# OJSC "Paritetbank"

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

# For the year ended 31 December 2017

Our ref № 05-01/62 14 May 2018

# Independent Auditors' Report

## To the shareholders, Supervisory Board and Management Board of Open joint-stock company «Paritetbank»

### Opinion

We have audited the financial statements of Open joint-stock company «Paritetbank» (OJSC «Paritetbank», Bank thereafter), which comprise the statement of financial position as at December 31, 2017, and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements on pages 11-58, including a summary of significant accounting policies.

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

### Basis for opinion

We conducted our audit in accordance with Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, International Standards on Auditing («ISAs» thereafter). Our responsibilities under those standards are further described in the section «Auditor's responsibilities for the audit of the financial statements» of this auditor's report.

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

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

### 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. The below matter was 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 this matter.

<u>Allowance for impairment of loans to customers</u>

We focused on this matter due to significance of loans to customers and significance of judgements and estimates required for calculation of the related allowance.

The allowance represents management's best estimate of losses incurred on loans to customers as at the reporting date. Allowance for impairment is calculated on an individual basis for significant loans to customers, which have impairment indicators.

Bank uses overdue debt migration as one of the methods for assessing the loan portfolio on a collective basis, retrospectively taking into account the factor of payment discipline of borrowers.

Note 3 «Summary of significant accounting policies», Note 4 «Critical accounting estimates, and judgements in applying accounting policies » and Note 12 «Loans to customers», included in the financial statements, provide detailed information on the allowance for impairment of loans to customers.

Direct tel/fax +375 (17) 262 5223
E-mail fbk@fbk.by | www.fbk.by
FBK-Bel LLC | Logoisky highway 22A, office 201 | Minsk | 220090 | Republic of Belarus

During the audit we examined and assessed the methodologies of the Bank used for calculation of the allowance for impairment of loans to individuals and legal entities in terms of consistency with the requirements of IFRS.

We tested (on a sample basis) the calculation of allowance for impairment of loans to legal entities that are individually assessed by the Bank. We assessed the timeliness of loss event identification, verified assumptions used, including assessment of financial position of borrowers and expected term of receipt of cash flows from the loan. We tested the Bank's approach to determining collateral value and verified the assumptions made by the Bank regarding the discounts to the collateral value.

We assessed the basis and principles of collective provisioning models used for loans granted to legal entities and formed our own judgement as to whether or not they are appropriate.

We tested the allowance for impairment of loans to individuals: verified the structuring of the Bank's loan portfolio by loan types and period of the outstanding balance past due, calculation of migration rates, calculation of loss rate.

As a result of conducted procedures, there were no significant misstatements identified in the amount of allowance.

**Responsibilities of management and those charged with governance for the financial statements**

Management of OJSC «Paritetbank» is responsible for the preparation and fair presentation of these 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 or error.

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

Those charged with governance are responsible for overseeing the financial reporting process of OJSC «Paritetbank».

**Auditor's responsibilities for the audit of the financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of the audit. We also:

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

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

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

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Accountants & business advisers

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

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

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

We are also required to 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.

Head of the audit organization:

Director A.G. Reneisky

Auditor in-charge R.V. Kirslite

**Audited entity**

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

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

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

**Independent auditor**

FBK-Bel LLC;

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

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

Auditors' opinion received on 14 May 2018

# OJSC "PARITETBANK"

## STATEMENT OF FINANCIAL POSITION
## FOR THE YEAR ENDED 31 DECEMBER 2017
*(in thousands of Belarusian rubles)*

| | Notes | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and cash equivalents | 8 | 39 500 | 28 097 |
| Amounts due from financial institutions | 9 | 243 | 3 715 |
| Securities at fair value through profit or loss | 13 | 23 512 | - |
| Derivative financial assets | 10 | 11 | 19 |
| Mandatory reserves with the National bank of Belarus | | 2 660 | 736 |
| Loans to customers | 11 | 182 429 | 183 273 |
| Securities available-for-sale | 12 | 75 952 | 100 999 |
| Long-term assets held for sale | 14 | 216 | 620 |
| Property and equipment | 15 | 27 709 | 28 538 |
| Intangible assets | 16 | 1 227 | 816 |
| Deferred income tax assets | 17 | 795 | 963 |
| Other assets | 18 | 11 582 | 9 474 |
| TOTAL ASSETS | | **365 836** | **357 250** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES:** | | | |
| Amounts due to financial institutions | 19 | 67 930 | 70 631 |
| Derivative financial liabilities | 10 | 1 | - |
| Amounts due to customers | 20 | 188 619 | 187 428 |
| Debt securities issued | 21 | 1 436 | 2 113 |
| Current income tax liabilities | | 207 | - |
| Other liabilities | 18 | 773 | 785 |
| TOTAL LIABILITIES | | **258 966** | **260 957** |
| **EQUITY:** | | | |
| Share capital | 22 | 153 754 | 153 754 |
| Treasury shares | | (136) | (136) |
| Revaluation reserve for investments available for sale | | (26) | (30) |
| Accumulated loss | | (46 722) | (57 295) |
| TOTAL EQUITY | | **106 870** | **96 293** |
| TOTAL LIABILITIES AND EQUITY | | **365 836** | **357 250** |

Notes on pages 11 to 58 are an integral part of these financial statements.

Chairman of the Management Board
S.N. Belov

14 May 2018
Minsk

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department
O.N. Shilova

14 May 2018
Minsk

# OJSC "PARITETBANK"

## STATEMENT OF PROFIT OR LOSS
## FOR THE YEAR ENDED 31 DECEMBER 2017
***(in thousands of Belarusian rubles)***

| | Notes | 2017 | 2016 |
|---|---|---|---|
| INTEREST INCOME | | | |
| Loans to customers | | 23 988 | 25 746 |
| Amounts due from financial institutions | | 345 | 2 938 |
| Securities available-for-sale | | 6 399 | 8 592 |
| Securities at fair value through profit or loss | | 565 | - |
| INTEREST EXPENSE | | | |
| Amounts due to customers | | (7 332) | (10 804) |
| Amounts due to financial institutions | | (2 697) | (3 363) |
| Debt securities issued | | (239) | (937) |
| NET INTEREST INCOME | | 21 029 | 22 172 |
| Allowance for loans impairment | 12 | (3 649) | (4 732) |
| NET INTEREST INCOME AFTER ALLOWANCE FOR LOANS IMPAIRMENT | | 17 380 | 17 440 |
| Net fee and commission income | 24 | 3 471 | 2 643 |
| Net gains from securities available-for-sale | | 150 | 87 |
| Net gains from securities at fair value through profit or loss | | 947 | - |
| Net gains from foreign currency transactions: | | | |
| - dealing | | 2 615 | 1 927 |
| - transaction differences | | 1 044 | (201) |
| Net gains from derivative financial instruments transactions | | 47 | 3 473 |
| Other income | 25 | 6 112 | 2 248 |
| NON-INTEREST INCOME | | 14 386 | 10 177 |
| Personnel expenses | 26 | (8 853) | (8 476) |
| Depreciation and amortization | 15, 16 | (1 462) | (1 258) |
| Other operating expenses | 26 | (7 925) | (7 790) |
| Other reversal/(expenses) of impairment and provisions | 14, 18 | (124) | 2 016 |
| NON-INTEREST EXPENSE | | (18 364) | (15 508) |
| PROFIT BEFORE INCOME TAX EXPENSE | | 13 402 | 12 109 |
| Income tax charge | 17 | (1 000) | (162) |
| PROFIT FOR THE YEAR | | 12 402 | 11 947 |

Notes on pages 11 to 58 are an integral part of these financial statements.

