audit.

We met all the obligations described in the Auditor's responsibilities for the audit of the financial statements section of our report including those related to the matters specified. Therefore, our audit engaged implementation of the procedures elaborated in response to our risk assessment of material misstatements in the financial statements. The results of audit procedures, including those performed while considering the matters referred to below, form the basis for our opinion on the accompanying financial.

Key audit matter	Audit procedures
1 Allowance for impairment of loans to customer	
Evaluation the adequacy of the impairment provisioning for the loans to clients is the key judgement area of the Bank's management. Processes of determination of impairment indicators and evaluation of the amount to be recovered imply application of professional judgments, adjustments as well as the analysis of various factors, including the financial position of the borrower, expected future cash flows, a distribution cost of the assets pledged. Application of different models and adjustments influence significantly the level of the impairment provisioning for the loans to customers. Considering the materiality of loan amounts equal to 58% of the total amount of assets as well as the high subjectivity of judgements, the assessment of impairment provisioning is deemed to be one of the key audit matters. While performing the specified procedures we have reviewed the information disclosed in the Notes 11, 34 to the financial statements for completeness and compliance to IFRSs.	Our audit procedures included assessment of the methods of calculation of provisions for impairment of loans for clients, incoming data testing and analysis of Bank's assumptions used for calculating impairment provisions. Moreover, as for provisioning for material individually assessed loans, we have analyzed the expected future cash flows, including the cost of a loan issued, based on the analysis of assumptions used by the Bank's management in assessing collateral value and information on a market value received from public. With regard to the provision for collectively assessed loans, our audit procedures included analysis of the provision calculation models as well as testing of the incoming data applied in those models. During the audit we have analyzed consistency and reasonability of judgments of the management used for assessment of economic factors and statistical information on the losses and amounts.

Responsibilities of the Management for the preparation of the Financial Statements

The Bank's 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 financial statements that are free from material misstatement, whether due to fraud and (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 either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are 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 whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance forms a high level of assurance, but it does not guarantee an audit conducted in accordance with the national requirements for audit activities, will always detect a material misstatement when it exists. Misstatements can arise due to fraud or error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of the users of these annual financial statements taken on its basis.

As part of audit conducted in accordance with national standards for audit activities, 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 of the financial statements 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 of the annual financial statements made by the auditee;
- 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements (ending)

We also provide those charged with governance 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 those charged with governance, we choose key audit matters and describe these matters in our auditor's report (unless law or regulation precludes public disclosure about the matter or when we determine that a matter should not be communicated in our report because of the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication).

Director /
Managing Partner
BDO in Belarus ____________ Alexander Shkodin

БДО
МИНСК

Auditor-in-charge
BDO in Belarus ____________ Ivan Kovalenko

Auditor's opinion date: 04 May 2018

Place of issue: Minsk, Republic of Belarus

Date of receipt by the auditee: 04 May 2018

Position, full name Председатель Правления Signature ____________ В.В. Дранкевич

INFORMATION ABOUT THE AUDITOR:

Company:	Auditor
Location:	BDO Limited Liability Company
Information on the state registration:	Republic of Belarus, 220020, Minsk, 103 Pobediteley ave., office 807
Payer's identification number:	Certificate of state registration issued by Minsk City Executive Committee dated 15.11.2013

Management of CJSC Joint Stock Bank of Reconversion and Development (the «Bank») is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as of 31 December 2017, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards («IFRS»).

In preparing the financial statements, management is responsible for:

- proper selection and application of 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 specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, 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 the legislation and accounting rules of the Republic of Belarus;
- taking steps that are reasonably available to them to safeguard the assets of the Bank;
- detecting and preventing financial and other irregularities.

The financial statements for the year ended 31 December 2017, were authorized for issue on 4 May 2018 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

РЭСПУБЛІКА БЕЛАРУСЬ
АКЦЫЯНЕРНЫ БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ
РРБ-БАНК
г. МІНСК

Minsk
4 May 2018

STATEMENT OF FINANCIAL POSITION

In thousands of Belarusian Roubles

	Notes	31 December 2017	31 December 2016
Assets			
Cash and balances with the National Bank of the Republic of Belarus	7	25,356	9,803
Derivative financial assets	8	19	7
Due from other banks	9	5,010	11,550
Loans to customers	11	101,438	55,854
Securities available for sale	10	6,924	-
Securities held to maturity	12	6,698	72,987
Investment property	13	10,837	10,818
Assets available-for-sale	16	1,745	-
Property and equipment, intangible assets	14	14,677	13,608
Current income tax receivable		-	106
Deferred tax assets	30	910	-
Other assets	15	1,938	3,500
Total assets		**175,552**	**178,233**
Liabilities			
Due to other banks	17	15,054	3,904
Customer accounts	18	104,474	119,454
Debt securities in issue	19	1,322	3,124
Other liabilities	20	872	996
Current income tax liability		145	-
Deferred tax liability	30	-	772
Subordinated debts	21	13,920	6,396
Preference shares	22	1,862	1,673
Total liabilities		**137,649**	**136,319**
Equity			
Share capital	23	46,974	46,974
Additional capital contribution	21	-	3,548
Property and equipment reevaluation provision	14, 30	49	49
Accumulated loss		(9,120)	(8,657)
Total equity		**37,903**	**41,914**
Total liabilities and equity		**175,552**	**178,233**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
4 May 2018

РЭСПУБЛІКА БЕЛАРУСЬ г. МІНСК
АКЦЫЯНЕРНЫ БАНК РЭКАНВЕРСІІ І РАЗВІЦЦЯ
РРБ-БАНК

The notes set out on pages 6 — 74 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of Belarusian Roubles

	Notes	2017	2016
Interest income	24	15,741	23,874
Interest expense	24	(7,606)	(13,066)
Net interest income		**8,135**	**10,808**
Fee and commission income	25	2,774	2,134
Fee and commission expense	25	(792)	(768)
Net fee and commission income		**1,982**	**1,366**
Net gain/(loss) on derivative financial instruments	26	143	(6)
Net gain on foreign exchange operations	27	1,739	4,102
Net loss on securities	27	(119)	(41)
Other income	28	1,468	1,632
Total operating income		**13,348**	**17,861**
Operating expenses	29	(10,097)	(10,539)
Recovery of value of repossessed assets		(10)	-
Provision for impairment losses on interest bearing financial assets, net	9, 11	(750)	(4,035)
Provision for impairment losses on other financial assets, net	15	(121)	(195)
Charge for other risks and payments	15	-	427
Provision for loan commitments, net	32	(146)	(24)
Profit before income tax		**2,224**	**3,495**
Income tax expense	30	1,451	4
Net profit for the year		**3,675**	**3,499**
Other comprehensive income			
Total other comprehensive income		-	-
Total comprehensive income for the year		**3,675**	**3,499**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
4 May 2018

The notes set out on pages 6 — 74 form an integral part of these financial statements.

In thousands of Belarusian Roubles

	Notes	Share capital	Additional capital contribution	Reserve for revaluation of property and equipment	Accumulated loss	Total equity
Balance as at 31 December 2015		**46,129**	**3,548**	**49**	**(11,262)**	**38,464**
Net profit for the year		-	-		3,499	3,499
Comprehensive income for the year		**-**	**-**	**-**	**3,499**	**3,499**
Transactions with shareholders recorded directly in equity						
Increase of nominal value of common shares	23	845	-	-	(845)	-
Increase of nominal value of preferred shares		-	-	-	(49)	(49)
Balance as at 31 December 2016		**46,974**	**3,548**	**49**	**(8,657)**	**41,914**
Net profit for the year		-	-		3,675	3,675
Comprehensive income for the year		**-**	**-**	**-**	**3,675**	**3,675**
Transactions with shareholders recorded directly in equity						
Effect of closing a subordinated debt from EBRD	21	-	(3,548)	-	(4,138)	(7,686)
Balance as at 31 December 2017		**46,974**	**-**	**49**	**(9,120)**	**37,903**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
4 May 2018

The notes set out on pages 6 — 74 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (DIRECT METHOD)

In thousands of Belarusian Roubles

	Notes	2017	2016
Cash flows from operating activities			
Interest received		15,927	22,781
Interest paid		(7,636)	(12,901)
Fee and commission received		2,721	1,985
Fee and commission paid		(792)	(761)
Income received from operations with derivative financial instruments	35	144	4
Income paid from foreign currencies operations	27	1,814	3,472
Expenses paid on securities held to maturity		(119)	(41)
Other income received		1,294	1,399
Operating expenses paid		(9,221)	(9,902)
Income tax received		20	227
Cash flows from operating activities before changes in operating assets and liabilities		**4,152**	**6,263**
Net (increase)/decrease in operating assets:			
Mandatory reserve deposits with the National Bank of the Republic of Belarus		(580)	324
Due from other banks		272	358
Financial assets available for sale		-	1,561
Loans to customers		(44,866)	6,009
Securities held to maturity		65,460	2,912
Securities available for sale		(6,338)	-
Other assets		(489)	1,084
Net increase/(decrease) in operating liabilities:			
Due to the National Bank of the Republic of Belarus		-	(12,781)
Due to other banks		10,528	(6,446)
Customer accounts		(16,828)	8,583
Other liabilities		(34)	328
Net cash (outflow)/inflow from operating activities		**11,277**	**8,195**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(1,768)	(1,869)
Proceeds from disposal of property and equipment		36	15
Proceeds from sale of available-for-sale assets		689	19
Proceeds from disposal of investment property		-	1,176
Net cash outflows from investing activities		**(1,043)**	**(659)**

STATEMENT OF CASH FLOWS (DIRECT METHOD) - CONTINUATION

In thousands of Belarusian Roubles

	Notes	2017	2016
Cash flows from financing activities			
Receipt of subordinated debts		8,007	-
Repayment of subordinated debts		(8,110)	(8,992)
Placement of debt securities issued		5,279	3,101
Repayment of debt securities issued		(6,962)	(23)
Repayment of debt from finance lease		(344)	(1,199)
Net cash (outflow)/inflow from financing activities		**(2,130)**	**(7,113)**
Effect of changes in foreign exchange rates on cash and cash equivalents		236	(703)
Effect of inflation on cash and cash equivalents		-	-
Net increase/(decrease) in cash and cash equivalents		**8,340**	**(280)**
Cash and cash equivalents at the beginning of the year	31	**20,584**	**20,864**
Cash and cash equivalents at the end of the year	31	**28,924**	**20,584**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
4 May 2018

The notes set out on pages 6 — 74 form an integral part of these financial statements.

1. General information

CJSC Joint Stock Bank of Reconversion and Development (the «Bank») was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking license No. 21 issued by the National Bank of the Republic of Belarus on 7 June 2013. The Bank also has a license for performing professional and stock-exchange activities with securities No. 02200/5200-1246-1126 issued by the Ministry of Finance of the Republic of Belarus dated 29 June 2012.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals and legal entities, including individual entrepreneur; attracting deposits from non-banking and banking organizations, legal entities and individuals; maintaining customer accounts; performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has a certificate of acceptance for registration in the State Agency of Guaranteed Compensation of Individual Deposits, which guarantees 100% repayment of deposits of individuals in case of withdrawal of the banking licence.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, 220034 Minsk, Republic of Belarus.

The average number of employees of the Bank was 240 in 2017 (2016 – 257).

Shareholders structure of the Bank as at 31 December 2017 and 2016 is presented below:

	31 December 2017 % of the total number of shares	**31 December 2016 % of the total number of shares**
LLC Dikris	84.50	84.50
Tsybulin V.A.	7.53	7.53
LLC Speedster-M	7.25	7.25
Other	0.72	0.72
Total	**100.00**	**100.00**

Detailed information on the share capital of the Bank is presented in Note 23.

The ultimate controlling party of the Bank as at 31 December 2017 and 2016 was Valentin A. Tsybulin, the resident of the Republic of Belarus.

2. Basis of preparation of the financial statements

Statement of compliance

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

General basis of presentation of the financial statements

These financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future. The Management believes that going concern assumption is appropriate for the Bank due to it's sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The Bank maintains accounting records in accordance with the requirements of the applicable legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS.

The functional and presentation currency is the national currency of the Republic of Belarus — Belarusian rouble.

These financial statements are presented in thousands of Belarusian Roubles, unless otherwise stated.

In 2011 - 2014 the economy of Belarus was recognised as hyperinflationary since meeting of criteria, stipulated in IAS 29 «Financial Reporting in Hyperinflationary Economies». This standard requires that financial statements of the entity, whose functional currency is the currency of a hyperinflationary economy, shall be stated in prices, which present purchasing power as at the end of the reporting period. From 1 January 2015 the economy of Belarus has been no more considered as hyperinflationary. In addition, opening balances of non-cash assets, liabilities and capital of the Bank as at 1 January 2015 are presented in prices being effective as at 31 December 2014.

3. Adoption of new and revised standards and interpretations

The Bank has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2017. The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each new amendment are described below:

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative

The amendments require entities to provide disclosures about 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 Bank disclosed relevant information for both the current period and the comparative period in Note 1.

Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses.

Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

These amendments had no effect on the Bank's financial position and performance, since the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

Amendments to IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 are applicable to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal Bank that is classified) as held for sale. These amendments had no impact on the Bank's financial position or performance.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which supersedes IAS 39 Financial Instruments: Recognition and Measurement. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required, but recalculation of comparative information is not compulsory, except for hedge accounting.

The Bank plans to adopt the new standard and recognize the cumulative effect of transition in retained earnings as at 1 January 2018. The comparative information will not be restated. Based on data as at 31 December 2017 and the current adoption status, the Bank is currently assessing, in quantitative terms, the impact of IFRS 9 adoption; however, the assessment has not been finalized yet.

The Bank has developed a plan for the phase-by-phase transition to IFRS 9. The working Bank for the transition to the new standard comprises experts on methodology, data search and modeling, information technology and financial statements. The Bank was engaged in the assessment of financial instruments affected by classification and measurements requirements of IFRS 9, as well as in the development of the methodology to provide for expected credit losses.

(a) Classification and measurement

Pursuant to IFRS 9, all debt financial assets that do not meet the Solely Payments of Principal and Interest (SPPI) criterion are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). According to this criterion, debt instruments that do not meet the definition of basic credit agreement (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. Those debt financial instruments that meet the SPPI criterion are classified at initial recognition based on a business model for managing these instruments:

- Instruments held to receive the contractual cash flows are at amortized cost.
- Instruments held to receive the contractual cash flows and for sale are classified as at fair value through other comprehensive income (FVOCI).
- Instruments held for other purposes are classified as at FVPL.

Equity financial assets are to be classified at initial recognition as at FVPL, except when the entity decided to irrevocably designate such assets as at FVOCI. For equity financial instruments classified as at FVOCI, all realized and unrealized gains or losses (except for dividend income) are recognized in other comprehensive income, with no subsequent reclassification to profit or loss.
The classification and measurement of financial liabilities remain almost unchanged from the existing requirements of IAS 39. Derivative financial instruments continue to be measured at FVPL.

The Bank does not expect any significant changes in classification and measurement of financial instruments recorded on its statement of financial position.

(b) Impairment

IFRS 9 sets requirements for assessing expected credit losses and providing for financial assets measured at amortized cost and at fair value through other comprehensive income, including loans, trade and lease receivables, debt securities, contractual assets per IFRS 15, as well as off-balance credit-related commitments (hereinafter, the «financial instruments»).

Key changes in the approach to assessing provisions for expected credit losses in IFRS 9:

- Expected credit losses are assessed for all financial instruments, including assets without any indications of impairment and/or deterioration of credit quality; provision is required from the date of acquisition of a financial instruments exposed to credit risk, which result in higher provisions.
- A more complex provisioning methodology was introduced. A provisioning model is to be developed using the following parameters: probability of default (PD) within 12 months and for the whole term of the financial instrument, loss given default (LGD), macroeconomic indicators.