Chairman of the Management Board
S.N. Belov

14 May 2018
Minsk

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department
O.N. Shilova

14 May 2018
Minsk

## OJSC "PARITETBANK"

### STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 31 DECEMBER 2017
*(in thousands of Belarusian rubles)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| PROFIT FOR THE YEAR | | 12 402 | 11 947 |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Change in fair value of securities available-for-sale | | (4) | (80) |
| Change in deferred income tax recognized directly in equity | | 8 | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 12 406 | 11 867 |

Notes on pages 11 to 58 are an integral part of these financial statements.

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S.N. Belov

14 May 2018
Minsk

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department
O.N. Shilova

14 May 2018
Minsk

Translation from original in Russian language

# OJSC "PARITETBANK"

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2017
*(in thousands of Belarusian rubles)*

| | Notes | Share capital | Treasury shares | Accumulated loss | Revaluation reserve for investments available for sale | Total equity |
|---|---|---|---|---|---|---|
| **31 December 2015** | | **153 754** | **(136)** | **(68 316)** | **50** | **85 352** |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | 11 947 | - | **11 947** |
| Other comprehensive income for the year | | - | - | - | (80) | **(80)** |
| **Total comprehensive income for the year** | | - | - | 11 947 | (80) | **11 867** |
| **Transactions with shareholders** | | | | | | |
| Dividends declared | 22 | - | - | (926) | - | **(926)** |
| **31 December 2016** | | **153 754** | **(136)** | **(57 295)** | **(30)** | **96 293** |
| **Comprehensive income** | | | | | | |
| Profit for the year | | - | - | 12 402 | - | **12 402** |
| Other comprehensive income for the year | | - | - | - | 4 | **4** |
| **Total comprehensive income for the year** | | - | - | 12 402 | 4 | **12 406** |
| **Transactions with shareholders** | | | | | | |
| Dividends declared | 22 | - | - | (1 829) | - | **(1 829)** |
| **31 December 2017** | | **153 754** | **(136)** | **(46 722)** | **(26)** | **106 870** |

Notes on pages 11 to 58 are an integral part of these financial statements.

Chairman of the Management Board
S.N. Belov

14 May 2018
Minsk

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department
O.N. Shilova

14 May 2018
Minsk

# OJSC "PARITETBANK"

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2017
*(in thousands of Belarusian rubles)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Profit before income tax expense | 17 | 13 402 | 12 109 |
| Adjustments for: | | | |
| Depreciation and amortisation | 15, 16 | 1 462 | 1 258 |
| Allowance for loans impairment | 12 | 3 649 | 4 732 |
| Charge/(release) of allowance for impairment of other assets | 14, 18 | 124 | (2 016) |
| Loss on disposal of property and equipment and intangible assets | | 66 | 28 |
| Net change in interest accruals | | (4 132) | 2 613 |
| Gain on revaluation of derivative financial instruments | 28 | (11) | (19) |
| Unused vacation and bonus accrual | | 135 | 216 |
| (Profit)/loss from translation differences | | (1 044) | 201 |
| Loss on write-off of material assets | | (73) | (133) |
| Loss from initial recognition of financial assets and accounting of loans using amortised cost | | - | (301) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **13 578** | **18 688** |
| Decrease/(increase) in operating assets | | | |
| Amounts due from financial institutions | | 1 726 | 11 147 |
| Loans to customers | | 7 839 | (76 863) |
| Derivative financial instruments | | 20 | 38 978 |
| Other assets | | 575 | 1 270 |
| Decrease/(increase) in operating liabilities: | | | |
| Amounts due to financial institutions | | (3 414) | 64 175 |
| Amounts due to customers | | (3 893) | 16 454 |
| Other liabilities | | (798) | (28) |
| **Net cash inflows from operating activities before income tax** | | **2 055** | **55 133** |
| Income tax paid | | (617) | - |
| **Net cash inflow from operating activities** | | **15 016** | **73 821** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Purchase of property and equipment and intangible assets | 15, 16 | (1 110) | (1 656) |
| Acquisition of securities available-for-sale | | (75 863) | (100 763) |
| Acquisition of securities at fair value through profit or loss | | (24 015) | - |
| Proceeds from redemption of securities available for sale | | 101 020 | 32 532 |
| Prepayment for shares | | (2 015) | (2 162) |
| **Net cash outflow from investing activities** | | **(1 983)** | **(72 049)** |

# OJSC "PARITETBANK"

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2017
*(in thousands of Belarusian rubles)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Repayment of debt securities | 32 | (762) | (3 097) |
| Dividends paid | 22 | (1 829) | (926) |
| **Net cash outflow from financing activities** | | **(2 591)** | **(4 023)** |
| Effect of exchange rates changes on cash and cash equivalents | | 961 | (119) |
| Net increase/(decrease) in cash and cash equivalents | | 11 403 | (2 370) |
| Cash and cash equivalents as at the beginning of the reporting year | 8 | 28 097 | 30 467 |
| **Cash and cash equivalents as at the end of reporting the year** | **8** | **39 500** | **28 097** |

Notes on pages 11 to 58 are an integral part of these financial statements.

Chairman of the Management Board
S.N. Belov

14 May 2018
Minsk

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department
O.N. Shilova

14 May 2018
Minsk

## 1. ORGANIZATION

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

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

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

(in thousands of Belarusian rubles)

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

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

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

The Bank has 19 structural divisions in the Republic of Belarus and a head office located in Minsk and having its registered address at 61a Kiseleva Street, 220002 Minsk, Republic of Belarus.

As of 31 December 2017 and 2016, the Bank's share capital was distributed among its shareholders as follows:

| **Shareholders** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Administration of the President of the Republic of Belarus | 99,83% | 99,83% |
| Other (legal and natural person) | 0,17% | 0,17% |

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

| **Name** | **Country of operation** | **Share** | | **Type of activity** |
|---|---|---|---|---|
| | | **2017** | **2016** | |
| LLC "Investment Company "Paritet" | Republic of Belarus | 50,0% | 50,0% | Finance lease |

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

Total unrecognized Bank's share in profit for the 2017 year are BYN 54 thousand and in loss for the 2016 year are BYN 61 thousand. Unrecognized Bank's share in the associate's accumulated loss as of 31 December 2017 and 31 December 2016 is BYN 171 thousand и 307 thousand, respectively.

## 2. OPERATING ENVIRONMENT OF THE BANK

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

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

***Financial instruments - key measurement terms.*** Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

***Fair value*** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

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

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

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

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

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

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

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

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

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

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

***Precious metals and precious stones.*** Precious metals and gemstones in physical form are presented by the Bank within other non-financial assets at the lower of cost and net realisable value at the reporting date.

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

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

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

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

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

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;

- the borrower considers bankruptcy or a financial reorganisation;

- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or

- the value of collateral significantly decreases as a result of deteriorating market conditions.

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

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

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

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

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

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

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

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

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

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

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

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

***Securities at fair value through profit or loss.*** This category includes securities classified as held for trading. Securities are classified as held for trading if they are acquired for sale in the near future. Revaluation of securities at fair value through profit or loss is recognised in profit or loss for the year.

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

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

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

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

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

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

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

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

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

| | **Period for property and equipment depreciation, years** |
|---|---|
| Buildings and constructions | 8 – 100 |
| Computers | 2 – 10 |
| Motor vehicles | 7 – 10 |

| | |
|---|---|
| Office furniture and other property and equipment | 5 – 10 |

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

***Intangible assets.*** Intangible assets include computer software and licences.

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

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

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

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

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

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

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

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

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

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

***Derivative financial instruments.*** Derivative financial instruments, including foreign exchange contracts, and currency and interest rate swaps are carried at their fair value.
All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

At 31 December 2017, the principal rate of exchange used for translating foreign currency balances was USD 1 = BYN 1.9727 (2016: USD 1 = BYN 1.9585).

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

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

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

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

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

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

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

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

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

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

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

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

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

**Initial recognition of related party transactions.** In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 30.

## 5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Bank from 1 January 2017, but did not have any material impact on the Bank:

- Amendments to IAS 7 "Statement of cash flows" – "Initiative in the field of information disclosure".
- Amendments to IAS 12 "Income taxes" - "Recognition of deferred tax assets for unrealized losses".
- Amendments to IFRS 12 "Disclosure of Interests in Other Entities" - "Clarification of the scope of application of disclosure requirements in IFRS 12".

## 6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2018 or later, and which the Bank has not early adopted:

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

The Bank's management expects that the adoption of IFRS 9 may have a significant impact on the reported financial assets and financial liabilities of the Bank. The Bank plans to apply the new standard, recognizing the cumulative effect of the transition as part of retained earnings as of January 1, 2018, and will not recalculate comparative information. The Bank is in the process of quantifying the impact of IFRS 9, but the final impact assessment is not currently available.

***IFRS 15 "Revenue from Contracts with Customers".*** IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers.

IFRS 15 will replace all currently existing standards on revenue recognition, including the IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

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

The Standard introduces a much clearer guidance on issues of accounting, as the moment of revenue recognition, allowance for variable compensation, costs associated with the conclusion and execution of contracts and others. In addition, the Standard introduces a new disclosure requirements. However, interest and fee income, which is an integral part of financial instruments and leases, is beyond the requirements of IFRS 15 and will be governed by other applicable standards (IFRS 9 Financial Instruments and IFRS 16 Leases). As a result, the application of this standard will not affect a significant part of the Bank's income.

The Bank's management expects that the adoption of IFRS 15 could have a significant impact on the amount and timing of revenue recognition in the future.

***Amendments to IFRS 15 "Revenue from Contracts with Customers".*** Amendments to IFRS 15 issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018. The amendments do not change the fundamental principles of the standard but explain how these principles should be applied. In addition to the clarifications, the amendments include two additional exemption requirements, which will allow the company that first applies the new standard to reduce costs and complexity of accounting.

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

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

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

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

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

(in thousands of Belarusian rubles)

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

***IFRS 17 “Insurance contracts”.*** In May 2017, the IASB issued IFRS 17 "Insurance Contracts", which considers the recognition and measurement, presentation and disclosure of information in financial statements for insurance contracts. IFRS 17 replaces IFRS 4 "Insurance Contracts" and becomes effective for accounting periods beginning on or after 1 January 2021, and requires to present comparative information.

Bank's management does not expect that the initial application of IFRS 17 will have a significant impact on the financial statements.

## 7. PRIOR PERIOD ADJUSTMENTS

In 2017, the Bank identified an inaccuracy related to recording of bad debts in 2016.

The Bank in 2016 did not fully assess the probability of receiving interest on loans to customers, as a result, an interest income on loans previously written off was recognized in interest income. Respectively, the deferred income tax related to the effect of temporary differences on "Loans to customers" was also adjusted for the year ended December 31, 2016. In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", adjustments according to the changes in accounting policy were made retrospectively.

The following table shows the effect of adjustments to the financial statements for the year ended December 31, 2016.

| Financial statements item | As per previous report | Adjustment | Adjusted value |
|---|---|---|---|
| **Statement of financial position** | | | |
| Loans to customers | 189 996 | (6 723) | 183 273 |
| Deferred income tax assets | - | 963 | 963 |
| Deferred income tax liabilities | 718 | (718) | - |
| **Statement of profit or loss** | | | |
| INTEREST INCOME | | | |
| Loans to customers | 32 469 | (6 723) | 25 746 |
| Income tax expense | 1 843 | (1 681) | 162 |

(in thousands of Belarusian rubles)

## 8. CASH AND CASH EQUIVALENTS

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Cash on hand | 9 445 | 12 248 |
| Current accounts with the National Bank of the Republic of Belarus | 28 275 | 13 736 |
| Current accounts with other credit institutions | 1 780 | 2 113 |
| **Total cash and cash equivalents** | **39 500** | **28 097** |

As of 31 December 2017 BYN 1 047 thousand (2016 – BYN 1 726 thousand) was placed on current accounts and interbank deposits with internationally recognized banks which are the main counterparties of the Bank in performing international settlements, in particular, the share of banks in OECD countries is about 80%, the share of the CIS countries is about 20%.

## 9. AMOUNTS DUE FROM FINANCIAL INSTITUTIONS

As of 31 December 2017 and 31 December 2016 amounts due from credit institutions comprised:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Guarantee deposits | 243 | 196 |
| Term deposits | - | 3 519 |
| **Total amounts due from financial institutions** | **243** | **3 715** |

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

## 10. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss is presented as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Eurobonds issued by the Republic of Belarus | 17 081 | - |
| Eurobonds issued by Ukraine | 6 431 | - |
| **Securities at fair value through profit or loss** | **23 512** | **-** |
| Less: allowance for impairment | - | - |
| **Total securities at fair value through profit or loss** | **23 512** | **-** |

## 11. DERIVATIVES FINANCIAL INSTRUMENTS

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | Asset | liability | Asset | liability |
| **Foreign exchange contracts** | | | | |
| Swaps - foreign | 11 | - | 19 | - |

(in thousands of Belarusian rubles)

| | | | | |
|---|---|---|---|---|
| Swaps - domestic | - | 1 | - | - |
| **Total derivative assets/ liabilities** | **11** | **1** | **19** | **-** |

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

As of 31 December 2017 and 31 December 2016, the Bank had positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

## 12. LOANS TO CUSTOMERS

As of 31 December 2017 and 31 December 2016 loans to customers comprised:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Corporate lending | 149 661 | 160 949 |
| Consumer lending | 40 169 | 28 972 |
| **Total loans to customers** | **189 830** | **189 921** |
| Less: allowance for impairment | (7 401) | (6 648) |
| **Total loans to customers less allowance for impairment** | **182 429** | **183 273** |

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

| | Corporate lending | Consumer lending | Total |
|---|---|---|---|
| **As of 1 January 2017** | 6 520 | 128 | 6 648 |
| Charge/(reversal) for the year | 3 250 | 399 | 3 649 |
| Amounts written off | (2 549) | (347) | (2 896) |
| **As of 31 December 2017** | 7 221 | 180 | 7 401 |
| | | | |
| Individual impairment | 2 909 | - | 2 909 |
| Collective impairment | 4 312 | 180 | 4 492 |
| | 7 221 | 180 | 7 401 |
| **Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | 56 500 | - | 56 500 |

| | Corporate lending | Consumer lending | Total |
|---|---|---|---|
| **As of 1 January 2016** | 5 144 | 512 | 5 656 |
| Charge/(reversal) for the year | 4 622 | 110 | 4 732 |

(in thousands of Belarusian rubles)

| | | | |
|---|---|---|---|
| Amounts written off | (3 246) | (494) | (3 740) |
| **As of 31 December 2016** | 6 520 | 128 | 6 648 |
| | | | |
| Individual impairment | 5 052 | - | 5 052 |
| Collective impairment | 1 468 | 128 | 1 596 |
| | 6 520 | 128 | 6 648 |
| **Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance** | 46 060 | - | 46 060 |

**Individually impaired loans**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2017, amounted to BYN 1 632 thousand (2016 - BYN 906 thousand).

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

**Collateral and other credit enhancements**

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, inventory and accounts receivable;
- For consumer lending - surety, charges over residential properties and vehicles;
- For finance lease - usually no additional collateral to the leased equipment is obtained.

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

**Concentration of loans to customers**

As of 31 December 2017, the Bank had a concentration of loans in the amount of BYN 120 882 thousand due from ten largest independent third party borrowers or 66% of gross loan portfolio (2016 - BYN 106 529 thousand or 57% of gross loan portfolio). An individual impairment allowance of BYN 2 909 thousand was recognized against loans granted as of 31 December 2017 (2016 - BYN 4 036 thousand).