The assessment of impairment losses is based on expected losses (IFRS 9) rather than on incurred losses (IAS 39).

According to the new assessment model, an allowance should be created at initial recognition of a financial instrument (or at the date when the Bank becomes a party to a loan agreement or a financial guarantee) based on expected potential credit losses.

Pursuant to IFRS 9, for financial instruments, either occurred or acquired, the Bank will recognize an allowance for impairment in the amount of expected credit losses for 12 months, if there has been no significant increase in credit risk since origination (phase 1). This amount represents expected credit losses as a result of a default that may take place within the next 12 months. Interest income is calculated based on the gross carrying amount of a financial instrument at phase 1.

According to IFRS 9, credit losses shall be recognized over the remaining useful lives of financial instruments («expected losses over the useful life») that are considered to have a significantly increased credit risk exposure (phase 2), as well as for financial assets impaired at the reporting date (phase 3).

Expected losses for financial instruments are all possible events of default that may occur over the expected useful life of a financial instrument. The Bank uses current risk management measures, changes in credit rating and relevant reasonable information to determine whether there is a significant increase in credit risk of a financial instrument. This includes considering prospective information, including macroeconomic factors. In addition, financial instruments will be transferred at phase 2, if they are 30 days overdue. Interest income is calculated based on the gross carrying amount of a financial instruments at phase 2.

IFRS 9 does not require separating individually significant financial instruments / borrowers in assessing expected credit losses and using a separate approach to such instruments/borrowers. Interest income is calculated only based on net carrying amount of these financial instruments at phase 3.

The Bank decided to assess the provision for credit losses on an individual basis at phase 3. There is a number of criteria the Bank analyses at transitions between phases 1, 2 and 3. At the same time, it

analyses, on an individual basis, all factors that may provide evidences of changes in credit risk or impairment.
In order to assess expected credit losses, the Bank uses three basic components: the probability of default (PD) (point in time and lifetime), loss given default (LGD), macroeconomic indicators.

For the purpose of IFRS 9, provisions for credit losses are affected by such key characteristics as exposure at default (EAD), expected useful life of a financial asset, etc. As a result, the provision for credit losses for phase 2 financial instruments will be increased along with the expected useful life of a financial instrument.
According to estimates, IFRS 9 will result in higher provisions to cover credit losses, as mentioned above. This increase is a result of the requirement to fix a provision in the amount of expected credit losses for 12 months for instruments with no significant increase in credit risk since origination, and a larger number of financial instruments to which expected losses are applied over their useful lives.

(c) Changes in hedge accounting

IFRS 9 sets new hedge accounting rules that will align hedge accounting with risk management approach. The standard eliminated certain restrictions, so more instruments can qualify as hedging instruments for hedge accounting purposes.

Key changes: Modified approach to hedge effectiveness testing, risk component designated as the hedged item, hedging cannot be derecognized when the hedging purpose remains unchanged.

IFRS 9 provides possibility to postpone implementation of the standard in relation to hedge accounting and continue to apply IAS 39 requirements. The Bank decided not to implement IFRS 9 in relation to hedge accounting at the date of IFRS 9 became effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016. The new standard will supersede all existing 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 approach and recognize the cumulative effect of transition in retained earnings as at 1 January 2018. The comparative information will not be restated.

IFRS 15 establishes a new five-step model that will apply to 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 continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9 and IFRS 16 Leases). As a result, this standard will have no impact on a significant portion of the Bank's revenue.

The Bank does not expect a significant impact of IFRS 15.

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

The amendments address the inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or a joint venture. The amendments clarify that gains or losses arising as a result of the sale or contribution of assets that constitute a business, as defined in IFRS 3, in a transaction between an investor and its associate or joint venture are recognized in full. However, gains or losses arising as a result of the sale or contribution of assets that do not constitute a business are recognized only to the extent of interests of investors, other than the entity, in an associate or a joint venture. The IASB has deferred the effective date of these amendments for an indefinite term, but an entity that early adopts the amendments must apply them prospectively. The Bank does not expect any significant effect from these amendments.

Amendments to IFRS 2 - Classification and Measurement of Share-based Payments

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; classification of share-based payments with settlement of the tax at source on a net basis; accounting for amended terms of share-based payments resulting in cease of classification as a cash-settled transaction and start of classification as equity-settled transaction.

When adopting the amendments, entities do not have to restate data for the prior periods, however retrospective application is possible if the entity applies all three aspects and if other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Bank does not expect any significant effect from these amendments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and 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 that lessees account for all lease agreements using a single lessee accounting model, i.e. similarly to the accounting for finance leases in IAS 17. The standard provides for two types of disclosure exemptions for lessees: for leases of 'low-value' assets and 'short-term' leases (e.g. leases expiring in 12 months or less). At the inception of the lease, the lessee will recognize a liability to make lease payments (i.e. a lease liability) and an asset granting the right to use an underlying asset over the lease term (i.e. a right-of-use asset). The lessees will recognize the interest expense related to the lease liability separately from the amortization expense related to the right-of-use asset.

The lessees will also remeasure the lease liability on occurrence of a certain event (e.g. a change in lease terms or future lease payments resulting from a change in the index or rate used to determine those payments). In most cases, a lessee will account for the amount of the remeasured lease liability as an
The accounting treatment for the lessor under IFRS 16 remains almost unchanged from the existing requirements of IAS 17. Lessors will continue to classify leases as operating or finance leases using the same classification principles as in IAS 17.

In addition, IFRS 16 requires that lessors and lessees provide a more detailed disclosures as compared with IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before the date on which the entity begins to apply IFRS 15. A lessee may apply this standard using either a full or modified retrospective approach. The transitional provisions of the standard contain certain exemptions. In 2018, the Bank will continue to assess the potential impact of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard related to insurance contracts, which addresses the issues of recognition, measurement, information presentation and disclosures.

When IFRS 17 is effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all insurance contracts (i.e., life insurance and insurance other than life insurance, direct insurance and reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation conditions.

There are several scope exceptions. The main objective of IFRS 17 is to provide a recognition model for insurance contracts, which is more effective and consistent for insurers. Unlike requirements of IFRS 4, which are based mostly on previous local accounting policies, IFRS 17 provides a comprehensive recognition model for insurance contracts covering all the relevant accounting considerations.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021. In addition, comparative information shall be provided. Earlier application is permitted on condition that the entity also applies IFRS 9 and IFRS 15. The Bank does not expect that IFRS 15 will have a significant effect on the financial statements.

Amendments to IAS 40 - Transfers of Investment Property

Amendments clarify the cases when an entity is required to transfer real estate, including real estate under construction or development, into or from the category of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. Any change in management's intentions regarding the use of the property itself does not indicate a change in its use. Entities should apply these amendments prospectively with respect to changes in use, which occurred on or after the beginning of the annual reporting period, in which the entity applies these amendments for the first time, or after that date. The entity shall re-assess the classification of real estate held at that date and, if necessary, transfer real estate to reflect conditions that exist at that date. Retrospective application is permitted according to IAS 8 only if it is possible without more recent information. The amendments are effective for annual periods beginning on or after 1 January 2018. The Bank does not expect any significant effect from these amendments.

Annual improvements 2014-2016 cycle (issued in December 2016). They include:

IFRS 1 First-time Adoption of International Financial Reporting Standards - Elimination of Short-Term Exemptions for First-Time Adopters Short-term exemptions stipulated by paragraphs E3-E7 of IFRS 1 were deleted since they had served their purpose. These amendments are effective from 1 January 2018. These amendments are not applicable to the Bank.

IAS 28 Investments in Associates and Joint Ventures - Clarification that the Decision to Measure Investees at Fair Value through Profit or Loss Should Be Made Individually for Each Investment. The amendments clarify:

An entity that is a venture capital organization, or other similar entity may decide to measure investments in associates and joint ventures at fair value through profit or loss. This decision is made individually for each investment.

If the entity that is not an investment entity itself has an interest in an associate or joint venture that are investment entities, when applying the equity method, such entity can retain the fair value measurement applied by its investment associate or joint venture to its interests in subsidiaries. This decision is made individually for each investment associate or joint venture at the later of: (a) the date of initial recognition of an investment associate or joint venture; (b) the date when an associate or joint venture becomes an investment entity and (c) the date when an investment associate or joint venture first becomes a parent.
These amendments are applied retrospectively and are effective from 1 January 2018. The Bank does not expect any significant effect from these amendments.

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

These amendments eliminate concerns arising from implementing the new standard related to financial instruments, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments grant 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 at the entity's discretion on transition to IFRS 9. In addition, the entity restates comparative information to reflect the overlay application approach if, and only if, it restates comparative data while applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC 22 - Foreign Currency Transactions and Prepayment

It clarifies that for the purpose of determining exchange rate to be applied at initial recognition of the respective assets, expenses or revenues (or their part) at derecognition of a non-monetary asset or non-monetary liability related to making or receiving prepayment, the date of transaction should be considered the date when an entity initially recognizes non- monetary asset or non-monetary liability related to making or receiving prepayment. The clarification become effective for annual reporting periods beginning on or after 1 January 2018. However, since the current activities of the Bank comply with the requirements of the clarification, the Bank does not expect that it will have any impact on its financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

The clarification addresses the treatment of income tax when there is uncertainty over tax interpretations, which affects the application of IAS 12. The clarification does not apply to taxes or fees that are not within the scope of IAS 12, nor does it contain specific requirements for interest and penalties related to uncertain tax interpretations. The entity should decide whether to consider each uncertain tax interpretation separately or together with one or several other uncertain tax interpretations. It is necessary to use an approach that will allow predicting results of resolving uncertainty more accurately. The clarification also covers assumptions made to review interpretations of tax authorities and changes in facts and circumstances.
The clarification become effective for annual reporting periods beginning on or after 1 January 2019. The Bank is not subject to taxation, therefore application of these amendments has no effect on the Bank's financial position and performance.

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 recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised 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 recognised 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.

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets which can be easily converted into certain amounts of cash and which are subject to an insignificant risk of changes in value with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with longer-term maturity exceeding 90 days cannot be considered as cash equivalents when their residual period to maturity reduces to 90 days. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Mandatory reserve deposits with the National Bank of the Republic of Belarus

Mandatory reserve deposits with the National Bank of the Republic of Belarus (the «National Bank») are funds deposited with the National Bank, which are not intended for the financing of current operations. Mandatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

Financial instruments

Classification of financial instruments on initial recognition is performed on the basis of intention, for which they were acquired and their characteristics.

Reclassification of financial instruments after their initial recognition is permitted or required only when certain criteria established by appropriate IFRS are met. During the analysis of the possibility of reclassification of financial instruments the Bank follows the principle that the financial instrument should meet the definition of the category where it is aimed to be reclassified.

Financial instruments are classified into the following categories.

Financial assets and liabilities carried at fair value through profit or loss are those that have been classified by the Bank as carried at fair value through profit or loss or as held for trading. Financial instruments held for trading are those that the Bank buys for the purpose of generating profit from short-term fluctuations in their price. Derivatives also fall to this category.

Securities held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. Investments held-for-maturity, generally, include debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the nearest term;
- those that the Bank designates upon initial recognition as carried at fair value through profit or loss or as available for sale;
- those for which the Bank may not recover substantially all of its initial investments, for the reason other than credit deterioration, and which shall be classified as available for sale.

Loans and receivables include amounts due from other banks, loans to customers and other financial assets which comply with these classification criteria.

Financial assets available for sale are non-derivative financial assets that are not included into any of other categories described above. Available-for-sale instruments may include certain debt and equity investments.

Financial liabilities carried at amortised cost include financial liabilities except for:

- liabilities measured at fair value with any gains or losses arising on remeasurement recognised in profit or loss;
- liabilities which arise from a transfer of financial assets not qualifying for derecognition and are accounted using the continuing involvement method (i.e. recognition of the assets to the extent of continuing involvement).

Financial liabilities measured at amortised cost include balances due to other banks, customer accounts, debt securities issued, subordinated debts and other borrowed funds.

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation concerning the instrument. Purchase and sale of the financial assets and liabilities on standard terms are recognised at settlement date.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Fair value of financial instruments

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 in principal (or more advantageous) market at the measurement date under current market terms. Principal (or more advantageous) market price used to measure fair value of assets or liabilities shall not be adjusted for transaction expenses, as they do not characterize asset or liability, but reflect transaction terms for asset or liability.

To measure fair value the Bank uses such methods which are acceptable in particular situation and for which there are sufficient available inputs; when measuring observable inputs shall be applied to the maximum and unobservable inputs shall be applied to the minimum.

The Bank measures fair value of financial instruments using quoted prices in an active market for that instrument, otherwise, using external independent inputs on demand (supply) prices for identical financial instruments. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

To measure fair value of financial instruments for which there is no observable market prices, the Bank uses information (if available) on recent market transactions between knowledgeable, willing parties in an arm's length transaction, references to current value of the most similar financial instruments, discounted cash flows model, analysis of financial information on investees and other methods, provided that such methods can ensure reliable measurement of financial instruments fair value. When using discounted cash flows model the Bank applies discounting rates calculated based on prevailing market interest rates for financial instruments under similar terms, including counterparty solvency, remaining maturity of fixed interest rate, remaining maturities for repayment, currency, collateral etc.

When it is not possible to use one of valuation methods to measure fair value of financial instrument, the Bank uses judgements based on liquidity, concentration, uncertainty of market factors, assumptions on price and other factors affecting that specific instrument.

Derecognition of financial assets

Derecognition of financial assets (or, if applicable, of a part of the financial asset or of a part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank transfers the contractual rights to receive the cash flows from the financial asset, or if the Bank retains the right to obtain cash receipt from such asset with simultaneous obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without imposing additional restrictions on the sale.

Derivative financial instruments

Derivative financial instruments used by the Bank include foreign currency forwards and swaps. The Bank uses derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments used by the Bank do not qualify for hedge accounting as the Bank does not formally determine and document the strategy for hedge accounting and does not evaluate the hedge effectiveness in order to apply special rules for hedge accounting.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from the discounted cash flows model. Derivatives financial instruments are recognised in assets if their fair value is positive or otherwise in liabilities. Respective transaction costs are recognised in the income statement in the period in which they are incurred. Both positive and negative valuation results on change in fair value of derivative financial instruments are recognised in the income statement on line «Net gain/(loss) on derivative financial instruments».

Due from other banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortised cost is based on fair value of loans issued (deposits placed) determined considering interest rates of analogous (similar) loans and deposits effective at the date of loan issuing (deposit placement). If loans are issued (deposits placed) at interest rates which are higher (lower) than the market rates the difference between fair value and nominal value of a loan (deposit) is recognised in the income statement as effect on initial recognition of financial instruments at fair value. The due from other banks balances with undefined maturity are measured at amortised cost based on the expected maturity. Due from other banks are recorded at amortised cost less any impairment.

Loans to customers

Loans to customers are recognised at the moment of lending funds to customers in the amount of funds lent including transaction costs (i.e. at fair value). Loans issued at non-market interest rates are evaluated at the date of issue at fair value which is determined as future cash flows from the loan discounted at market rates for analogous loans. The difference between fair value and nominal value of loans is recognised in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently, loans to customers are carried at amortised cost using the effective interest rate method. Loans to customers are carried less allowance for impairment loss.

Loans renegotiated during the reporting period which otherwise would be overdue are accounted for in accordance with new (renegotiated) terms.