(in thousands of Belarusian rubles)

During the years 2009-2011 the Bank issued construction loans to the employees working for one of its customers, which is a related party to the Bank. The nominal loans issued as at 31 December 2017 and 2016 amounted to BYN 738 thousand and BYN 783 thousand, respectively. The loans were issued with a maturity of up to 20 years bearing interest of 4.75% per annum, which is much lower than market rate level for similar financial instruments. These loans were issued using amounts received from this customer as deposits and placed in the Bank at an interest rate of 0.01% with maturity of 3 years, which is also much lower than market rate. Deposits were closed in 2013. In accordance with customer agreement at the date of loan issue the balance between the deposit placed and loans issued by the Bank had to be not less than the established ratio, moreover the client had no option to withdraw the placed deposit before expiry of a 3-year period The Bank bears all credit risks in the event the loans issued will not be repaid. Loans issued and the deposit placed are initially recognized at approximate fair value using corresponding discount methods and the effective interest rate method with subsequent measurements at amortized cost.

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

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trade and catering | 40 681 | 50 354 |
| Individuals | 40 169 | 28 972 |
| Industry | 44 130 | 48 051 |
| Petrochemistry | 23 542 | 38 592 |
| Construction | 14 606 | 6 309 |
| Leasing companies | 8 248 | 10 235 |
| Agriculture | 7 252 | 4 444 |
| Real estate transactions | 2 191 | 1 383 |
| Transport | 781 | 360 |
| Individual entrepreneurs | 12 | 40 |
| Other | 8 218 | 1 181 |
| **Total loans to customers** | **189 830** | **189 921** |
| Less: allowance for impairment | (7 401) | (6 648) |
| **Total loans to customers less allowance for impairment** | **182 429** | **183 273** |

## 13. SECURITIES AVAILABLE-FOR-SALE

Securities available-for-sale are as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Bonds issued by National Bank of the Belarus, including: | 56 717 | 87 395 |
| pledged under repurchase agreements | 18 115 | - |
| Corporate bonds of banks | 13 296 | 13 604 |
| Government bonds | 5 939 | - |
| **Securities available-for-sale** | **75 952** | **100 999** |
| Less: allowance for impairment | - | - |
| **Total securities available-to-sale less allowance for impairment** | **75 952** | **100 999** |

(in thousands of Belarusian rubles)

Corporate bonds of banks as of December 31, 2017 is represented by securities of JSCB "ASB Belarusbank", intended for sale.

## 14. LONG-TERM ASSETS HELD FOR SALE

Long-term assets held for sale are as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Property received by the Bank as repossession of collateral for loan repayment | 406 | 693 |
| **Long-term assets held for sale** | **406** | **693** |
| Less: allowance for impairment | (190) | (73) |
| **Total long-term assets held for sale less allowance for impairment** | **216** | **620** |

As of 31 December, 2017 and 31 December, 2016, assets held for sale included property (primarily, real estate) transferred to the Bank as repayment of loans. Proceeds from the sale of property transferred to the Bank as repayment of loans amounted to BYN 696 thousand and 299 thousand in 2017 and 2016, respectively.

Long-term assets held for sale are measured at fair value. Allowance for impairment was charged based on the results of an independent appraisal of the fair value of the property transferred to the Bank as repayment of loans. The movements in allowance for impairment were as follows:

| | 2017 | 2016 |
|---|---|---|
| **Allowance for impairment as of 1 January** | **73** | - |
| Charge/(recovery) of allowance of impairment for the year | 117 | 73 |
| **Allowance for impairment as of 31 December** | **190** | **73** |

## 15. PROPERTY AND EQUIPMENT

Property and equipment is presented as follows:

| | Buildings and structures | Computers | Motor vehicles | Office furniture and other property and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **As of 1 January 2017** | 27 249 | 1 510 | 333 | 3 080 | 267 | 32 439 |
| Additions | 3 | 274 | - | 101 | - | 378 |
| Disposals | (77) | (10) | (88) | (330) | - | (505) |
| **As of 31 December 2017** | 27 175 | 1 774 | 245 | 2 851 | 267 | 32 312 |
| **Accumulated depreciation** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **As of 1 January 2017** | 1 739 | 499 | 221 | 1 442 | - | 3 901 |
| Depreciation charge | 482 | 281 | 32 | 346 | - | 1 141 |
| Disposals | (73) | (10) | (88) | (268) | - | (439) |
| **As of 31 December 2017** | 2 148 | 770 | 165 | 1 520 | - | 4 603 |
| **Net book value** | | | | | | |
| **As of 1 January 2017** | 25 510 | 1 011 | 112 | 1 638 | 267 | 28 538 |
| **As of 31 December 2017** | 25 027 | 1 004 | 80 | 1 331 | 267 | 27 709 |

| | Buildings and structures | Computers | Motor vehicles | Office furniture and other property and equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **As of 1 January 2016** | 27 225 | 913 | 328 | 3 358 | 267 | 32 091 |
| Additions | 53 | 793 | 70 | 255 | - | 1 171 |
| Disposals | (29) | (196) | (65) | (533) | - | (823) |
| **As of 31 December 2016** | 27 249 | 1 510 | 333 | 3 080 | 267 | 32 439 |
| **Accumulated depreciation** | | | | | | |
| **As of 1 January 2016** | 1 281 | 467 | 245 | 1 551 | - | 3 544 |
| Depreciation charge | 487 | 228 | 41 | 396 | - | 1 152 |
| Disposals | (29) | (196) | (65) | (505) | - | (795) |
| **As of 31 December 2016** | 1 739 | 499 | 221 | 1 442 | - | 3 901 |
| **Net book value** | | | | | | |
| **As of 1 January 2016** | 25 944 | 447 | 83 | 1 807 | 267 | 28 547 |
| **As of 31 December 2016** | 25 510 | 1 011 | 112 | 1 638 | 267 | 28 538 |

## 16. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

| | 2017 | 2016 |
|---|---|---|
| **Cost** | | |
| **As at 1 January** | 1 066 | 580 |
| Additions | 732 | 486 |
| Disposals | - | - |
| **As at 31 December** | 1 798 | 1 066 |
| **Accumulated depreciation** | | |
| **As at 1 January** | 250 | 144 |
| Amortization charges | 321 | 106 |
| Disposals | - | - |
| **As at 31 December** | 571 | 250 |
| **Net book value** | | |

(in thousands of Belarusian rubles)

| | | |
|---|---|---|
| **As at 1 January** | 816 | 437 |
| **As at 31 December** | 1 227 | 816 |

## 17. TAXATION

The tax rate for banks for profits other than on government securities was 25% in 2017. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Profit before income tax expense** | 13 402 | 12 109 |
| Statutory tax rate | 25% | 25% |
| **Theoretical income tax expense at the statutory rate** | **3 350** | **3 027** |
| Tax exempt income | (1 890) | (2 361) |
| *Non-deductible expenses:* | | |
| - charity | 5 | - |
| - remuneration, bonuses and financial assistance to employees | 223 | 190 |
| - other | 320 | 312 |
| Effect of changes in the tax base for property and equipment due to the revaluation for tax purposes | (803) | (290) |
| Effect of other permanent differences | (202) | (643) |
| Non-deductible income | (3) | (73) |
| **Income tax expense** | **1 000** | **162** |
| Current income tax expense | 824 | - |
| The effect of deferred income tax recognized in the income statement | 176 | 162 |
| **Income tax expense** | **1 000** | **162** |

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

| | | Credited/ (charged) | | | Credited/ (charged) | | |
|---|---|---|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences:** | **As of 31 December 2017** | **to profit or loss** | **to other comprehensive income** | **As of 31 December 2016** | **to profit or loss** | **to other comprehensive income** | **As of 31 December 2015** |
| Derivative financial assets | (3) | 2 | - | (5) | (5) | - | - |
| Loans to customers | (1 552) | (954) | - | (598) | (239) | - | (359) |
| Securities available-for-sale | (1) | 4 | 8 | (13) | (278) | - | 265 |
| Property and equipment and intangible assets | 2 006 | 784 | - | 1 222 | 275 | - | 947 |
| Long-term assets held for | - | 1 | - | (1) | (1) | - | - |

(in thousands of Belarusian rubles)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| sale | | | | | | | |
| Other assets | 446 | 53 | - | 393 | 129 | - | 264 |
| Derivative financial liabilities | - | - | - | - | (4) | - | 4 |
| Amounts due from credit institutions | (7) | 8 | - | (15) | 8 | - | (23) |
| Other liabilities | (94) | (74) | - | (20) | (47) | - | 27 |
| **Net deferred tax assets/(liability)** | **795** | **(176)** | **8** | **963** | **(162)** | **-** | **1 125** |

## 18. OTHER ASSETS AND LIABILITIES

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Prepayments for share | 7 891 | 5 876 |
| Accrued income | 2 253 | 2 235 |
| Receivables | 281 | 275 |
| Shares in other banks | 144 | 144 |
| Shares in commercial organizations | 7 | 7 |
| Less: allowance for impairment | (7) | - |
| **Total other financial assets** | **10 569** | **8 537** |
| Other prepayments | 782 | 723 |
| Taxes reimbursable other than income tax | 82 | 132 |
| Materials | 71 | - |
| Other | 78 | 82 |
| **Total other non-financial assets** | **1 013** | **937** |
| **Total other assets** | **11 582** | **9 474** |
| Settlements with other creditors | 247 | 237 |
| **Total financial liabilities** | **247** | **237** |
| Other non-financial liabilities | | |
| Settlements with employees | 323 | 346 |
| Taxes payable other than income tax | 53 | 54 |
| Contributions to the Agency of Deposits Compensation | 150 | 148 |
| **Total other non-financial liabilities** | **526** | **548** |
| **Total other liabilities** | **773** | **785** |

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

| | 2017 | 2016 |
|---|---|---|
| **Allowance for impairment as of 1 January** | **-** | **2 090** |
| Charge/(reversal) of allowance for impairment for the year | 7 | (2 090) |
| **Allowance for impairment as of 31 December** | **7** | **-** |

(in thousands of Belarusian rubles)

## 19. AMOUNTS DUE TO FINANCIAL INSTITUTIONS

As of 31 December 2017 and 31 December 2016 amounts due to financial institutions comprise:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Loans and deposits | 67 699 | 70 581 |
| Current accounts | 231 | 50 |
| **Total amounts due to financial institutions** | **67 930** | **70 631** |

The structure of loans received from other banks, as well as deposits placed in the Bank by other financial institutions, presented by counterparty as of 31 December 2017 and 31 December 2016 is as follows:

| 31 December 2017 | Country of registration of the counterparty | Loans and deposits, thousands of rubles | Share, % |
|---|---|---|---|
| OJSC "Non-banking Credit and Financial Organization "Home Credit" | the Republic of Belarus | 428 | 0,63 |
| JSC "BCSE" | the Republic of Belarus | 6 995 | 10,33 |
| BPS-Sberbank | the Republic of Belarus | 6 413 | 9,47 |
| OJSC "Bank BelVEB" | the Republic of Belarus | 19 687 | 29,08 |
| CJSC "BTA Bank" | the Republic of Belarus | 4 736 | 7,00 |
| «Belinvestbank» JSC | the Republic of Belarus | 4 440 | 6,56 |
| JSC "Technobank" | the Republic of Belarus | 2 355 | 3,48 |
| CJSC "BSB Bank" | the Republic of Belarus | 1 578 | 2,33 |
| CJSC "Idea Bank" | the Republic of Belarus | 2 960 | 4,37 |
| «Priorbank» JSC | the Republic of Belarus | 18 107 | 26,75 |
| **Total for the Republic of Belarus** | | **67 699** | **100,00** |
| **Total** | | **67 699** | **100,00** |

| 31 December 2016 | Country of registration of the counterparty | Loans and deposits, thousands of rubles | Share, % |
|---|---|---|---|
| CJSC "MTBank" | the Republic of Belarus | 5 877 | 8,33 |
| CJSC "BSB Bank" | the Republic of Belarus | 4 705 | 6,66 |
| OJSC "Bank BelVEB" | the Republic of Belarus | 19 437 | 27,54 |
| CJSC "TC Bank" | the Republic of Belarus | 4 278 | 6,06 |
| OJSC "BNB-Bank" | the Republic of Belarus | 1 959 | 2,78 |
| CJSC "Idea Bank" | the Republic of Belarus | 1 567 | 2,22 |
| CJSC "BTA Bank" | the Republic of Belarus | 3 374 | 4,78 |
| CJSC Bank VTB (Belarus) | the Republic of Belarus | 6 473 | 9,17 |
| **Total for the Republic of Belarus** | | **47 670** | **67,54** |
| PJSC "Transcapitalbank" | Russian Federation | 20 963 | 29,7 |
| Interstate Bank | Russian Federation | 1 948 | 2,76 |
| **Total for the Russian Federation** | | **22 911** | **32,46** |
| **Total** | | **70 581** | **100,00** |

(in thousands of Belarusian rubles)

The structure of loans received from other banks, as well as deposits placed in the Bank by other financial institutions, in the context of foreign currencies as of 31 December 2017 and 31 December 2016 is presented in the table:

| 31 December 2017 | Amount in currency, thousands | Equivalent, thousands of Belarusian rubles | Share, % |
|---|---|---|---|
| U.S. dollar | 28 286 | 55 800 | 82,42 |
| Euro | 1 900 | 4 476 | 6,61 |
| Belarusian ruble | 7 423 | 7 423 | 10,97 |
| **Total** | **x** | **67 699** | **100,00** |

| 31 December 2016 | Amount in currency, thousands | Equivalent, thousands of Belarusian rubles | Share, % |
|---|---|---|---|
| U.S. dollar | 17 819 | 34 901 | 49,45 |
| Euro | 16 169 | 33 066 | 46,85 |
| Russian ruble | 80 589 | 2 614 | 3,70 |
| **Total** | **x** | **70 581** | **100,00** |

As of December 31, 2017, interbank loans were obtained mainly for the period of not more than 3 days.

## 20. AMOUNTS DUE TO CUSTOMERS

As of 31 December 2017 and 31 December 2016 amounts due to customers comprise:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Term deposits | 151 999 | 163 534 |
| Current accounts | 36 620 | 23 894 |
| **Total amounts due to customers** | **188 619** | **187 428** |

As of 31 December 2017 amounts due to the largest customers amounted to BYN 73 151 thousand (39%) (2016 - BYN 45 946 thousand (25%)). Term deposits include deposits of individuals in the amount of BYN 91 458 thousand (2016- BYN 94 052 thousand). In case when term deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts of the following types of customers by form of ownership:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Individuals | 99 685 | 99 129 |

(in thousands of Belarusian rubles)

| | | |
|---|---|---|
| State organizations | 62 750 | 63 065 |
| Private enterprises | 26 184 | 25 234 |
| **Total amounts due to customers** | **188 619** | **187 428** |

Amounts due to customers include accounts of the following categories of customers by type of activity:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Individuals | 99 685 | 99 129 |
| Insurance | 27 344 | 27 280 |
| Management and defense | 23 000 | 26 000 |
| Commercial activity | 18 810 | 6 939 |
| Healthcare. | 4 764 | 3 051 |
| Trade | 2 755 | 6 241 |
| Information and computing services | 2 322 | 1 728 |
| Construction | 1 855 | 634 |
| Culture and art | 1 404 | 230 |
| Transport and communication | 1 398 | 631 |
| Manufacture | 807 | 2 438 |
| Public organizations | 704 | 1 788 |
| Agriculture | 177 | 102 |
| Real estate | 199 | 125 |
| Other | 3 395 | 11 112 |
| **Total amounts due to customers** | **188 619** | **187 428** |