Securities held to maturity

Securities held to maturity include debt securities. During initial recognition securited are posted at fair value and further measured at amortized cost by the method of effective interest rate. Amortized cost based on the fair value of securities, calculated with regard of market adjustments or interest rates for similar financial instruments available at the date of acquisition of securities. Difference between fair and nominal value of securities recognized in the income statement as effect from initial recognition of financial instruments at fair value. Securities held for maturity measured less allowance for impairment, if any.

Bank assess its intention and ability to held financial instrument to maturity at the moment of initial recognition and at each reporting date.

Financial assets available for sale

Financial assets available for sale are represented by debt securities. Such securities are initially recorded at fair value. Subsequently these securities are measured at fair value with re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the income statement. Interest income is accrued using the effective interest rate method and is recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value of Bank's financial assets available-for-sale. Non-marketable debt securities for which fair value cannot be reliably measured are stated at amortised cost less allowance for impairment, if any.

Financial assets impairment

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognized in profit and loss when incurred as a result of one or more events («loss events») that occurred after the initial recognition of financial asset and which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively assessed for impairment with other assets.

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

- delinquency in any instalment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower's business;
- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower's financial difficulty that the lender would not otherwise consider.

The key criteria applied for determination of impairment of securities are an ability of issuer to fulfil its obligation to the Bank, and information about the ability to service its securities, market conditions and other information.

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

Impairment losses are always recognised by the allowance charge in the amount of the loss measured as the difference between the asset's carrying amount in the statement of financial position and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed by adjusting an allowance in the income statement.

When there are objective indications of impairment of financial assets held for sale, the cumulative loss previously recognized in other comprehensive income is transferred from other comprehensive income and recognized in the profit and loss statement for the period. The reversal of an impairment loss that relates to events after impairment is recorded in the profit and loss statement for the period.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined. Loan debt to individuals is written off due to relevant reserves after its attribution to the debt with maximum credit risk.

Financial liabilities

Financial liabilities, except for those carried at fair value through profit or loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities carried at amortised cost are initially recognised at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

If financial liabilities are issued at interest rates above (below) the market rates the difference between fair value and nominal value of financial liabilities is recognized in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently the carrying value of financial liabilities in the statement of financial position is amortized with respective expenses being recorded as interest expenses in the income statement.

For borrowings received from shareholders at other than market rates the difference between the nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period when such instruments were acquired. Subsequently, the carrying amount of such instruments is amortised, and the related expense is recorded in the income statement as interest expense using the effective interest rate method.

Preference shares

Preference shares are classified as a financial liability as they provide mandatory fixed dividends payments. In this case dividends are recognised as interest expense in the income statement as accrued.

Derecognition of financial liabilities

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability(or its part) is replaced by another liability 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. The difference between the carrying amount of the original and new financial liability is recognized in the income statement.

Offset of financial instruments

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Two financial instruments are accounted for as one combined financial instrument in the following cases:

- agreements are entered into at the same time and interrelated;
- agreements are concluded by the same counterparty;
- instruments are subject to the same risk;
- there is no apparent economic need or substantive business purpose for accounting the transactions separately that could not also have been accomplished in a single transaction.

Investment property

Bank classifies as investment property, property including assets under construction or reconstruction for future use as an investment property, being in the ownership (as owner or lessee under financial lease agreement) to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. Investment property also includes assets with undefined use at the date of recognition or at the reporting date.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank measures investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs.

Fair value of investment property is the price that would be received to sell an asset in an orderly transaction between market participants in principal (or more advantageous) market at the measurement date under current market terms, the price can be observable or measured using a valuation technique. Current prices for identical real estate properties in an active market are the best evidence of the fair value of investment property. In absence of current prices in active market, the Bank is guided by: current prices in an active market for similar real estate properties, adjusted for differences; recent prices for similar real estate properties in less active markets, adjusted to any changes from the transaction date to the reporting date; expected discounted cash flow.

At the date of transfer from other types of assets to investment property, the object is recognized at fair value. During the transfer of property and equipment, the difference between the carrying amount and fair value is recognized as reevaluation of property and equipment at the date of the transfer. In case of disposal of such asset, the amount of reevaluation is posted to retained earnings. Whereas transfer to investment property from inventories, at the date of the transfer the difference between the carrying amount and fair value is recognized in profit or loss for the period. Proceeds from lease of investment property is recognized in the income statement in Other income.

Transfer into investment property category or exclusion from this category may be performed upon actual change in intended use of investment property item.

The investment property is derecognized at its disposal or final withdrawal from operation when after the disposal of the investment property item it is not expected to receive economic benefits.

Property and equipment

Property and equipment are recorded at initial cost (property and equipment, acquired before 1 January 2015 – at adjusted acquisition cost, in order to be presented in monetary units current as at 31 December 2014), less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. This is the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the income statement as other income. Repair and maintenance costs recognized in the income statement in operating expenses as incurred.

Depreciation is charged from the month following the month property and equipment has been put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 — 11%;
- vehicles – 11 — 15%;
- office and computer equipment – 10 — 20%;
- other property and equipment – 5 — 25%;
- safes and other engineering devices (included in other property and equipment) – 2 — 3%.

The salvage value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal if the asset would be of the age and in the condition expected at the end of its useful life. The residual values, depreciation method and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably.

Intangible assets include software, licences, rights to use land plots and other intangible assets.

Intangible assets which are separately acquired and recognised at acquisition cost (intangible assets, acquired before 1 January 2015– at adjusted acquisition cost in order to be presented in monetary units current as at 31 December 2014), less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised evenly during the useful life using the straight-line basis. Depending on the type of intangible assets useful lives are the following:

- software – 2,5 – 10 years;
- licenses – 10 years;
- rights to use land plots – 4-39 years;
- other – 2-10 years.

Useful lives and method of amortization of intangible assets with defined useful life, as well as there is an indication that the intangible asset may be impaired are reviewed at least annually at the end of the reporting period.

Gains and losses on disposals of intangible assets are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the income statement as other income.

Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists than the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value obtained from use and its net realizable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect to non-financial assets impairment losses incurred in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

After the recognition of an impairment the depreciation charge for property and equipment and intangible assets for future periods is adjusted to allocate the assets' revised carrying value presented in the statement of financial position, less its residual value (if any), on a systematic basis over its remaining useful life.

Assets available for sale

The Bank classify an assets as available for sale whereas it is purchased with the intent of selling rather than further usage. In that case, the asset should be available for immediate sale in current conditions and under typical terms of sale of similar assets, wherein the sale should be highly probable, which is confirmed by the solution of the management to sale an asset, plan of sale, active supply of the asset in the market and search for buyers. Planning period of sale should not excess one year from the moment of classification of an asset.

Assets available for sale measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss, that arises during initial classification to assets is recognized in profit or loss for the reporting period.

During the measurement of fair value the Bank is guided by actual market prices for identical assets, if there is no similar assets – the Bank takes prices for similar assets adjusted to differences between assets; also the Bank takes into acount recent prices by the similar assets adjusted to any changes after the date of transaction and before the reporting date. Moreover, the Bank regards forecasts of discounted cash flows.

Depreciation is not charged for assets available for sale.

In case of reclassification from assets available for sale to assets for use, the asset is measured at the lower of carrying amount before it has been classified into available for sale adjusted to depreciation and losses from impairment which would not be recognized if the asset were classified as available for sale and its recoverable amount at the date of refusal from sale.

Repossessed assets

In the normal course of business, the Bank occasionally takes possession of non-financial assets that originally were pledged as collateral for loans. When the Bank acquires (i.e. gains a complete ownership) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of cost (for assets, acquired before 1 January 2015 - cost restated in order to be presented in monetary units current as at 31 December 2014) and net realisable value. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

Net realisable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated costs necessary to make the sale.

At each reporting date the Bank revises the net realisable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in estimated costs of completion and costs necessary to make the sale, the Bank writes such assets down to their net realisable value and recognises the write down in operating expenses in the period such write down occurs or losses takes place. Subsequently, if the circumstances which led to write down of assets change or if there is an evidence of net realisable value growth, the amount of write down is reversed so that the revised carrying amount in the statement of financial position would be the lower of net realisable value and cost.

Repossessed assets initially intended for purposes other than sale in the normal course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Operating lease - Bank as a lessee

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Operating lease - Bank as a lessor

The Bank accounts for and depreciates assets leased into operating lease in the same way as assets analogous in nature and functions. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in income statement in «Other income».

Finance lease – Bank as a lessee

The lease of property classified as finance lease when all risks and benefits, connected with ownership, are transferred to the lessee.

In case of finance lease when the Bank acts as a lessee, leased assets are recognized similar to its own at the beginning date of lease and at the lower of the following values: discounted amount of minimum lease payments or fair value of leased property. During the calculation of current value of minimum lease payments, the interest rate on the lease contract, if any, is applied as discounting rate. In other cases the Bank's borrowing rate is applied. Depreciation policy for such assets complies with policy for other assets of the Bank. Depreciation is charged for the shortest of periods: expected useful life or term of lease, if there is no reasonable assurance that the Bank will get the property right for the asset before the end of lease's term.

Lease payables less the future lease expenses are recognized in other financial liabilities of the Bank, financial lease expenses are posted in interest expenses. Lease payments are partially attributable to repayment of liability and partially to interest expenses in order to maintain a constant interest rate on the outstanding balances under finance leases.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share capital is accounted for at historical cost (contributions in authorized capital before 1 January 2015– at historical cost restated in order to be presented in monetary units current as at 31 December 2014).

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Loan commitments

The Bank assumes loan commitments, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties, guarantees carry the same credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits, therefore carry less risk than a direct borrowing. Loan commitments represent an unused part of loans, guarantees or letters of credit authorized for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments. Though it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value confirmed by the amount of commissions received. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised (commission received) or the amount recognized as a provision. In case when commissions are accrued periodically in respect of unfulfilled liability they are recognised as revenue during the term of the respective liability.

Provisions, contingent liabilities and assets

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

Provisions are recognized in the amount representing optimal current assessment of expenses including time value of money and, if necessary, risks inherent to this liability. Provisions are reevaluated at each reporting date in order to determine the most beneficial amount of liabilities, due to changes in value or terms of outflow of respective resources, or changes in discounting rate. In case of discounting increase in provision over time is recognized as interest expenses.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank.

The Bank does not recognise contingent assets and liabilities in its financial statements because their existence depends on events not wholly within the control of the Bank.

Information about contingent liabilities is disclosed in the financial statements except for cases when an outflow of resources embodying economic benefits to settle the obligation is remote. Information about contingent assets is disclosed when inflow of resources embodying economic benefits is probable (more likely than not).

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided or work performed.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries. The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

Income tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. Income tax expenses include current and deferred tax expenses.

The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

As some types of expense are tax exempt and due to tax incentives permanent taxable differences arise. In 2017 and 2016 the Bank applied the following tax incentives provided by law:

- tax exemption for operations with state securities, bonds of the National Bank and bonds of other legal entities;
- investment deduction as for reacquired fixed assets, investments in their reconstruction and modernization;
- an exemption on profit discharged of taxation directed to support state sports clubs.

Deferred tax is recognized on the basis of balance method and represents assets and liabilities on income tax accrued on the differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the settlement of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences increasing taxable income, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets recorded in the statement of financial position is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to be applied in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly into other comprehensive income, in this case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax are accounted in operating expenses.

Income and expense recognition

Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability recorded in the statement of financial position. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. The calculated effective interest rate usually includes any fees, points paid or received, transaction costs and other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down (partially or fully) as a result of an impairment loss, interest income is recognised using interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss. Significant payments on debts that were written off in the reporting period using the funds of created allowances are recorded as impairment allowance recovery of relevant financial assets.

Commission income, which is not a part of the effective interest rate, is recognized on an accrual basis when the services are provided. Commission income on a transaction for a third party is recognized on completion of the transaction. Fees and commissions for managerial or consulting services are recognized in accordance with the terms of service agreements. Commission income for services rendered for a long period of time or on continuing basis is recognized proportionally to the volume of services rendered in the reporting period.

Other income is recognized in the income statement when the related transactions are completed.

Fines (interest, penalties) which the Bank received for non-fulfillment or improper fulfillment of agreements (including credit contracts) by counterparties are classified as other income as this type of income has an accidental irregular character and represents the liability of contractual parties the payment of which is under the law and does not depend on whether it is determined by the relevant agreement.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the appropriate exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rate set by the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Roubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Gain and loss arising from these translations is included in the income statement in «Net gain/(loss) on foreign exchange operations».

The exchange rates of the Belarusian Rouble to the main Bank`s operational foreign currencies are presented below:

Reporting date	US Dollar («USD»)/ Belarusian Rouble («BYN»)	Euro («EUR»)/ Belarusian Rouble («BYN»)	100 Russian Rouble («RUB»)/ Belarusian Rouble «BYN»)
31 December 2017	1.9727	2.3553	3.4279
31 December 2016	1.9585	2.0450	3.2440

Determination and presentation of operating segments

The Bank determines and presents operating segments based on the information that is provided internally to the Management Board, which is the Bank's chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 «Operating Segments».

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category «Other/not distributed» in the purposes of consistent presentation of segments activities with Bank's activities in financial statements of the Bank.

For the purposes of segment reporting interest income and expenses are determined by a direct method based on the actual performance of the segment. The Bank does not use transfer pricing for allocation of funds among segments.

Income from foreign currency transactions in terms of income from the revaluation of assets and liabilities are not allocated to segments. Accounting for income tax expense and loss on net monetary position due to inflation is not allocated to segments.

5. Critical accounting estimates and assumptions in applying accounting policies

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

The allowance for impairment of loans to customers

The allowance for impairment of loans assessed for impairment individually is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparties' financial position and the net realisable value of any underlying collateral. Calculation of the present value of expected cash flows of a collateralised financial asset reflects the cash flows that may come from lender's entry into possession of debtor's property less costs for obtaining and selling the collateral.

The allowance for impairment of loans, which are assessed collectively for impairment, is based on the available information, which provides evidence for the decrease of the expected future cash flows on the loan group. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with these assets and the experience of management statistics on the volume of past due debt, which occur as a result of past loss events (which is not usually an indication of future losses), and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past events that do not exist in the current period.

During the collective assessment of impairment of loans to customers and based on the historical information about fulfillment of obligations by borrowers, terms of repayment and losses incurred, the Bank does not take into account pledges.

The Bank does not recognize impairment losses on new loans. By new loans are meant loans, since the issuance of which up to the reporting date passed less than 30 days.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual results.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of BYN 4,852 thousands in 2017 and BYN 3,917 thousands in 2016.

Fair value of investment property

In 2017 and 2016 fair value of the property classified as investment property was estimated by the Bank itself based on the prices for similar property from public sources and adjusted to differences; on recent prices for similar real estate at less active markets and adjusted to differences after transaction date, but before the reporting date.

More information about the assumptions used to determine the fair value of investment property is set out in Note 35. Management believes that the actual proceeds from the sale or use of the investment property items may differ from the amounts reported in the statement of financial position.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax incentives that are probable in the future are based on management's forecasts.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions.The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. All transactions with related parties were performed on the same terms as transactions with independent parties. Terms and conditions of related party balances are disclosed in Note 37.

6. Operating environment

Inflation processes in Belarus slowed down significantly in 2017. Annual increment of consumer prices has decreased from 10.6 percent in December 2016 to 4.6 percent in December 2017. Slowdown in intensity of price increase was due to more moderate core inflation rate dynamics as compared to the previous year as well as due to restrained administrative price regulation policy.

In 2017 in an environment of decelerating inflationary processes and maintaining macroeconomic stability, the National Bank undertook measures to reduce the level of interest rates in the economy. At the same time, the necessary control over the dynamics of the money supply was ensured.

In 2017 the refinancing rate was gradually reduced from 18 to 11 percent per annum, the rate on constantly available operations of liquidity support and withdrawal – from 23 to 12 and from 11 to 8 percent per annum respectively.