## 21. DEBT SECURITIES ISSUED

Debt securities issued by the Bank as of 31 December 2017 and 31 December 2016 comprise the following types of bond issues:

| | Nominal currency | Nominal rate | Maturity date | 31 December 2017 |
|---|---|---|---|---|
| Bonds held by individuals | USD | 4 | 22.08.2019 | 1 436 |
| **Total debt securities issued** | | | | **1 436** |

| | Nominal currency | Nominal rate | Maturity date | 31 December 2016 |
|---|---|---|---|---|
| Bonds held by legal entities | Belarusian ruble | 22 | 27.06.2017 | 2 064 |
| | Russian ruble | 10 | 03.11.2017 | 49 |
| **Total debt securities issued** | | | | **2 113** |

## 22. SHARE CAPITAL

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

(in thousands of Belarusian rubles)

| | Number of shares | | Nominal amount, BYN. | | Inflation adjustment | Total, BYN thousand |
|---|---|---|---|---|---|---|
| | Preferred | Ordinary | Preferred | Ordinary | | |
| **31 December 2015** | 18 838 294 | 220 310 818 106 | 6 | 66 093 | 87 655 | 153 754 |
| **31 December 2016** | 18 838 294 | 220 310 818 106 | 6 | 66 093 | 87 655 | 153 754 |
| **31 December 2017** | 18 838 294 | 220 310 818 106 | 6 | 66 093 | 87 655 | 153 754 |

According to the Bank's Charter, as of 31 December 2017 and 2016 the authorized and fully paid share capital comprised 220 310 818 106 and 220 310 818 106 respectively shares with a par value of BYN 0.0003 each (at historical value). The par value of shares of OJSC "Paritetbank" remained unchanged and is BYN 0.0003.

Total amount of preferred shares as of 31 December 2017 and 31 December 2016 is BYN 6 thousand.

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

In 2017 the Bank declared dividends in the total amount of BYN 1 829 thousand (2016 - BYN 926 thousand).

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

## 23. COMMITMENTS AND CONTINGENCIES

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

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

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

(in thousands of Belarusian rubles)

***Capital expenditure commitments***. At of 31 December 2017 and 31 December 2016, the Bank has no material contractual capital expenditure commitments in respect of property and equipment and in respect of software and other intangible assets.

***Operating lease commitments***. The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2017 and 31 December 2016.

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

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

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

As of 31 December 2017 and 31 December 2016, the Bank's commitments and contingencies comprise:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| **Commitments and contingencies** | | |
| Guarantees issued | 11 996 | 8 207 |
| Commitment to extend credit | 6 962 | 5 108 |
| Letters of credit | 39 | 96 |
| **Total commitments and contingencies (before deducting collateral)** | **18 997** | **13 411** |
| Less: deposits held as collateral | (243) | (196) |
| **Total commitments and contingencies** | **18 754** | **13 215** |

## 24. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

(in thousands of Belarusian rubles)

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Settlement operations | 4 363 | 3 629 |
| Currency conversion operations | 78 | 55 |
| **Fee and commission income** | **4 441** | **3 684** |
| Settlement operations | 774 | 884 |
| Currency conversion operations | 18 | 13 |
| Other | 178 | 144 |
| **Fee and commission expense** | **970** | **1 041** |
| Net fee and commission income | 3 471 | 2 643 |

Other Fee and commission expense include expenses on transactions with securities in the amount of BYN 76 thousand (2016 – BYN 69 thousand), expenses for operations of reinforcement in cash in the amount of BYN 15 thousand (2016 – BYN 26 thousand), for other operations – BYN 87 thousand (2016 – BYN 49 thousand).

## 25. OTHER INCOME

Other income comprises:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Income from debt previously written-off | 5 248 | 1 498 |
| Income from sale of other assets | 716 | 315 |
| Fines and penalties received | 98 | 403 |
| Income from operating rent | 48 | 25 |
| Dividends | 2 | 7 |
| **Total other income** | **6 112** | **2 248** |

## 26. NON-INTEREST EXPENSE

Non-interest expense comprise:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Salaries and bonuses | 6 701 | 6 423 |
| Social security costs | 2 152 | 2 053 |
| **Staff costs** | **8 853** | **8 476** |
| Services of automated interbank settlement system | 1 187 | 917 |
| Software maintenance | 1 008 | 978 |
| Occupancy and rent | 866 | 859 |
| Expenses from disposal of other property | 623 | 166 |
| Payments to individuals deposits insurance fund | 589 | 573 |
| Operating taxes | 483 | 475 |
| Utilities | 444 | 461 |

(in thousands of Belarusian rubles)

| | | |
|---|---|---|
| Security | 443 | 392 |
| Legal, audit and consulting services | 436 | 414 |
| Marketing and advertising | 421 | 363 |
| Communications | 304 | 288 |
| Repair and maintenance of property and equipment | 258 | 294 |
| Operating costs | 192 | 180 |
| Transportation | 100 | 121 |
| Deductions to the PTUO of JSC "Paritetbank" | 92 | 61 |
| Expenses from disposal of fixed assets and intangible assets | 69 | 28 |
| Business trips and related expenses | 46 | 42 |
| Office supplies | 42 | 349 |
| Charity | 21 | 200 |
| Other | 301 | 629 |
| **Other operating expense** | **7 925** | **7 790** |

## 27. RISK MANAGEMENT

### Introduction

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

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

#### Risk management structure

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

#### Supervisory Board

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

#### Risk Committee

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

#### Audit Committee

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

**Management Board**

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

**Financial Committee**

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

**Credit Committee**

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

**Risk Controlling Department**

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

**Bank Treasury**

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

**Internal audit**

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

**Risk measurement and reporting systems**

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

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

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

**Risk mitigation**

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

**Excessive risk concentration**

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

**Credit risk**

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

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

- monitoring of credit instruments issued by the corresponding structural units of the Bank;
- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;
- control over customers' fulfilment of conditions upon credit and similar agreements.

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

- analysis of negative financial and non-financial information while applying previously set limits (performed by the risk controlling department);
- routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank.

(in thousands of Belarusian rubles)

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

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

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

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

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

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

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

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

**Credit-related commitments risks**

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

**Credit quality per class of financial assets**

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

| | Notes | Neither past due nor individually impaired | Past due but not individually impaired | Individually impaired | Total 31 December 2017 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 7 | 39 500 | - | - | **39 500** |
| Amounts due from financial institutions | 8 | 243 | - | - | **243** |
| Mandatory reserves with the National Bank of Belarus | | 2 660 | - | - | **2 660** |
| **Loans to customers:** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Corporate lending | 12 | 86 398 | 6 763 | 56 500 | **149 661** |
| Consumer lending | 12 | 39 997 | 172 | | **40 169** |
| Securities available for sale | 13 | 75 952 | - | - | **75 952** |
| Securities categorised at fair value through profit or loss | 10 | 23 512 | - | - | **23 512** |
| Other financial assets | 17 | 10 569 | - | - | **10 569** |
| **Total** | | **278 831** | **6 935** | **56 500** | **342 266** |

| | Notes | Neither past due nor individually impaired | Past due but not individually impaired | Individually impaired | Total 31 December 2016 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 7 | 28 097 | - | - | **28 097** |
| Amounts due from financial institutions | 8 | 3 715 | - | - | **3 715** |
| Mandatory reserves with the National Bank of Belarus | | 736 | - | - | **736** |
| **Loans to customers:** | | | | | |
| Corporate lending | 12 | 100 667 | 14 222 | 46 060 | **160 949** |
| Consumer lending | 12 | 28 598 | 374 | - | **28 972** |
| Securities available for sale | 13 | 100 999 | - | - | **100 999** |
| Other financial assets | 17 | 8 537 | - | - | **8 537** |
| **Total** | | **271 349** | **14 596** | **46 060** | **332 005** |

## Geographical concentration

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

| | 31 December 2017 | | | | 31 December 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Belarus** | **OECD** | **CIS and other countries** | **Belarus** | **OECD** | **CIS and other countries** | **Total** | **Belarus** |
| Cash and cash equivalents | 38 452 | 59 | 989 | **39 500** | 26 372 | 967 | 758 | **28 097** |
| Amounts due from financial institutions | - | 198 | 45 | **2 903** | 3 519 | 196 | - | **3 715** |
| Mandatory reserves with the National Bank of Belarus | 2 660 | - | - | **2 660** | 736 | - | - | **736** |
| Derivative financial assets | - | - | 11 | **11** | - | - | 19 | **19** |
| Loans to customers | 182 429 | - | - | **182 429** | 183 273 | - | - | **183 273** |
| Securities available-for-sale | 75 952 | - | - | **75 952** | 100 999 | - | - | **100 999** |
| Securities categorised at fair value through profit or loss | 17 081 | - | 6 431 | **23 512** | - | - | - | - |

(in thousands of Belarusian rubles)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other financial assets | 2 678 | - | 7 891 | **10 569** | 2 661 | - | 5 876 | **8 537** |
| **Total financial assets** | **319 252** | **257** | **15 367** | **334 876** | **317 560** | **1 163** | **6 653** | **325 376** |
| Amounts due to financial institutions | 67 920 | - | 10 | **67 930** | 47 718 | - | 22 913 | **70 631** |
| Derivative financial liabilities | 1 | - | - | **1** | - | - | - | - |
| Amounts due to customers | 186 178 | - | 2 441 | **188 619** | 186 208 | - | 1220 | **187 428** |
| Debt securities issued | 1 436 | - | - | **1 436** | 2 113 | - | - | **2 113** |
| Other financial liabilities | 247 | - | - | **247** | 237 | - | - | **237** |
| **Total financial liabilities** | **255 782** | **-** | **2 451** | **258 233** | **236 276** | **-** | **24 133** | **260 409** |
| **Net position on assets and liabilities** | **63 470** | **257** | **12 916** | **76 643** | **81 284** | **1 163** | **(17 480)** | **64 967** |

## Liquidity risk

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

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

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

In addition, the Bank maintains a cash deposit (obligatory reserve) with the NB RB, the amount of which depends on the level of customer funds attracted.
The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| **31 December 2017:** | **Carrying amount** | **Less than 3 months** | **3 to 12 months** | **1 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|---|
| Amounts due to financial institutions | 67 930 | 67 981 | - | - | - | 67 981 |
| Derivative financial liabilities | 1 | 1 | - | - | - | 1 |
| Amounts due to customers | 188 619 | 90 143 | 91 926 | 10 190 | - | 192 259 |
| Debt securities issued | 1 436 | 11 | 1 445 | - | - | 1 456 |
| Other financial | 247 | 247 | - | - | - | 247 |

(in thousands of Belarusian rubles)

| | | | | | | |
|---|---|---|---|---|---|---|
| liabilities | | | | | | |
| Commitments and contingencies | 18 754 | 18 754 | - | - | - | 18 754 |
| **Total undiscounted financial liabilities** | **276 987** | **177 137** | **93 371** | **10 190** | **-** | **280 698** |

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

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

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

Debt securities issued are presented by bonds issued by the Bank with a maturity date August 22, 2019. As the terms of issue allow early redemption of bonds by the Bank, the balances are included in amounts due within "3 to 12 months".

### Market risk

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

### Market risk- non-trading

Interest rate risk

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

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

(in thousands of Belarusian rubles)

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2017 and 31 December 2016.

| Increase in basis points 2017 | Sensitivity of net interest income 2017 | Sensitivity of equity 2017 |
|---|---|---|
| 500 | 962 | 721 |

| Decrease in basis points 2017 | Sensitivity of net interest income 2017 | Sensitivity of equity 2017 |
|---|---|---|
| (500) | (962) | (721) |

| Increase in basis points 2016 | Sensitivity of net interest income 2016 | Sensitivity of equity 2016 |
|---|---|---|
| 500 | 841 | 630 |

| Decrease in basis points 2016 | Sensitivity of net interest income 2016 | Sensitivity of equity 2016 |
|---|---|---|
| (500) | (841) | (630) |

## Currency risk

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

Information on the level of the Bank's currency risk as of 31 December 2017 and 31 December 2016 is presented below:

| | BYN | 1 USD = 1,9727 | 1 EUR= 2,3553 | 100 RUB= 3,4279 | Other currencies | 31 December 2017 Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and cash equivalents | 32 540 | 3 595 | 2 060 | 1 215 | 90 | 39 500 |
| Derivative financial assets | - | - | - | 11 | - | 11 |
| Amounts due from financial institutions | - | 243 | - | - | - | 243 |
| Mandatory reserves with the National Bank of Belarus | 2 660 | - | - | - | - | 2 660 |
| Securities available-for-sale | 13 297 | 62 655 | - | - | - | 75 952 |
| Securities categorised at fair value through profit or loss | - | 23 512 | - | - | - | 23 512 |
| Loans to customers | 85 342 | 64 603 | 32 084 | 400 | - | 182 429 |
| Other financial assets | 1 940 | 8 537 | 92 | - | - | 10 569 |
| **TOTAL FINANCIAL ASSETS** | **135 779** | **163 145** | **34 236** | **1 626** | **90** | **334 876** |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Amount due to financial institutions | 7 433 | 55 962 | 4 489 | 46 | - | 67 930 |

(in thousands of Belarusian rubles)

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative financial liabilities | - | - | - | 1 | - | 1 |
| Amount due to customers | 65 284 | 90 758 | 24 878 | 7 699 | - | 188 619 |
| Debt securities issued | - | 1 436 | - | - | - | 1 436 |
| Other financial liabilities | 224 | 23 | - | - | - | 247 |
| **TOTAL FINANCIAL LIABILITIES** | **72 941** | **148 179** | **29 367** | **7 746** | **-** | **258 233** |
| **NET CURRENCY POSITION** | **62 838** | **14 966** | **4 869** | **(6 120)** | **90** | **76 643** |

| | BYN | 1 USD = 1,9585 | 1 EUR= 2,045 | 100 RUB= 3,244 | Other currencies | 31 December 2016 Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and cash equivalents | 18 808 | 4 202 | 2 909 | 1 962 | 216 | 28 097 |
| Derivative financial assets | - | - | - | 19 | - | 19 |
| Amounts due from financial institutions | 3 519 | 196 | - | - | - | 3 715 |
| Mandatory reserves with the National Bank of Belarus | 736 | - | - | - | - | - |
| Securities available-for-sale | 24 596 | 76 403 | - | - | - | 100 999 |
| Loans to customers | 63 879 | 62 460 | 53 542 | 3 392 | - | 183 273 |
| Other financial assets | 1 939 | 6 518 | 80 | - | - | 8 537 |
| **TOTAL FINANCIAL ASSETS** | **113 477** | **149 779** | **56 531** | **5 373** | **216** | **325 376** |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Amount due to financial institutions | 1 | 34 935 | 33 070 | 2 624 | 1 | 70 631 |
| Amount due to customers | 56 203 | 104 894 | 22 225 | 4 104 | 2 | 187 428 |
| Debt securities issued | 2 064 | - | - | 49 | - | 2 113 |
| Other financial liabilities | 214 | 23 | - | - | - | 237 |
| **TOTAL FINANCIAL LIABILITIES** | **58 482** | **139 852** | **55 295** | **6 777** | **3** | **260 409** |
| **NET CURRENCY POSITION** | **54 995** | **9 927** | **1 236** | **(1 404)** | **213** | **64 967** |