Average monthly rate of one-day interbank market in December 2017 was 9.7 percent per annum (in December 2016 - 10.5 percent per annum). Therefore, the rates in the credit and deposit markets have decreased.

Maintaining positive interest rates in real terms contributed to the tie-up of domestic savings.

Upon sustainable recovery of the household income term ruble deposits of individuals as at the end of 2017 increased by 13.2 percent. Against the increase of credit resource accessibility crediting of economic entities (especially primarily long-terms) has also increased, thus contributing to the increased economic activity in the country.

The requirements of banks and the Bank of Development to the economy increased by 10.8 percent (in 2016 – 0.1 percent) in 2017. At the same time lending in the national currency accelerated over the year from 4.9 to 23.4 percent, and increased by 0.4 percent (a year earlier it decreased by 3.5 percent) in foreign currency.

There has been an enhancement in the growth of credit debt of individuals (by 26.7 percent over the year as well as consumer lending) in particular (by 75.1 percent), encouraging domestic demand and consumer import.

Despite the decline in interest rates in the economy, monetary conditions remain moderately tight. In general, the emerging average broad money supply growth corresponds to the effective solvent demand for money, set by the economy. Average broad money supply increased by 15.3 percent in 2017. At the

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same time, under the influence of economy dedollarization measures ruble money stock showed a faster growth. Average ruble money supply growth on a year-on-year basis amounted to 23.2 percent in December 2017.

In general, a positive change in the structure of the cash supply has been observed. A share of foreign exchange component within the broad average money supply decreased by 2.2 percent in December 2017 against the same period last year and amounted to 66.2 percent. In 2017 a stable dynamics of the national currency was observed. Influence of the exchange rate on the inflation dynamics in the reporting year was insignificant.

A positive dynamics of the GDP was ensured due to the increase of domestic demand. At the same time the recovery of economic activity over the year in the countries that are major trading partners contributed to the expansion of external demand. Reinvigorating economic growth was observed in the second half of the year 2017 due to the increase of expenditures for final consumption of households against the growth in salaries and consumer lending. Moreover, since the third quarter of the year 2017 for the first time in the last two years the positive contribution of the gross formation to GDP growth has been observed.

In 2017 national debt of the Republic of Belarus continued to increase. The national debt of the Republic of Belarus as at 1 January 2018 amounted to 42.2 billion rubles and increased by 5.2 billion rubles or 14.1% against the beginning of the year 2017.

In October 2017 for the first time since 2011 the credit rating agency Standard & Poor's (S&P) raised the long-term sovereign credit rating of the Republic of Belarus on liabilities in foreign currency. The rating has improved from «B-» to «B» with the outlook «stable».

S&P Agency notes that such factors as the expected GDP growth in the Republic of Belarus in the amount of about 2% per annum during 2017-2020, as well as reserve provisions by the Republic of Belarus in order to meet external debt obligations in 2018, contributed to the rating increase.

These financial statements reflect current evaluation by the Bank's management of the impact made by the economic situation in the Republic of Belarus on the activities and financial position of the Bank.

Further development of the economy of the Republic of Belarus depends largely on the effectiveness of measures taken by the government and on other factors, including legislative and political events beyond the control of the Bank.

Bank's management is unable to predict the impact the specified factors may have on the financial position of the Bank. The accompanying financial statements do not include any adjustments related to such risks.

7. Cash and balances with the National Bank of the Republic of Belarus

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Cash balances with the National Bank of the Republic of Belarus	21,337	4,646
Cash in hand	4,019	5,157
Total cash and balances with the National Bank of the Republic of Belarus	**25,356**	**9,803**

The maximum exposure to credit risk of cash balances with the National Bank of the Republic of Belarus equals to their value presented in the statement of financial position.

Information on cash and cash equivalents is disclosed in Note 31.

8. Derivative financial instruments

As at 31 December 2017 derivative financial instruments are presented as follows:

In thousands of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	Amount of currency acquired	Assets	Liabilities
Foreign currency swap contracts				
RUB/USD	RUB	5,792	12	-
USD/EUR	USD	4,930	7	-
Total derivative financial instruments		**10,722**	**19**	-

As at 31 December 2016 derivative financial instruments are presented as follows:

In thousands of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	Amount of currency acquired	Currency acquired	Amount of currency acquired
Foreign currency swap contracts				
RUB/USD	RUB	16,220	7	-
USD/EUR	USD	2,461	-	-
Total derivative financial instruments		**18,681**	**7**	-

The presence of these derivatives leads to the Bank credit risk. The maximum credit risk of the asset which appeared as a result from the fair value of derivative financial instrument equals to its carrying amount in the statement of financial position.

As at 31 December 2017 derivative financial assets are presented by transactions with PJSC «Asian-Pacific Bank» assigned «CCC» rating by the international rating agency Fitch Ratings and with PJSC «TRANSCAPITALBANK» don't have a rating assigned by the international rating agency Fitch Ratings.

As at 31 December 2016 derivative financial assets are presented by transactions with Joint-Stock Commercial Bank «NOVIKOMBANK», assigned «B» rating by the international rating agency Fitch Ratings.

9. Due from other banks

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Nostro accounts	4,519	11,152
Deposits placed with other banks as fulfilment of obligations	491	398
Total due from other banks	**5,010**	**11,550**
Allowance for impairment	-	-
Total due from other banks net of allowance for impairment	**5,010**	**11,550**

As at 31 December 2017 и deposits placed with other banks as fulfilment of obligations were presented by guarantee deposits placed with other banks for plastic cards transactions of BYN 491 thousands and of BYN 398 thousands, respectively.

(a) Credit quality of amounts due from other banks

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2017, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In thousands of Belarusian Roubles	Nostro accounts	Deposits placed with other banks as fulfilment of obligations	Total
Neither past due nor impaired			
BB+	68	-	68
B	7	-	7
B-	2,821	491	3,312
CCC	16		16
Not rated	1,607	-	1,607
Total neither past due nor impaired	**4,519**	**491**	**5,010**
Individually assessed for impairment (current)	-	-	-
Total due from other banks	**4,519**	**491**	**5,010**
Allowance for impairment	-	-	-
Total due from other banks net of allowance for impairment	**4,519**	**491**	**5,010**

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2016, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In thousands of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Neither past due nor impaired			
BB+	50	-	50
B	1,823	-	1,823
B-	937	398	1,335
Not rated	8,342	-	8,342
Total neither past due nor impaired	**11,152**	**398**	**11,550**
Individually assessed for impairment (current)	-	-	-
Total due from other banks	**11,152**	**398**	**11,550**
Allowance for impairment	-	-	-
Total due from other banks net of allowance for impairment	**11,152**	**398**	**11,550**

As at 31 December 2017 and 2016 amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks and non-resident banks with good reputation.

(b) Movement in the impairment allowance for amounts due from other banks

Movement in the impairment allowance for due from other banks in the year 2017 and 2016 is presented below:

In thousands of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Allowance for impairment as at 1 January 2016	**3**	-	**3**
Reversal for the year	(3)	-	(3)
Allowance for impairment as at 31 December 2016	-	-	-
Allowance for impairment as at 31 December 2017	-	-	-

(c) Concentration of due from other banks

As at 31 December 2017 and 2016 the Bank had no significant concentration of due from other banks.

(d) Maximum exposure to credit risk

The maximum exposure to credit risk of balances due from other banks equals to the net carrying amounts as reported in the statement of financial position.

10. Securities available for sale

As at 31 December 2017 Securities available for sale composed of bonds of the National Bank denominated in USD with maturity date in December 2018 and with yearly interest rate 2,6294%.

As at 31 December 2016, there are no Securities available for sale.

Maximum credit risk of Securities available for sale equals to their carrying amounts as reported in the statement of financial position.

11. Loans to customers

In thousands of Belarusian Roubles	**31 December 2017**	**31 December 2016**
Commercial loans	76,584	35,122
Loans to individuals	30,485	23,666
Total loans to customers	**107,069**	**58,788**
Allowance for impairment	(5,631)	(2,934)
Total loans to customers net of allowance for impairment	**101,438**	**55,854**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loan portfolio as at 31 December 2017:

In thousands of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Undue and not individually impaired loans			
New loans granted	8,349	4,211	12,560
Standard	11,097	22,039	33,136
Watch	13,806	362	14,168
Substandard	0	154	154
Doubtful	254	179	433
Loss	67	563	630
Total undue and not individually impaired loans	**33,573**	**27,508**	**61,081**
Individually impaired loans			
Current	43,011	2,865	45,876
Overdue less than 1 month	0	74	74
Overdue from 1 to 3 months	0	38	38
Total loans individually impaired	**43,011**	**2,977**	**45,988**
Total loans to customers	**76,584**	**30,485**	**107,069**
Allowance for impairment	(4,483)	(1,148)	(5,631)
Total loans to customers net of allowance for impairment	**72,101**	**29,337**	**101,438**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2016:

In thousands of Belarusian Roubles	Commercial loans	Loans to individuals	Total
Undue and not individually impaired loans			
New loans granted	3,345	1,208	4,553
Standard	4,503	19,247	23,750
Watch	5,697	614	6,311
Substandard	7,056	422	7,478
Doubtful	539	450	989
Loss	-	643	643
Total undue and not individually impaired loans	**21,140**	**22,584**	**43,724**
Individually impaired loans			
Current	13,919	1,030	14,949
Overdue less than 1 month	-	25	25
Overdue from 1 to 3 months	-	13	13
Overdue from 3 to 6 months	-	14	14
Overdue more than 1 year	63	-	63
Total loans individually impaired	**13,982**	**1,082**	**15,064**
Total loans to customers	**35,122**	**23,666**	**58,788**
Allowance for impairment	(1,696)	(1,238)	(2,934)
Total loans to customers net of allowance for impairment	**33,426**	**22,428**	**55,854**

For credit quality analysis the Bank uses classification of loans to customers by 5 risk groups. When classifying commercial loans, the following criteria are taken into account: debt service, financial indicators and other analytical information. When classifying loans to individuals the basic factor is payment discipline.

The Standard risk group includes loans to customers with stable financial position which are able to settle their obligations promptly and entirely. The Watch group comprises loans to customers with either insignificant worsening of financial position or appearance of separate short-term cases of loan delay. The Substandard group comprises loans to customers with particular risk degree but able to fulfil independently their obligations. The Doubtful group includes troubled debtors with increased risk of non-repayment of debts. The Loss group comprises borrowers with insufficient financial position and high risk of non-repayment of loans.

(b) Movements in the impairment allowance for loans to customers

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2017 are as follows:

In thousands of Belarusian Roubles	Commercial loans	Loans to individuals	Total
Allowance for impairment as at 1 January 2017	**1,696**	**1,238**	**2,934**
Charge/(restoration) for the year	977	(227)	750
Write-off	(73)	(869)	(942)
Restoration of past years	1,883	1,006	2,889
Allowance for impairment as at 31 December 2017	**4,483**	**1,148**	**5,631**

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2016 are as follows:

In thousands of Belarusian Roubles	Commercial loans	Loans to individuals	Total
Allowance for impairment as at 1 January 2016	**998**	**1,182**	**2,180**
Charge for the year	2,780	1,259	4,039
Write-off	(2,551)	(2,064)	(4,615)
Restoration of past years	469	861	1,330
Allowance for impairment as at 31 December 2016	**1,696**	**1,238**	**2,934**

(c) Financial effect of collateral for loans to customers

Securing loans by collateral allows the Bank to minimize Bank's credit risks. The tables below summarize loans to customers by types of collateral. The tables present the amount of loans secured by collateral and indicated in the statement of financial position, rather than the fair value of the collateral itself. Other collaterals generally include equipment, transport vehicles and goods in turnover. Financial effect of collateral is presented by the amount of allowance for loans impairment with collateral taken into account and without collateral.

The loans to customers by types of collateral as at 31 December 2017 are presented below:

In thousands of Belarusian Roubles	Gross loans	Impairment allowance	Impairment allowance without collateral effect
Commercial loans			
Real estate	33,707	2,944	7,301
Other collateral	11,419	332	854
Guarantees	27,469	1,023	2,786
Cash security deposit	1,858	-	-
Unsecured loans	2,131	184	180
Total commercial loans	**76,584**	**4,483**	**11,121**
Loans to individuals			
Guarantees	2,438	85	85
Other collateral	10,888	255	281
Unsecured loans	17,159	808	808
Total loans to individuals	**30,485**	**1,148**	**1,174**
Total loans to customers	**107,069**	**5,631**	**12,295**

The loans to customers by types of collateral as at 31 December 2016 are presented below:

In thousands of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Commercial loans			
Real estate	21,101	1,410	7,301
Other collateral	4,832	160	839
Guarantees	8,828	126	1,560
Cash security deposit	361	-	18
Unsecured loans	-	-	-
Total commercial loans	**35,122**	**1,696**	**9,718**
Loans to individuals			
Guarantees	4,288	125	125
Other collateral	1,210	33	43
Unsecured loans	18,168	1,080	1,080
Total loans to individuals	**23,666**	**1,238**	**1,248**
Total loans to customers	**58,788**	**2,934**	**10,966**

Insignificant financial effect of collateral for loans to individuals is explained by the fact that only collateral (if any) for individually impaired loans is taken into account for allowance calculation (Note 5).

(d) Loans to customers by industry sectors

Analysis of loans to customers by industry sectors for the years ended 31 December 2017 and 2016 is as follows:

In thousands of Belarusian Roubles	**31 December 2017**	**31 December 2016**
Individuals	30,485	23,666
Real estate transactions	27,425	5,653
Trade	24,220	11,209
Leasing	9,139	6,599
Manufacturing and other material production	6,989	9,287
Transport	2,570	231
Agriculture and food industry	828	40
Construction	41	568
Other	5,372	1,535
Total loans to customers	**107,069**	**58,788**
Allowance for impairment	(5,631)	(2,934)
Total loans to customers less allowance for impairment	**101,438**	**55,854**

(e) Significant credit exposure

As at 31 December 2017 the Bank had balances with four borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2017 comprised BYN 22,414 thousands. As at 31 December 2016 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2016 comprised BYN 4,924 thousands.

(f) Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position.

12. Securities held to maturity

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
State long-term bonds of the Republic of Belarus	6,698	-
Bonds of the National Bank of the Republic of Belarus	-	72,987
Total securities held to maturity	**6,698**	**72,987**

As at 31 December 2017 securities held to maturity represented by state long-term bonds of the Republic of Belarus denominated in USD. As at 31 December 2016 securities held to maturity represented by bonds of the National Bank denominated in USD, Euro, BYN.

The maximum exposure to credit risk of financial assets available for sale equals their amounts reported in the statement of financial position.

13. Investment property

In thousands of Belarusian Roubles	2017	2016
Balance as at 1 January	**10,818**	**10,128**
Acquisition	-	1,341
Transfer from property and equipment	19	330
Sales	-	(981)
Balance as at 31 December	**10,837**	**10,818**

In 2017 the investment property comprised property items used for rent in the amount of BYN 19 thousand. The Bank decided to use this property for rent.

In 2016 the investment property comprised property items used for rent in the amount of BYN 330 thousand. Premises intended for rent were purchased at the Bank's own expense in the amount of BYN 1,341 thousand. Investment property was initially carried at the acquisition cost. Bank's approaches to assessment of fair value of investment property are disclosed in Note 35.

As at 31 December 2017 and 2016 profit from changes in fair value of investment property is unrealized.

The table below summarizes the amount of rental income and direct operating expenses arising from the investment property and recognized in profit or loss for the year:

In thousands of Belarusian Roubles	2017	2016
Rental income arising from investment property	685	712
Direct operating expenses (including repair and maintenance) arising from investment property generating rental income	(412)	(402)
Net income arising from investment property	**273**	**310**

The table below summarizes the future minimum lease payments under non-cancellable operating lease of the building classified as investment property where the Bank is a lessor:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Not later than 1 year	61	58
Total payments receivable under operating leases	**61**	**58**

The majority of rent agreements are concluded on standard terms according to which the lessee has a right to terminate an agreement ahead of schedule with notification to the Bank not later than 30 days before termination. Payment receipts for non-cancellable operating lease of investment property are calculated in accordance with the terms of rent agreements. The Bank believes that anticipatory termination of the contract is unlikely. The Bank has no restrictions on the disposal of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.

14. Property and equipment, intangible assets

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2017:

In thousands of Belarusian Roubles	Buildings	Vehicles	Office and computer equipment, other property and equipment	Intangible assets	Capital expenditures and investments in intangible assets	Total
Net book value as at 1 January 2017	**10,516**	**164**	**1,218**	**693**	**1,017**	**13,608**
Cost						
Balance as at 1 January 2017	11,311	427	3,287	1,046	1,017	17,088
Additions	-	-	-	-	1,782	1,782
Transfers	834	92	372	688	(1,986)	-
Transfer to investment property	(20)	-	-	-	-	(20)
Transfer to assets available for sale	-	-	23	-	-	23
Disposals	(119)	(57)	(82)	(131)	-	(389)
Balance as at 31 December 2017	**12,006**	**462**	**3,600**	**1,603**	**813**	**18,484**
Accumulated depreciation						
Balance as at 1 January 2017	795	263	2,069	353	-	3,480
Charge for the year	208	41	294	139	-	682
Disposal of accumulated depreciation over transfer to investment property	(1)	-	-	-	-	(1)
Disposal of accumulated depreciation over transfer to assets available for sale	-	-	2	-	-	2
Accumulated depreciation on disposals	(111)	(54)	(75)	(116)	-	(356)
Balance as at 31 December 2017	**891**	**250**	**2,290**	**376**	**-**	**3,807**
Net book value as at 31 December 2017	**11,115**	**212**	**1,310**	**1,227**	**813**	**14,677**

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2016:

In thousands of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Intangible assets**	**Capital expenditures and investments in intangible assets**	**Total**
Net book value as at 1 January 2016	**10,947**	**213**	**1,428**	**319**	**4**	**12,911**
Cost						
Balance as at 1 January 2016	11,581	427	3,381	589	4	15,982
Additions	-	-	-	(45)	1,793	1,748
Transfers	120	-	151	509	(780)	-
Revalution over transfer to investment property	-	-	-	-	-	-
Transfer to investment property	(333)	-	-	-	-	(333)
Transfer to assets available-for-sale	-	-	(23)	-	-	(23)
Disposals	(57)	-	(222)	(7)	-	(286)
Balance as at 31 December 2016	**11,311**	**427**	**3,287**	**1,046**	**1,017**	**17,088**
Accumulated depreciation						
Balance as at 1 January 2016	634	214	1,953	270	-	3,071
Charge for the year	197	49	309	90	-	645
Revalution of accumulated depreciation over transfer to investment property	15	-	(15)	-	-	-
Disposal of accumulated depreciation over transfer to investment property	(3)	-	-	-	-	(3)
Disposal of accumulated depreciation over transfer to assets available-for-sale	-	-	(2)	-	-	(2)
Accumulated depreciation on disposals	(48)	-	(176)	(7)	-	(231)
Balance as at 31 December 2016	**795**	**263**	**2,069**	**353**	**-**	**3,480**
Net book value as at 31 December 2016	**10,516**	**164**	**1,218**	**693**	**1,017**	**13,608**

As at 31 December 2017 the bank used fully amortized property and equipment in the amount of BYN 1,357 thousands (as at 31 December 2016 – BYN 1,057 thousands), intangible assets in the amount of BYN 117 thousands (as at 31 December 2016 – BYN 84 thousands).

15. Other assests

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Other non-financial assets		
Assets transferred to the Bank as repayment of debts	501	1,891
Prepayments for taxes (other than income tax)	239	336
Advance payments	237	161
Prepayments on capital investments	126	155
Other	10	20
Total non-financial assets	**1,113**	**2,563**
Other financial assets		
Accrued commission income and penalties	892	887
Receivables on reimbursement of state fees	195	199
Settlements with customers	184	184
Other receivables	155	147
Total other financial assets	**1,426**	**1,417**
Allowance for impairment	(601)	(480)
Total other financial assets less allowance for impairment	**825**	**937**
Total other assets	**1,938**	**3,500**

(a) Assets transferred to the Bank as repayment of debts

The table below summarizes the information about assets transferred to the Bank as repayment of debts:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Residential real estate under construction	-	1,891
Other assets	501	-
Total assets transferred to the Bank as repayment of debts	**501**	**1,891**

(b) Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2017:

In thousands of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Undue and not individually impaired other financial assets	**863**	**134**	**-**	**83**	**1,080**
Overdue but not impaired other financial assets					
Overdue less than 1 month	1	5	-	5	11
Overdue from 1 to 3 months	8	14	-	5	27
Overdue from 3 to 6 months	4	23	-	11	38
Overdue from 6 months to 1 year	15	18	-	3	36
Overdue more than 1 year	-	-	-	12	12
Total overdue but not impaired other financial assets	**28**	**60**	**-**	**36**	**124**
Individually impaired other financial assets					
Overdue more than 1 year	1	1	184	36	222
Total individually impaired other financial assets	**1**	**1**	**184**	**36**	**222**
Total other financial assets	**892**	**195**	**184**	**155**	**1,426**
Allowance for impairment	(372)	(97)	(92)	(40)	(601)
Total other financial assets less allowance for impairment	**520**	**98**	**92**	**115**	**825**

The following table provides information on the credit quality of other financial assets as at 31 December 2016:

In thousands of Belarusian Roubles	Accrued commission income and penalties	Receivables on reimbursement of state fees	Settlements with customers	Other receivables	Total
Undue and not individually impaired other financial assets	**613**	**94**	**-**	**60**	**767**
Overdue but not impaired other financial assets					
Overdue less than 1 month	10	11	-	13	34
Overdue from 1 to 3 months	10	17	-	9	36
Overdue from 3 to 6 months	7	8	-	8	23
Overdue from 6 months to 1 year	245	19	-	15	279
Overdue more than 1 year	1	-	-	4	5
Total overdue but not impaired other financial assets	**273**	**55**	**-**	**49**	**377**
Individually impaired other financial assets					
Overdue from 6 months to 1 year	-	-	184	-	184
Overdue more than 1 year	1	50	-	38	89
Total individually impaired other financial assets	**1**	**50**	**184**	**38**	**273**
Total other financial assets	**887**	**199**	**184**	**147**	**1,417**
Allowance for impairment	(241)	(106)	(92)	(41)	(480)
Total other financial assets less allowance for impairment	**646**	**93**	**92**	**106**	**937**

Key factors which the Bank takes into account while considering impairment of other financial assets are existence and duration of overdue debt and the possibility of collateral sale if any.

The maximum exposure to credit risk of other financial assets equals to net carrying amounts as reported in the statement of financial position in other assets.

As at 31 December 2017 other financial assets included the debt of the buyer of capital structures (poultry houses) overdue since March 2016. Allowance for impairment in the amount of 50% of the debt was created for the asset. The allowance is based on the best estimates made by management with respect to the current value of the cash flows expected by the Bank (Note 38).

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(c) Movements in the allowance for impairment of other financial assets

The movement in allowance for impairment of other financial assets for the year ended 31 December 2017 is presented below:

In thousands of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2017	**241**	**106**	**92**	**41**	**480**
Charge for the year	131	(9)	-	(1)	121
Allowance for impairment as at 31 December 2017	**372**	**97**	**92**	**40**	**601**

The movement in allowance for impairment of other financial assets for the year ended 31 December 2016 is presented below:

In thousands of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimburse-ment of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2016	**150**	**96**	**-**	**38**	**284**
Charge for the year	91	10	92	3	196
Allowance for impairment as at 31 December 2016	**241**	**106**	**92**	**41**	**480**

16. Assets available-for-sale

In thousands of Belarusian Roubles	**2017**	**2016**
Balance as at 1 January	-	-
Acquisition	-	-
Transfer from inventories	2,201	-
Sales	(456)	-
Balance as at 31 December	**1,745**	**-**

As at 31 December 2017 assets available-for-sale included the constructed apartments transferred to Bank in debt repayment and reflected at book value of BYN 2,201 thousand. In 2017 the Bank sold one apartment of BYN 456 thousand.

As at 31 December 2017 the Bank's management intends to sale the assets classified as held for sale and plans to complete the sale of these assets within the next 12 months.

17. Due to other banks

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Loans and deposits from other banks	15,010	3,900
Correspondent accounts of other banks	44	4
Total due to other banks	**15,054**	**3,904**

As at 31 December 2017 the Bank had balances exceeding 10% of the Bank's equity from two agency banks. The total amount of these balances as at 31 December 2017 amounted to BYN 12,051 thousand.

As at 31 December 2016 the Bank had no balances of counterparty banks representing significant concentrations.

18. Customer accounts

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Corporate customers		
Term deposits	58,195	72,379
Current accounts	18,806	17,708
Total corporate customers' accounts	**77,001**	**90,087**
Individuals		
Term deposits	22,259	26,879
Current accounts /on-demand accounts	5,214	2,488
Total individuals' accounts	**27,473**	**29,367**
Total customer accounts	**104,474**	**119,454**

The analysis of customer accounts by industry sectors is presented below:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Individuals	27,473	29,367
Industry and other material production	26,459	56,944
Trade	15,857	12,174
Real estate	15,408	10,327
Construction	5,928	1,149
Insurance	4,184	2,271
Transport	2,140	658
Non-commercial organizations	921	926
Consultation services	835	587
Advertising	788	363
Leasing	778	1,117
Information	555	1,153
Health and physical education	232	82
Education and scientific activities	175	212
Publishing	118	264
Car service	92	129
Communication and telecommunication	45	221
Other	2,486	1,510
Total customer accounts	**104,474**	**119,454**

As at 31 December 2017 и 2016 the Bank had two customers whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2017 and 2016 amounted to BYN 25,593 thousand and BYN 52,616 thousand, respectively.

19. Debt securities issued

As at 31 December 2017 the Bank issued debt securities represented by USD bonds of the fifth issue at a fixed rate of 4.5% with maturity date in 2020. Bondholders are legal entities.

As at 31 December 2016 the Bank issued debt securities represented by USD bonds of the third issue at a fixed rate of 6.5% with maturity date in 2017.

20. Other liabilities

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Other non-financial liabilities		
Deferred income	126	183
Contributions to the guarantee fund of protection of individual funds	39	44
Charges on taxes, other than income tax	88	40
Total other non-financial liabilities	**253**	**267**
Other financial liabilities		
Finance lease payables	127	414
Provision for vacations not paid and other obligations under employee benefit	123	78
Payables to suppliers	86	44
Provision for credit related commitments	209	84
Other	74	109
Total other financial liabilities	**619**	**729**
Total other liabilities	**872**	**996**

Finance lease liabilities is presented below:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Minimum lease payments		
Less than 1 year	121	369
From 1 to 5 years	21	149
Total minimum lease payments	**142**	**518**
Deferred expenses on finance lease	(15)	(104)
Net finance lease payables	**127**	**414**
Net finance lease payables		
Less than 1 year	107	287
From 1 to 5 years	20	127
Net finance lease payables	**127**	**414**

Movements in the allowance for credit related commitments are disclosed in Note 32.

21. Subordinated debt

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Subordinated debt from Dikris LLC	7,962	5,913
Subordinated debt from Speedster-M LLC	5,958	-
Subordinated debt from European Bank for Reconstruction and Development («EBRD»)	-	483
Total subordinated debt	**13,920**	**6,396**

The subordinated debt from EBRD was received in 2008 in the amount of USD 4,009 thousand with a maturity in 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as contribution to capital contributions in the amount of BYN 3,548 thousand.

In January 2017, the EBRD ceded the right to demand to the resident Speedster-M LLC. Under the subordinated loan agreement the amount remained unchanged, the interest rate was set floating based on the LIBOR rate for 12 months plus 6 percentage points. The maturity period was reduced to 2028.

In 2015 the Bank received the subordinated debt from Dikris LLC of USD 3,000 thousand which has a floating interest rate of 12 months USD LIBOR+6%.

According to subordinated debt agreements, in the case of liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

22. Preference shares

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Number of preference shares	6,886,084	6,886,084
Nominal value of 1 share, BYN	0,160	0,160
Nominal value of preference shares	1,102	1,102
Accrued dividends on preference shares	760	571
Total preference shares	**1,862**	**1,673**

Preference shares give a right to participate in net assets. Annual minimum fixed dividend income on each preference share amounts to USD 0.01394 per share.

In 2018 and 2017 the General Shareholder Meeting decided not to pay out fixed dividends on preference shares as at the end of 2017 and 2016, respectively.

23. Share capital

As at 31 December 2017 and 2016 the share capital was represented as follows:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Number of ordinary shares	120,791,295	120,791,295
Nominal value of 1 share, BYN	0,160	0,160
Nominal value of ordinary shares	19,326	19,326
Inflation effect	27,648	27,648
Total share capital	**46,974**	**46,974**

All ordinary (common) shares (hereinafter – shares) are fully paid, carry one vote and give the right to receive dividends and participate in net assets. All ordinary shares rank equally with regard to the Bank's net assets.

In December 2016, the shareholder of Bank Dikris LLC acquired shares from the European Bank for Reconstruction and Development and Deutsche Society for Investment and Development (DEG) under a sale and purchase agreement.

In June 2016, for the purpose of preparation for the denomination of the official currency of the Republic of Belarus, the Bank increased the nominal value of shares from BYN 0.153 to BYN 0.160 at the expense of retained earnings.

24. Interest income and expense

In thousands of Belarusian Roubles	2017	2016
Interest income		
Loans to customers	12,315	16,596
Securities held to maturity	2,430	6,213
Securities available for sale	779	-
Due from other banks	139	818
Due from the National Bank of Republic of Belarus	78	242
Financial assets available for sale	-	5
Total interest income	**15,741**	**23,874**
Interest expense		
Customer accounts	(5,461)	(8,012)
Subordinated debt	(1,367)	(730)
Due to other banks	(497)	(1,392)
Preference shares	(188)	(188)
Finance lease	(66)	(287)
Debt securities issued	(26)	(61)
Due to the National Bank of Republic of Belarus	-	(2,281)
Other	(1)	(115)
Total interest expense	**(7,606)**	**(13,066)**
Net interest income	**8,135**	**10,808**

Interest income includes interest income on impaired loans to customers totalling BYN 8,525 in 2017 and BYN 10,777 thousand in 2016.

25. Fee and commission income and expense

In thousands of Belarusian Roubles	2017	2016
Fee and commission income		
Settlement and cash transactions fees	2,214	1,881
Foreign exchange fees	27	39
Other	533	214
Total fee and commission income	**2,774**	**2,134**
Fee and commission expense		
Settlement transactions and payment cards transactions fees	(628)	(621)
Foreign exchange fees	(42)	(33)
Other	(122)	(114)
Total fee and commission expenses	**(792)**	**(768)**
Net fee and commission income	**1,982**	**1,366**

26. Net gain on transactions with derivative financial instruments

In thousands of Belarusian Roubles	2017	2016
Income/(expenses) on swap transactions with other banks	143	(6)
Total net gain/(loss) on transactions with derivative financial instruments	**143**	**(6)**

27. Net gain/(loss) on foreign exchange operations and securities

Net gain on foreign exchange operations

In thousands of Belarusian Roubles	2017	2016
Net (loss)/gain from revaluation of assets and liabilities	(75)	630
Net gain on foreign exchange operations	1,814	3,472
Net gain on foreign exchange operations	**1,739**	**4,102**

In 2017 the devaluation of Belarusian Rouble against US dollar, Euro comprised 0.7% and 15.2%, respectively (2016: 5,5% and 0,7% respectively). In 2017 Belarusian Rouble decreased against Russian Rouble by 5.7% (2016: strengthened by 27.1%).

Net loss on operations with securities

In thousands of Belarusian Roubles	2017	2016
Loss on operations with securities	(584)	(48)
Gain on operations with securities	465	7
Net loss on operations with securities	**(119)**	**(41)**

28. Other income

In thousands of Belarusian Roubles	2017	2016
Rental income from operating lease	685	712
Penalties and fines received	411	616
Gain on sale of property	236	257
Other	136	47
Total other income	**1,468**	**1,632**

29. Operating expenses

In thousands of Belarusian Roubles	2017	2016
Staff costs	(3,387)	(3,359)
Contributions to the Social Security Fund	(1,122)	(1,053)
Software expenses	(728)	(861)
Depreciation and amortisation	(681)	(646)
Administrative expenses	(583)	(501)
Taxes other than income tax	(489)	(693)
Communication and information services	(464)	(445)
Professional services (consulting, audit, legal, etc.)	(358)	(308)
Advertising and marketing	(313)	(252)
Repairs and maintenance	(281)	(351)
Rental expenses	(278)	(554)
Sponsor support	(214)	(242)
Office expenses	(213)	(203)
Payments to the Individuals' Deposits Security Fund	(170)	(168)
Security expenses	(88)	(140)
Delivery and encashment services	(63)	(114)
Other	(665)	(649)
Total operating expenses	**(10,097)**	**(10,539)**

30. Income tax

The Bank provides for tax based on the tax accounting maintained and prepared in accordance with the tax regulations of the Republic of Belarus.

For the years ended 31 December 2017 and 2016 the income tax rate for Belarusian banks was 25%. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 25%.

Income tax expense is presented as follows:

In thousands of Belarusian Roubles	2017	2016
Current income tax expense	(231)	(240)
Deferred income tax expense	1,682	244
Income tax expense	**1,451**	**4**

Deferred tax records the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for tax purposes.

Information on each type of temporary differences on deferred tax assets and liabilities recognized in the statement of financial position and on amounts of deferred tax income and expense recognized in profit and loss, as well is in other comprehensive income is presented below

In thousands of Belarusian Roubles	1 January 2016	Recognised in profit/ loss in 2016	31 December 2016	Recognised in profit/ loss in 2017	31 December 2017
Deductible temporary differences:					
Loans to customer	-	518	518	111	629
Securities held to maturity	616	(603)	13	18	31
Property and equipment and intangible assets	594	241	835	135	970
Other assets and liabilities	46	89	135	(135)	-
Assets available for the sale	-	-	-	69	69
Provision for other risks and payments	106	(106)	-	-	-
Total deferred tax asset	**1,362**	**139**	**1,501**	**198**	**1,699**
Taxable temporary differences :					
Loans to banks and customers	(337)	336	(1)	-	(1)
Investment property	(337)	(97)	(434)	(122)	(556)
Accrued income	(96)	(33)	(129)	(78)	(207)
Other assets and liabilities	-	-	-	(25)	(25)
Subordinated debt	(1,608)	(101)	(1,709)	1,709	-
Total deferred tax liability	**(2,378)**	**105**	**(2,273)**	**1,484**	**(789)**
Total net deferred tax liability	**(1,016)**	**244**	**(772)**	**1,682**	**910**

Comparison of actual tax expense and the theoretical tax expense for the years ended 31 December 2017 and 2016 are explained as follows:

In thousands of Belarusian Roubles	2017	2016
Profit before income tax	2,224	3,495
Income tax at the statutory rate	**556**	**874**
Tax effect of permanent differences:		
Tax incentives	(802)	(939)
Tax effect of non-taxable expenses	551	227
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(47)	(166)
Effect of loss of tax base of assets and liabilities	(1,709)	-
Income tax expense	**(1,451)**	**(4)**

31. Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents are presented as follows:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Cash and balances with the National Bank of the Republic of Belarus	25,356	9,803
Nostro accounts	4,519	11,152
Less mandatory reserve deposits with the National Bank of the Republic of Belarus	(951)	(371)
Total cash and cash equivalents	**28,924**	**20,584**

32. Contingencies

Taxation. Belarusian tax and other legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period.

The management of the Bank believes that as at 31 December 2017 and 2016 they have accrued all tax amounts due and that tax positions and interpretations of the Bank may be proved. However, there is a possibility of resources outflow due to payments if the tax positions and interpretations will be disputed by the tax authorities. The effect of such disputable situations cannot be measured reliably; however it may be material for the financial position and/or activity of the Bank.

Operating lease commitments. The future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented below:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Less than 1 year	30	100
From 1 to 5 years	-	82
Total operating lease commitments	**30**	**182**

Loan commitments. In the normal course of business, the Bank uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not presented in the statement of financial position. The Bank's maximum exposure to credit risk under contingent liabilities and commitments for credit lines, in the event of non-performance by the other party provided that all counterclaims, collateral or security prove impairment, is represented by the contractual amounts of those instruments.

Loan commitments of the Bank were as follows:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Unused credit lines	10,627	7,272
Guarantees issued	4,252	4,543
Total loan commitments	**14,879**	**11,815**
Allowance on loan commitments	(209)	(84)
Total loan commitments less allowance	**14,670**	**11,731**

Movement in allowance on loan commitments for the years ended 31 December 2017 and 2016 was as follows:

In thousands of Belarusian Roubles	2017	2016
Loan commitment allowance		
Balance as at 1 January	84	36
Charge for the year	146	24
Commission reclassification	(21)	24
Balance as at 31 December	**209**	**84**

33. Capital management

The Bank manages its capital to ensure compliance with prudential requirements, the capital maintenance on the level necessary to ensure the compliance of the capital adequacy ratio at 8% with the Basel agreement, and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

According to the requirement of the National Bank of Belarus the minimum size of regulatory capital, calculated on the basis of accounting records prepared in accordance with Belarusian legislation, for banks shall be maintained at a minimum level of BYN 45 million with a quarterly adjustment for the consumer price index. The normative value of the regulatory capital as at 1 January 2018 was BYN 52,75 million. As at 1 January 2018 the regulatory capital of the Bank was BYN 54.78 million in accordance with Belarussian legislation.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management assesses the amount of capital required to achieve the strategic aims of the Bank and providing the necessary assets growth for the planned perspective, as well as the optimum relationship between profitability and capital adequacy ratio taking into account requirements of the shareholders, Bank's partners and regulating authorities. The Bank's management considers weighted average cost of capital and risks associated with each class of assets, and balances its overall capital structure through the attraction of additional and redemption of existing debt.
As at 31 December 2017 and 2016, reserve fund were recognized in the amount of BYN 1,174 thousand and BYN 981 thousand according to National accounting principles. Reserve fund is reserve set up in accordance with legislature of the Republic of Belarus for compensation of losses from Bank's transactions. This fund is not distributed among shareholders.

Under the current capital requirements set by the National Bank of Belarus, banks have to maintain a ratio of regulatory capital to risk weighted assets («statutory capital ratio») above a prescribed minimum level (10%). Regulatory capital is based on the Bank's reports prepared under the Belarusian accounting standards and comprises the following:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Basic capital	32,602	28,012
Additional capital	23,546	23,158
Total capital	**56,148**	**51,170**
Total risk weighted assets	150,567	115,356
Statutory capital ratio (%)	**37.292**	**44.358**

The following table analyses regulatory capital of the Bank for capital adequacy purposes in accordance with the Basel agreement:

In thousands of Belarusian Roubles	31 December 2017	31 December 2016
Tier 1 capital		
Share capital	46,974	46,974
Accumulated loss	(9,120)	(8,657)
Intangible assets	(1,994)	(1,707)
Total tier 1 capital	**35,860**	**36,610**
Tier 2 capital		
Subordinated debt	13,920	6,396
Additional capital contribution	-	3,548
Preference shares	1,862	1,673
Provision for revaluation of property and equipment	49	49
Total tier 2 capital	**15,831**	**11,666**
Total capital	**51,691**	**48,276**
Total risk weighted assets	152,416	166,768
Statutory capital ratio (%)	**33.9**	**28.9**

As at 31 December 2017 and 2016 the Bank included in the calculation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 21). In the last 5 years remaining to maturity the subordinated debt is included into capital calculation with the cost recorded in the statement of financial position less 20% for each full calendar year. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

Moreover, as at 31 Deccember 2017 and 2016 the Bank included in the calculation of total capital preference shares (Note 22), with undefined maturity and fixed dividends. Default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation. During the calculation of capital adequacy the Bank excluded from the capital of the first level the value of non-tangible assets (Note 14) in accordance with requirements of Basel Accord.

34. Risk management

The Bank manages its financial risks (credit, liquidity, geographical, market including currency and interest rate risk), as well as operational risk.

The Strategy For Banking Risk Management and the General Risk Policy are the main documents regulating the system and approaches to risk management in the Bank.

The Risk Management Strategy is based on compliance with the break-even activities principle, aimed at ensuring a balance between profitability and the risk level assumed by the Bank and defines the main objectives and key aspects of risk management.

The General Risk Policy includes the following strategic objectives of risk management:

- determination of key risks of the Bank and confirmation that current directions of the banking activities and future plans for the new business development correspond to the readiness of the Bank to meet those risks;

- optimization of risks that directly relate to the Bank's activities, as well as organization of the effective and independent internal control system;
- development of the effective risk management framework for the further successful development of the Bank.

To ensure efficient risk management, the Bank has developed authority systems that allow to allocate responsibilities for each major type of risk between governing bodies, departments and employees of the Bank. Regardless of the type of a bank risk, the authority system necessarily includes the Board of Directors of the Bank, the Risk Committee, the Management Board, the Officer in charge of risk management, Credit and Financial Committees, Risk Management, including risk managers, the Internal Audit Department, and the Internal Control Service, Bank's Structural Divisions.

The Board of Directors ensures the organization of banking risk management system, monitors the adequacy of its functioning and the overall risk level, approves the General Risk Policy.

The Risk Committee established by the Board of Directors, monitors and controls the implementation of risk management strategies; evaluates the effectiveness of the risk management system; monitors the timeliness and quality of reporting on risks, as well as the completeness and adequacy of measures taken by the Management Board in order to minimize risks.

The Management Board ensures the functioning of the risk management system in order to meet the goals and objectives established by the Board of Directors in risk management; approves the General Risk Policy, local regulations regulating the methods and procedures for managing certain types of risks, as well as decision-making procedures, the interaction between departments, distribution and delegation of authority in the risk management process; ensures their effective implementation in practice; makes management decisions aimed at limiting the risk appetite of the departments generating risks, maintaining the risk profile of the bank which is adequate to the nature and scope of activities.

The Officer in charge of risk management coordinates the activities of all participants in the process of risk management, provides information exchange between them in order to take the necessary management decisions; on a regular basis reports to the Board on the degree of individual bank risks, compliance with risk appetite of the departments generating risks, compliance with established risk tolerance and maintaining risk profile of the Bank; on a regular basis (at least once a year) provides reports to the Risk Committee on functioning of the risk management system and the degree of individual banking risks; provides disclosure of the risk management system in accordance with the procedures of the Bank.
The Finance Committee and the Credit Committee monitor and analyze the risk level.

The Risk Management is responsible for the organization of an effective risk management system, monitoring the timely detection, identification, measurement, monitoring, control and limitation of bank risks. This department monitors compliance with procedures for managing each type of risk. To control and manage critical situations, which may have undesirable consequences for the Bank, a risk manager of the Bank performs stress testing and assessment of the impact of changes in external and internal factors of the risk involved in the sustainability of the Bank.

The Internal Audit Department is responsible for the regular audit of individual elements of the risk management system and make evaluation of the effectiveness of risk management, as well as controlling compliance of activities and operations carried out by the management and employees of the Bank with the requirements of current legislation. The results of inspections and the estimation of efficiency are reported to the Board of Directors.

The Internal Control Service shall verify compliance with the order of controlling each type of risk by authorized bodies and employees of the Bank, as well as verification of compliance with local regulations of the Bank providing for the strategy, policy, methods and procedures of risk management.

Other departments of the Bank carried out the current management of banking risks within its competence.

Credit risk. The Bank assumes credit risk, i.e. the risk that one party to a financial instrument will fail to settle an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.
Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank's interests system of crediting legal entities and sole traders, individuals, the system of fixing limits on banks-counterparties;
- organization of a system to ensure fair evaluation of collateral on credit operations;
- organization of independent primary and secondary examinations of lending projects and drafts of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the loan portfolio state and dynamics, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;
- development of the Bank's action plan in case of force majeure related to credit risk.

Detection, identification and assessment of credit risk level is performed via primary and secondary examinations of lending projects (drafts of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis (evaluation) of the bank-counterparty's financial position and development of the limit for conducting active transactions with the bank-counterparty is performed by the economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a draft limit on active operations with the bank-counterparty is developed. When implementing active credit operations with customers the primary examination is performed by the credit officer at the stage of preparing for consideration by the Credit Committee of project to be financed and collateral to be provided by the borrower.

Secondary examination is performed by risk manager when considering and monitoring the limit for bank-counterparty. When implementing active credit operations with customers the secondary examination is performed by the risk manager when considering the project to be financed and in the process of monitoring the borrower, transaction to be financed and collateral to be provided by the borrower.

Defining the acceptable level of credit risk is carried out jointly by the Credit and Financial Committee of the Bank in accordance with their functions.

For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect of internal and external credit risk factors. The Bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 11 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 9, Note 11 and Note 12);
- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount resented in the statement of financial position (Note 8);
- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on (Note 32);
- issuing an uncancellable loan commitment or loan commitment cancellable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 32.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving loans issuance, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash disbursement, types of transactions, currency and maturity.

Country risk. The country risk is a risk that the Bank incurs losses as a result of internal and external factors, which are not dependent on the financial position of the counterparty of the Bank (e.g. non-compliance of agreements with legislation of foreign countries, non-fulfilment of obligations by counterparties due to economic, political, social and other changes influencing their activities).

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2017 is presented as follows:

In thousands of Belarusian Roubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with the National Bank of the Republic of Belarus	25,356	-	-	25,356
Derivative financial assets	-	-	19	19
Due from other banks	3,481	1,314	215	5,010
Loans to customers	101,438	-	-	101,438
Securities held to maturity	6,698	-	-	6,698
Securities available for sale	6,924	-	-	6,924
Other financial assets	825	-	-	825
Total financial assets	**144,722**	**1,314**	**234**	**146,270**
Liabilities				
Due to other banks	15,014	-	40	15,054
Customer accounts	102,942	329	1,203	104,474
Debt securities issued	1,322	-	-	1,322
Other financial liabilities	619	-	-	619
Subordinated debt	13,920	-	-	13,920
Preference shares	1,862	-	-	1,862
Total financial liabilities	**135,679**	**329**	**1,243**	**137,251**
Net position	**9,043**	**985**	**(1,009)**	

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2016 is presented as follows:

In thousands of Belarusian Roubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and balances with the National Bank of the Republic of Belarus	9,803	-	-	9,803
Derivative financial assets	-	-	7	7
Due from other banks	1,461	6,978	3,111	11,550
Loans to customers	55,854	-	-	55,854
Securities held to maturity	72,987	-	-	72,987
Other financial assets	937	-	-	937
Total financial assets	**141,042**	**6,978**	**3,118**	**151,138**
Liabilities				
Due to other banks	3,904	-	-	3,904
Customer accounts	117,477	483	1,494	119,454
Debt securities issued	3,124	-	-	3,124
Other financial liabilities	729	-	-	729
Subordinated debt	5,913	483	-	6,396
Preference shares	1,673	-	-	1,673
Total financial liabilities	**132,820**	**966**	**1,494**	**135,280**
Net position	**8,222**	**6,012**	**1,624**	**15,858**

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintenance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of duties and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and forecasting the future liquidity trends;
- organisation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of force majeure associated with increase in liquidity risk.

The Bank aims to maintain the stable financing base comprising mainly due to other banks, current accounts and deposits of corporate customers and individuals, a long-term subordinated debt and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity ratio* is calculated as the ratio of demand assets to demand liabilities and overdue liabilities (minimum 20%). As at 31 December 2017, the ratio amounted to 186.7%, as at 31 December 2016 – 267%;
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%). As at 31 December 2017, the ratio amounted to 110.4%, as at 31 December 2016 – 129.9%;
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1 year to liabilities with the maturities of less than 1 year (minimum 1). As at 31 December 2017 the ratio amounted to 1.1, as at 31 December 2016 – 1.6;
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%). As at 31 December 2017 the ratio amounted to 24.1%, as at 31 December 2016 – 52.4%.

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows from financial liabilities (both interest and principal cash flows) and inflows/outflows from derivative financial instruments.

The table below represents analysis of financial liabilities by maturities as at 31 December 2017:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Non-derivative financial liabilities								
Due to other banks	15,065	-	-	-	-	-	-	15,065
Customer accounts	23,636	13,083	29,580	17,492	23,442	277	-	107,510
Other financial liabilities	486	38	30	55	25	-	-	634
Debt securities issued	-	-	-	-	1,486	-	-	1,486
Subordinated debt	97	184	283	573	4,514	17,629	-	23,280
Preference shares	-	-	-	-	1,518	-	1,102	2,620
Loan commitments	10,631	778	833	1,767	660	-	-	14,669
Total expected future cash outflows from non-derivative financial liabilities	**49,915**	**14,083**	**30,726**	**19,887**	**31,645**	**17,906**	**1,102**	**165,264**
Derivative financial liabilities gross settled								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total expected future cash outflows from financial liabilities	**49,915**	**14,083**	**30,726**	**19,887**	**31,645**	**17,906**	**1,102**	**165,264**

The table below represents analysis of financial liabilities by maturities as at 31 December 2016:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	No maturity	Total
Non-derivative financial liabilities								
Due to other banks	1,935	2,013	-	-	-	-	-	3,948
Customer accounts	31,069	49,597	13,688	12,141	16,235	-	-	122,730
Other financial liabilities	308	145	73	133	175	-	-	834
Debt securities issued	3,175	-	-	-	-	-	-	3,175
Subordinated debt	39	74	114	231	1,833	16,314	-	18,605
Preference shares	-	-	-	-	1,323	-	1,102	2,425
Loan commitments	7,247	257	3,925	159	142	-	-	11,730
Total expected future cash outflows from non-derivative financial liabilities	**43,773**	**52,086**	**17,800**	**12,664**	**19,708**	**16,314**	**1,102**	**163,447**
Derivative financial liabilities gross settled								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total expected future cash outflows from financial liabilities	**43,773**	**52,086**	**17,800**	**12,664**	**19,708**	**16,314**	**1,102**	**163,447**

The preference shares are financial liabilities without defined term of maturity. The maximum period the Bank considers for undiscounted cash flows calculation on preference shares obligatory dividend payment is 5 years.

The tables presented above include payments on derivative financial instruments gross settled as these settlements will be followed by corresponding cash outflows and inflows.

Customer accounts are stated by maturities in the table above. However, in accordance with the Bank Code of the Republic of Belarus, individuals have the right to withdraw their cash ahead of time.

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms and expected liquidity gaps based on the analysis of financial assets and liabilities as described in the tables below:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Overdue	No maturity	Total as at 31 December 2017
Assets									
Cash and balances with the National Bank of the Republic of Belarus	24,405	-	-	-	-	-	-	951	25,356
Derivative financial assets	19	-	-	-	-	-	-	-	19
Due from other banks	4,519	-	-	-	-	-	-	491	5,010
Loans to customers	7,335	11,279	16,952	13,624	50,504	1,035	709	-	101,438
Securities held to maturity	-	-	82	-	6,616	-	-	-	6,698
Securities available for sale	-	-	-	6,924	-	-	-	-	6,924
Other financial assets	266	-	-	-	-	-	559	-	825
Total financial assets	**36,544**	**11,279**	**17,034**	**20,548**	**57,120**	**1,035**	**1,268**	**1,442**	**146,270**
Liabilities									
Due to other banks	15,054	-	-	-	-	-	-	-	15,054
Customer accounts	23,259	12,399	28,779	16,754	23,283	-	-	-	104,474
Other financial liabilities	483	34	26	51	25	-	-	-	619
Debt securities issued	-	-	-	-	1,322	-	-	-	1,322
Subordinated debt	93	-	-	-	-	13,827	-	-	13,920
Preference shares	-	-	-	-	760	-	-	1,102	1,862
Total financial liabilities	**38,889**	**12,433**	**28,805**	**16,805**	**25,390**	**13,827**	**-**	**1,102**	**137,251**
Liquidity gap	(2,345)	(1,154)	(11,771)	3,743	31,730	(12,792)			
Cumulative expected liquidity gap	**(2,345)**	**(3,499)**	**(15,270)**	**(11,527)**	**20,203**	**7,411**			

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Over-due	No maturity	Total as at 31 December 2016
Assets									
Cash and balances with the National Bank of the Republic of Belarus	9,432	-	-	-	-	-	-	371	9,803
Derivative financial assets	7	-	-	-	-	-	-	-	7
Due from other banks	11,152	-	-	-	-	-	-	398	11,550
Loans to customers	4,438	10,939	9,988	8,802	20,892	68	727	-	55,854
Securities held to maturity	12,793	60	40,944	19,190	-	-	-	-	72,987
Other financial assets	201	-	-	-	-	-	736	-	937
Total financial assets	**38,023**	**10,999**	**50,932**	**27,992**	**20,892**	**68**	**1,463**	**769**	**151,138**
Liabilities									
Due to other banks	1,904	2,000	-	-	-	-	-	-	3,904
Customer accounts	30,397	48,742	13,094	11,413	15,808	-	-	-	119,454
Other financial liabilities	295	126	52	103	153	-	-	-	729
Debt securities issued	3,124	-	-	-	-	-	-	-	3,124
Subordinated debt	38	-	-	-	-	6,358	-	-	6,396
Preference shares	-	-	-	-	571	-	-	1,102	1,673
Total financial liabilities	**35,758**	**50,868**	**13,146**	**11,516**	**16,532**	**6,358**	**-**	**1,102**	**135,280**
Liquidity gap	2,265	(39,869)	37,786	16,476	4,360	(6,290)			
Cumulative expected liquidity gap	**2,265**	**(37,604)**	**182**	**16,658**	**21,018**	**14,728**			

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have undefined maturity and different nature. Non-coincidence of these positions potentially raises profitability and at the same time the risk of losses.

In the economic conditions prevailing in recent years in the Republic of Belarus (high devaluation expectations) long-term funds in Belarusian roubles are displaced by the short-term funds. Having significant liquidity gaps in the short term period the Bank manages liquidity by attracting available and most profitable resources in Belarusian roubles to maintain liquidity. The key sources of the resource base of the Bank are funds raised from legal entities. Additional current sources to cover liquidity gaps for short periods are also borrowings in the interbank market, swap transactions and foreign exchange transactions with the banks, as well as the issue of own debt securities.

In order to prevent outflow of customers funds as well as to extend the period of using them, the Bank promptly revises conditions for current products and develops the new ones, performs work to attract new customers. In addition, the terms of loan products are revised in order to diversify the loan portfolio regarding the mechanism of principal repayment.

Market risk. Market risk is related to open interest rate, currency positions, positions on debt and equity instruments, which are subject to general and specific market changes.

The identification and assessment of market risk is performed regularly and is based on the information received from respective departments for the preparation of reports to the National Bank.

Currency risk. Currency risk is risk of changes in value of financial instrument due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

Currency risk management is carried out using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of currency risk;
- implementation of limit policy;
- implementation of system for tracking the status and dynamics of open foreign currency position, total and by types of currencies, as well as of quick reaction system aimed at minimizing foreign currency risk;
- implementation of stress-testing system;
- creation of a system aimed to regular and timely informing of management bodies and committees of the Bank on efficiency of currency risk management system;
- creation of quick and adequate reaction system designed to minimize currency risk, development of Bank's action plan for unexpected changes related to currency risk.

The Bank determines risk limits by currencies and the aggregated currency position limits. Limits are set and monitored for compliance at the end of each day as well as during the day. The Treasury Department controls the state of open currency position and its actual size based on the accounting data for balance and off-balance assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

The analysis of Bank's exposure to currency risk as at 31 December 2017 is presented in the table below:

In thousands of Belarusian Roubles	BYN	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and balances with the National Bank of the Republic of Belarus	23,663	340	656	697	-	25,356
Derivative financial assets	19	-	-	-		19
Due from other banks	-	1,806	1,418	1,520	266	5,010
Loans to customers	46,360	40,853	13,868	357	-	101,438
Securities held to maturity	-	6,698	-	-	-	6,698
Securities available for sale	-	6,924	-	-	-	6,924
Other financial assets	673	145	7	-	-	825
Total financial assets	**70,715**	**56,766**	**15,949**	**2,574**	**266**	**146,270**
Liabilities						
Due to other banks	8,145	6,909	-	-	-	15,054
Customer accounts	48,818	35,307	11,601	8,748	-	104,474
Other financial liabilities	618	-	1	-	-	619
Debt securities issued	-	1,322	-	-	-	1,322
Subordinated debt	-	13,920	-	-	-	13,920
Preference shares	1,862	-	-	-	-	1,862
Total financial liabilities	**59,443**	**57,458**	**11,602**	**8,748**	**-**	**137,251**
Net open currency position	**11,272**	**(692)**	**4,347**	**(6,174)**	**266**	**9,019**
Claims on derivative contracts	-	4,930	-	5,792	-	10,722
Obligations on derivative contracts	-	(5,780)	(4,923)	-	-	(10,703)
Net position on derivatives financial instruments	**-**	**(850)**	**(4,923)**	**5,792**	**-**	**19**
Total net open currency position	**11,272**	**(1,542)**	**(576)**	**(382)**	**266**	

The analysis of Bank's exposure to currency risk as at 31 December 2016 is presented in the table below:

In thousands of Belarusian Roubles	BYN	USD	EUR	RUB	Total
Assets					
Cash and balances with the National Bank of the Republic of Belarus	5,429	1,707	904	1,763	9,803
Derivative financial assets	7	-	-	-	7
Due from other banks	-	7,159	1,563	2,828	11,550
Loans to customers	31,069	21,907	2,563	315	55,854
Securities held to maturity	12,157	54,320	6,510	-	72,987
Other financial assets	911	13	9	4	937
Total financial assets	**49,573**	**85,106**	**11,549**	**4,910**	**151,138**
Liabilities					
Due to other banks	3,900	4	-	-	3,904
Customer accounts	36,641	52,156	9,240	21,417	119,454
Other financial liabilities	715	7	5	2	729
Debt securities issued	-	3,124	-	-	3,124
Subordinated debt	-	6,396	-	-	6,396
Preference shares	1,673	-	-	-	1,673
Total financial liabilities	**42,929**	**61,687**	**9,245**	**21,419**	**135,280**
Net open currency position	**6,644**	**23,419**	**2,304**	**(16,509)**	**15,858**
Claims on derivative contracts	-	2,461	-	16,220	18,681
Obligations on derivative contracts	-	(16,213)	(2,454)	-	(18,667)
Net position on derivatives financial instruments	**-**	**(13,752)**	**(2,454)**	**16,220**	**14**
Total net open currency position	**6,644**	**9,667**	**(150)**	**(289)**	

The Bank calculates the ratio of open currency position and regulates it based on the nominal value of financial instruments according to the requirements of the National Bank.

The Bank granted 54.3 % (44.4% in 2016) of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans

The following table details the sensitivity of the Bank's profit before tax and equity to possible fluctuations of foreign exchange rates used as at the end of reporting period against the Bank's functional currency with all other variables held constant:

	31 December 2017	
In thousands of Belarusian Roubles	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**
Strengthening of US Dollar by 20%	(308)	(231)
Weakening of US Dollar by 10%	154	116
Strengthening of Euro by 20%	(115)	(86)
Weakening of Euro by 10%	58	44
Strengthening of RUB by 20%	(76)	(57)
Weakening of RUB by 10%	38	29
Strengthening of other currencies by 20%	53	40
Weakening of other currencies by 10%	(27)	(20)

In thousands of Belarusian Roubles	31 December 2016 Effect on profit before taxation	Effect on equity (included 25% income tax rate)
Strengthening of US Dollar by 20%	1,933	1,450
Weakening of US Dollar by 10%	(967)	(725)
Strengthening of Euro by 20%	(30)	(23)
Weakening of Euro by 10%	15	11
Strengthening of RUB by 20%	(58)	(44)
Weakening of RUB by 10%	29	22

The sensitivity analysis to variation of foreign exchange rates was calculated for all the items nominated in currencies other than the Bank's functional currency. Actually a correlation between suggestions and other factors exists. It should also be noted that these sensitivities are non-linear, and any impacts should not be interpolated or extrapolated from these results.

Interest rate risk. The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes in interest rates the interest margin can be also decreased or generate losses.

Interest rate risk management is performed using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of interest rate risk;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate;
- implementation of adequate interest policy relevant for the Bank;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate, analysis of structure and dynamics of resources base and active deposits;
- implementation of stress-testing system;
- creation of quick and adequate reaction system designed to minimize interest rate risk, development of Bank's action plan for unexpected changes in interest rate.

The Bank is exposed to interest rate risk mainly due to loan granting at fixed interest rates in amounts and for periods which differ from the amounts and periods of funds raising at floating interest rates. In practice fixed interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities, are often reviewed on the basis of mutual agreement in accordance with a current market situation.

Detection, identification and assessment of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (budgeted balance sheet and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return on financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

The table below represents general analysis of the Bank's interest rate risk. It includes total amounts of financial assets and financial liabilities sensitive to interest rate fluctuations, as reflected in the statement of financial position by their maturities:

In thousands of Belarusian Roubles	On demand and up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	Total
31 December 2017							
Total financial interest-bearing assets	10,043	11,279	17,034	20,548	57,120	1,035	117,059
Total financial interest-bearing liabilities	36,451	12,427	28,800	16,797	25,386	13,827	133,688
Interest rate gap as at 31 December 2017	**(26,408)**	**(1,148)**	**(11,766)**	**3,751**	**31,734**	**(12,792)**	**(16,629)**
31 December 2016							
Total financial interest-bearing assets	21,785	10,999	50,932	27,992	20,892	68	132,668
Total financial interest-bearing liabilities	33,762	50,847	13,137	11,499	16,506	6,358	132,109
Interest rate gap as at 31 December 2016	**(11,977)**	**(39,848)**	**37,795**	**16,493**	**4,386**	**(6,290)**	**559**

During monitoring the Bank analyses the structure and dynamics of financial assets and financial liabilities, previous and effective interest rates in the money market in the Republic of Belarus and countries of the Bank's main counterparties and their influence on interest rate risk.

As at 31 December 2017 and 2016 the balances of financial instruments with floating rates were as follows:

	31 December 2017		**31 December 2016**	
In thousands of Belarusian Roubles	**BYN**	**USD/EUR/ RUB**	**BYN**	**USD/EUR/ RUB**
Assets				
Due from banks	-	82	-	1,434
Loans to customers	1,003	-	510	-
Total assets with floating rates	**1,003**	**82**	**510**	**1,434**
Liabilities				
Subordinated debt	-	13,920	-	5,913
Total liabilities with floating rates	**-**	**13,920**	**-**	**5,913**

The Bank is not exposed to risk of change in fair value of fixed-rate financial instruments as the Bank has the contractual right to change interest rates on such instruments.

The table below shows sensitivity analysis of profit before taxation and equity to the possible significant changes in floating interest rates used at the end of reporting period, assuming that all other estimates remain unchanged:

	31 December 2017		31 December 2016	
In thousands of Belarusian Roubles	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**
Increase of interest rates on financial instruments nominated in BYN by 1000 basis points	100	75	51	38
Decrease of interest rates on financial instruments nominated in BYN by 1000 basis points	(100)	(75)	(51)	(38)
Increase of interest rates on financial instruments nominated in other currencies by 100 basis points	(138)	(104)	(45)	(34)
Decrease of interest rates on financial instruments nominated in other currencies by 100 basis points	138	104	45	34

Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with the Belarusian legislation or violation of these procedures by personnel, incompetence and errors of the personnel, inadequacy or failures of bank systems including informational, as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Bank's Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank's departments.

Information about the changes in the liabilities relating to financial activities

The table below presents verification of liabilities from financing activities as at 31 December 2017 and 2016:

In thousands of Belarusian Roubles	Debt securities issued	Subordinated debt	**Total**
31 December 2015	-	**14,172**	**14,172**
Receipt	3,101	-	3,101
Repayment	(23)	(8,992)	(9,015)
Exchange differences	11	1,191	1,202
Other	35	25	60
31 December 2016	**3,124**	**6,396**	**9,520**
Receipt	5,279	8,007	13,286
Repayment	(6,962)	(424)	(7,386)
Exchange differences	(84)	103	19
Other	(35)	(162)	(197)
31 December 2017	**1,322**	**13,920**	**15,242**

Article «Other» includes the effect of interest accrued but not yet paid on debt securities issued and subordinated debts. The Bank classifies interest paid as cash flows from operating activities.

35. Fair value measurement

The Bank applies the following hierarchy of inputs used in measurement of fair value:

- Level 1: inputs used to measure fair value are uncorrected quoted prices in active markets for identical assets and liabilities that the Bank can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Any adjustment of Level 1 inputs results in fair value of lower level.
- Level 2: inputs used to measure fair value are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives), include instruments measured using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques using inputs that are directly or indirectly observable in markets. If Level 2 significant inputs are adjusted using significant unobservable inputs, fair value measured will relate to Level 3.
- Level 3 – inputs used to measure fair value are unobservable inputs that reflect all assumptions used by market participants when fixing instrument price, including risk assumption. Fair value measured using a combination of different valuation techniques relates to Level 3.

When using inputs of different levels, the Bank categorizes fair value measurement in general within the level of inputs. The Bank records transfers between fair value levels as at the end of the reposting period.

Hierarchy of the Bank's assets and liabilities fair value inputs for items carried at fair value is presented in the table below:

In thousands of Belarusian Roubles

31 December 2017	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	8	-	19	-	**19**
Securities available for sale	10	-	6,924	-	**6,924**
Investment property	13	-	-	10,837	**10,837**
31 December 2016	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	8	-	7	-	**7**
Investment property	13	-	-	10,818	**10,818**

For the years ended 31 December 2017 and 2016 the Bank did not transfer between fair value hierarchy levels.

(a) Fair value of financial instruments

The comparison of the values stated in the statement of financial position and fair value of financial instruments of the Bank as at 31 December 2017 and 2016 is presented in the table below:

	31 December 2017		**31 December 2016**	
In thousands of Belarusian Roubles	**Value recorded in statement of financial position**	**Fair value**	**Value recorded in statement of financial position**	**Fair value**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	25,356	25,356	9,803	9,803
Derivative financial assets	19	19	7	7
Due from banks	5,010	5,010	11,550	11,550
Loans to customers	101,438	101,438	55,854	55,854
Securities held to maturity	6,698	6,698	72,987	71,648
Securities available for sale	6,924	6,924	-	-
Other financial assets	825	825	937	937
Total financial assets	**146,270**	**146,270**	**151,138**	**149,799**
Liabilities				
Due to banks	15,054	15,054	3,904	3,904
Customer accounts	104,474	104,474	119,454	119,454
Debt securities issued	1,322	1,322	3,124	3,124
Other financial liabilities	619	619	729	729
Subordinated debt	13,920	6,878	6,396	3,769
Preference shares	1,862	1,862	1,673	1,673
Total financial liabilities	**137,251**	**130,209**	**135,280**	**132,653**

The methods and assumptions used by the Bank for measurement of fair value of the financial instruments are presented below.

(a) (i) Financial instruments recognized at fair value in the statement of financial position

As at 31 December 2017 and as at 31 December 2016 the fair value of financial assets available for sale and derivative financial instruments is measured using discounted cash flows model, in which the most significant inputs are observable in market for identical or similar financial instruments (level 2). The fair value of short-term foreign currency swaps with other banks with maturities up to 10 days was assessed to be nil.

a) (ii) Financial instruments not recognized at fair value in the statement of financial position

Financial instruments fair value of which approximately equals to the value recorded in the statement of financial position. It is assumed that the fair value of financial assets and liabilities, which are liquid or have a short maturity (less than 3 months) approximately equals to their carrying value. This assumption is also applied to interbank loans, demand deposits and current accounts with undefined maturity, as well as to other short-term account receivable and payable.

Financial instruments with floating and fixed interest rates. The fair value of financial instruments with floating interest rates approximates their value in the statement of financial position. Estimated fair value of financial instruments with floating interest rates is based on calculation of discounted cash flows using interest rates for instruments with similar terms, credit risk level and residual maturity.

Fair value assessment of financial instruments not recognized at fair value in the statement of financial position refers to level 2 of the hierarchy of inputs, except for cash and balances with the National Bank of the Republic of Belarus that refer to level 1.

(b) Fair value of investment property

The fair value of investment property was measured using a comparative assessment method by the Bank independently in 2015-2017 and with the involvement of a professional appraiser in 2014.

The comparative method is based on quoted market prices for similar objects (except when the sale of assets to repay debt), adjusted for the differences.

The market prices of equal items adjusted for elements of comparison (location, technical condition, etc.) form the basis for measuring fair value as at 31 December 2017 and 2016. The range of prices under consideration was 570 – 1.450 US dollars per square meter as at 31 December 2017 and 597 – 1460 US dollars per square meter as at 2016. Increase (decrease) in market prices of real estate by 10%, without taking into account the interaction with other factors will lead to an increase (decrease) in value of investment property by BYN 1.084 thousand as at 31 December 2017 and BYN 1.082 thousand as at 31 December 2016. Strengthening by 20% (weakening by 10%) of the US dollar against the Belarusian rouble in 2017, without taking into account the interaction with other factors, will lead to an increase in the value of investment property by BYN 2,167 thousand (a decrease by BYN 1.084 thousand). Strengthening by 20% (weakening by 10%) of the US dollar against the Belarusian rouble in 2016, without taking into account the interaction with other factors, will lead to an increase in the value of investment property by BYN 2,164 thousand (a decrease by BYN 1.082 thousand).

Reconciliation of balances of investment property fair value recorded in the statement of financial position as at 31 December 2017 and 2016 is presented in Note 13.

36. Operating segments

The segment reporting of the Bank is based on the following operating segments: services to individuals, services to legal entities, treasury transactions.

- services to individuals - maintenance of current accounts, receipt of deposits, granting loans, performance of settlements on behalf of individuals, servicing bank cards, custody services;
- services to legal entities - cash management services to enterprises and organizations (both residents and non-residents of the Republic of Belarus), attraction of deposits, placing own debt securities issued, granting loans and other types of financing, implementation of documentary transactions and transactions with securities on behalf of clients;
- treasury transactions – transactions with the National Bank, maintenance of correspondent accounts of banks, attraction and placement of funds on interbank market, transactions with securities on behalf of the Bank (including REPO), transactions with derivative financial instruments, transactions of purchase, sale, conversion of foreign currency.

The information on operating segments for 2017 is presented below:

In thousands of Belarusian Roubles	Services to individuals	Services to legal entities	Treasury transactions	Other/Not distributed	Total
Interest income	5,965	6,350	3,426	-	15,741
Interest expense	(1,852)	(3,953)	(497)	(1,304)	(7,606)
Net interest income	4,113	2,397	2,929	(1,304)	8,135
Fee and commission income	533	2,023	32	186	2,774
Fee and commission expense	(101)	(5)	(139)	(547)	(792)
Net fee and commission income	432	2,018	(107)	(361)	1,982
Net gain on derivative financial instruments	-	-	143	-	143
Net loss on foreign exchange operations	-	-	1,813	(74)	1,739
Net expenses on securities held to maturity	-	3	(122)	-	(119)
Other income	441	69	-	958	1,468
Operating income	4,986	4,487	4,656	(781)	13,348
Operating expenses	(275)	(77)	-	(9,745)	(10,097)
Allowance for impairment assets received in payment of debts, net	-	-	-	(10)	(10)
Allowance for impairment losses on interest bearing financial assets, net	227	(977)	-	-	(750)
Allowance for impairment losses on other financial assets, net	(124)	49	-	(46)	(121)
Allowance for loan commitments, net	(2)	(144)	-	-	(146)
Financial result of segment before income tax expense	4,812	3,338	4,656	(10,582)	2,224
Profit before income tax					2,224
Income tax expense					1,451
Net profit for the year					3,675
Segment assets	29,727	72,331	43,056	30,438	175,552
Segment liabilities	27,579	77,301	16,376	16,393	137,649
Other segment information					
Cash and balances with the National Bank of the Republic of Belarus	-	-	24,405	-	24,405
Derivative financial assets	-	-	19	-	19
Securities available for sale	-	-	6,924	-	6,924
Due from banks	-	-	5,010	-	5,010
Loans to customers	29,337	72,101	-	-	101,438
Securities held to maturity	-	-	6,698	-	6,698
Other assets	390	230	-	-	620
Debt securities issued	-	-	1,322	-	1,322
Due to other banks	-	-	15,054	-	15,054
Customer accounts	27,473	77,001	-	-	104,474
Other liabilities	106	300	-	-	406

The information on operating segments for 2016 is presented below:

In thousands of Belarusian Roubles	Services to individuals	Services to legal entities	Treasury transactions	Other/Not distributed	Total
Interest income	11,875	4,624	7,278	97	23,874
Interest expense	(1,412)	(6,680)	(3,673)	(1,301)	(13,066)
Net interest income	10,463	(2,056)	3,605	(1,204)	10,808
Fee and commission income	698	1,252	40	144	2,134
Fee and commission expense	(99)	(9)	(111)	(549)	(768)
Net fee and commission income	599	1,243	(71)	(405)	1,366
Net gain on derivative financial instruments	-	-	(6)	-	(6)
Net loss on foreign exchange operations	-	-	3,472	630	4,102
Net expenses on securities held to maturity	-	-	(41)	-	(41)
Other income	630	13	-	989	1,632
Operating income	11,692	(800)	6,959	10	17,861
Operating expenses	(194)	(2)	-	(10,343)	(10,539)
Allowance for impairment losses on interest bearing financial assets, net	(1,258)	(2,780)	3	-	(4,035)
Allowance for impairment losses on other financial assets, net	(104)	-	-	(91)	(195)
Allowance for loan commitments and other risks and payments, net	(1)	(23)	-	427	403
Financial result of segment before income tax expense	10,135	(3,605)	6,962	(9,997)	3,495
Profit before income tax					3,495
Income tax expense					4
Net profit for the year					3,499
Segment assets	23,057	33,538	93,976	27,662	178,233
Segment liabilities	29,452	90,341	7,028	9,498	136,319
Other segment information					
Cash and balances with the National Bank of the Republic of Belarus	-	-	9,432	-	9,432
Derivative financial assets	-	-	7	-	7
Due from banks	-	-	11,550	-	11,550
Loans to customers	22,428	33,426	-	-	55,854
Securities held to maturity	-	-	72,987	-	72,987
Other assets	629	112	-	-	741
Debt securities issued	-	-	3,124	-	3,124
Due to other banks	-	-	3,904	-	3,904
Customer accounts	29,367	90,087	-	-	119,454
Other liabilities	85	254	-	-	339

Information on structure of interest and fee and commission income and expenses of the Bank by types of activities is presented in Notes 24, 25. The geographical structure analysis of financial assets and liabilities of the Bank is presented in Note 34.

37. Related parties transactions

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting, attraction of resources and other transactions. Based on the Bank's policy all transactions with related parties shall be performed on the same terms as transactions with independent parties. As at 31 December 2017 average interest rates on loans in Belarusian roubles to related parties were 13% per annum, on foreign currency loans – 10% per annum; average rates on borrowings in Belarusian roubles were 5% per annum and in foreign currency were 2.5%.

Balances of transactions with related parties as at 31 December 2017 are presented below:

In thousands of Belarusian Roubles	Shareholders	Entities under common control	Key management personnel
Loans to customers	704	5,555	50
Allowance for impairment	(16)	(1,220)	-
Loans to customers less allowance for impairment	688	4,335	50
Subordinated loans	13,920	-	-
Customer accounts	136	92	319

Balances of transactions with related parties as at 31 December 2016 are presented below:

In thousands of Belarusian Roubles	Shareholders	Entities under common control	Key management personnel
Loans to customers	-	5,484	23
Allowance for impairment	-	(419)	-
Loans to customers less allowance for impairment	-	5,065	23
Subordinated loans	5,913	-	-
Customer accounts	116	90	236

Credit related commitments on transactions with related parties as at 31 December 2017 and 2016 are presented below:

In thousands of Belarusian Roubles	Shareholders	Entities under common control	Key management personnel
Untapped lines of credit as at 31 December 2017	3	-	85
Untapped lines of credit as at 31 December 2016	-	-	77

The income and expenses on transactions with related parties for 2017 are presented below:

In thousands of Belarusian Roubles	Shareholders	Entities under common control	Key management personnel
Interest income	20	67	28
Interest expenses	(1,374)	(2)	(7)
Fee and commission income	4	8	-
Expenses on operating lease	(75)	(201)	-

The income and expenses on transactions with related parties for 2016 are presented below:

In thousands of Belarusian Roubles	Shareholders	Entities under common control	Key management personnel
Interest income	-	33	10
Interest expenses	(738)	(1)	(15)
Fee and commission income	7	10	-
Income from operations with securities	5	-	-
Expenses on operating lease	(77)	(201)	-

The information on payments to key management personnel and members of the Board of Directors for 2017 and 2016 is presented below:

In thousands of Belarusian Roubles	2017	2016
Salary and other short-term personnel expenses	916	896
Remuneration to the members of Board of Directors	584	487

38. Subsequent events

Since the beginning of 2018, the refinancing rate has been gradually decreasing from 11%, effective at the beginning of 2018, to 10.5% since 14 February 2018. As at 1 May 2018 the Belarusian rouble increased against a basket of currencies by 2.08% compared to 31 December 2017.

In March 2018 the Bank accepted unrealized property to repay the debt of an individual under the contract of purchase and sale of capital structures (poultry houses), concluded in 2015 (he property is recorded in other assets). As at the issue date of these financial statements the property is sold under the contract of purchase and sale.

In March 2018 the General meeting of shareholders made a decision to allocate earnings for 2017 to the reserve fund and reserve payroll fund of the Bank in accordance with the requirements of the legislation of the Republic of Belarus.