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2017 and 31 December 2016 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYN, with all other variables held constant on the statement of comprehensive income (due to the availability of non-trading monetary assets and liabilities the fair value of which is currency sensitive). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

| | **31 December 2017** | | **31 December 2016** | |
|---|---|---|---|---|
| | BYR/USD | BYR/USD | BYR/USD | BYR/USD |
| | 10.0% | -10.0% | 10.0% | -10.0% |
| Effect on profit after tax | 1 123 | (1 123) | 745 | (745) |
| Effect on equity | 1 123 | (1 123) | 745 | (745) |

| | **31 December 2017** | | **31 December 2016** | |
|---|---|---|---|---|
| | BYR/EUR | BYR/EUR | BYR/EUR | BYR/EUR |
| | 10.0% | -10.0% | 10.0% | -10.0% |

(in thousands of Belarusian rubles)

| | | | | |
|---|---|---|---|---|
| Effect on profit after tax | 365 | (365) | 93 | (93) |
| Effect on equity | 365 | (365) | 93 | (93) |

| | 31 December 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | BYR/RUB 10.0% | BYR/RUB -10.0% | BYR/RUB 10.0% | BYR/RUB -10.0% |
| Effect on profit after tax | (459) | 459 | (105) | 105 |
| Effect on equity | (459) | 459 | (105) | 105 |

**Operational risk**

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

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

| 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial assets | - | 11 | - | 11 |
| Securities available-for-sale | - | 75 952 | - | 75 952 |
| Securities categorised at fair value | 23 512 | - | - | 23 512 |
| | 23 512 | 75 963 | - | 99 475 |

| 31 December 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Derivative financial liabilities | - | 1 | - | 1 |
| | - | 1 | - | 1 |

(in thousands of Belarusian rubles)

| 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial assets | - | 19 | - | 19 |
| Securities available-for-sale | - | 100 999 | - | 100 999 |
| Securities categorised at fair value | - | - | - | - |
| | - | 101 018 | - | 101 018 |

**Financial instruments recorded at fair value**

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

**Derivatives**

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

Derivative instruments valued using valuation models that use significant raw data that are not observable on the market are mainly long-term currency swaps with the National Bank of the Republic of Belarus. The value of such derivatives is determined using a discounted cash flow model. This model combines various assumptions that are not observed in the market, including the volatility of market rates.

The data used for fair value measurement of derivative financial instruments was as follows: for the USD denominated part in 2017 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 8,950%;. for the EUR denominated part in 2017 the Bank used yield-to maturity of the Belarusian Eurobonds adjusted to Euro LIBOR, which was equal to 8,764%; for the RUB denominated part in 2017 the Bank used the average monthly actual rate for loans provided by Moscow banks (MIACR), for December 2017, which was equal to 7,680%.

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

| | Carrying amount as of 31 December 2017 | Fair value as of 31 December 2017 | Carrying amount as of 31 December 2016 | Fair value as of 31 December 2016 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 39 500 | 39 500 | 28 097 | 28 097 |
| Derivative financial assets | 11 | 11 | 19 | 19 |
| Amounts due from financial institutions | 2 903 | 2 903 | 4 451 | 4 451 |
| Loans to customers | 182 429 | 182 429 | 183 273 | 183 273 |
| Securities available-for-sale | 75 952 | 75 952 | 100 999 | 100 999 |
| Securities categorised at fair value | 23 512 | 23 512 | - | - |

(in thousands of Belarusian rubles)

| | | | | |
|---|---|---|---|---|
| through profit or loss | | | | |
| Other financial assets | 10 569 | 10 569 | 8 537 | 8 537 |
| **Financial liabilities** | | | | |
| Amount due to financial institutions | 67 930 | 67 930 | 70 631 | 70 631 |
| Derivative financial liabilities | 1 | 1 | - | - |
| Amount due to customers | 188 619 | 188 619 | 187 428 | 187 428 |
| Debt securities issued | 1 436 | 1 436 | 2 113 | 2 113 |
| Other financial liabilities | 247 | 247 | 237 | 237 |

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

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

**Fixed rate financial instruments**

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

## 29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities based on their contractual settlement terms as of 31 December 2017.

| | Less than 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and cash equivalents | 39 500 | - | - | - | - | 39 500 |
| Amounts due from financial institutions | 45 | - | - | 198 | - | 243 |
| Mandatory reserves with the National Bank of Belarus | - | - | - | - | 2 660 | 2 660 |
| Derivative financial assets | 11 | - | - | - | - | 11 |
| Loans to customers | 76 490 | 30 016 | 59 944 | 5 908 | 10 071 | 182 429 |
| Securities available-for-sale | 18 132 | 38 661 | 5 954 | 13 205 | - | 75 952 |
| Securities categorised at fair value through profit or loss. | 615 | - | 8 483 | 14 414 | - | 23 512 |
| Other financial assets | 2 517 | - | 7 891 | - | 161 | 10 569 |
| **TOTAL FINANCIAL ASSETS** | **137 310** | **68 677** | **82 272** | **33 725** | **12 892** | **334 876** |

(in thousands of Belarusian rubles)

| | | | | | | |
|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES:** | | | | | | |
| Amount due to financial institutions | 67 930 | - | - | - | - | 67 930 |
| Derivative financial liabilities | 1 | - | - | - | - | 1 |
| Amounts due to customers | 88 543 | 90 129 | 9 947 | - | - | 188 619 |
| Debt securities issued | 6 | - | 1 430 | - | - | 1 436 |
| Other financial liabilities | 247 | - | - | - | - | 247 |
| **TOTAL FINANCIAL LIABILITIES** | **156 727** | **90 129** | **11 377** | **-** | **-** | **258 233** |
| **OPEN BALANCE POSITION** | **(19 417)** | **(21 452)** | **70 895** | **33 725** | **12 892** | **76 643** |

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

| | Less than 3 months | From 3 to 12 months | From 1 to 5 years | Over 5 years | No stated maturity | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Cash and cash equivalents | 28 097 | - | - | - | - | 28 097 |
| Amounts due from financial institutions | 2 845 | - | - | 196 | 674 | 3 715 |
| Mandatory reserves with the National Bank of Belarus | 736 | - | - | - | - | 736 |
| Derivative financial assets | 19 | - | - | - | - | 19 |
| Loans to customers | 82 884 | 44 389 | 46 936 | 7 064 | 2 000 | 183 273 |
| Securities available-for-sale | 19 891 | 67 713 | - | 13 395 | - | 100 999 |
| Other financial assets | 2 510 | - | 5 876 | - | 151 | 8 537 |
| **TOTAL FINANCIAL ASSETS** | **136 982** | **112 102** | **52 812** | **20 655** | **2 825** | **325 376** |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Amount due to financial institutions | 70 631 | - | - | - | - | 70 631 |
| Amount due to customers | 63 910 | 54 782 | 68 736 | - | - | 187 428 |
| Debt securities issued | 2 113 | - | - | - | - | 2 113 |
| Other financial liabilities | 233 | - | 4 | - | - | 237 |
| **TOTAL FINANCIAL LIABILITIES** | **136 887** | **54 782** | **68 740** | **-** | **-** | **260 409** |
| **OPEN BALANCE POSITION** | **95** | **57 320** | **(15 928)** | **20 655** | **2 825** | **64 967** |

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

(in thousands of Belarusian rubles)

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

## 30. RELATED PARTY DISCLOSURES

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

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

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

The volume of transactions and balances with related parties at the end of the reporting period, as well as the corresponding amounts of expenses and incomes for the year are presented below:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Shareholders, Republic of Belarus** | **Key management personnel** | **Other related parties** | **Shareholders, Republic of Belarus** | **Key management personnel** | **Other related parties** |
| Cash and cash equivalents | - | - | 28 651 | - | - | 14 044 |
| Amounts due from credit institutions | - | - | 2 660 | - | - | 736 |
| Loans as of 1 January | - | 157 | 87 648 | - | 89 | 61 454 |
| Loans outstanding as of 31 December | - | 125 | 76 330 | - | 157 | 87 648 |
| Less: allowance for impairment as of 31 December | - | - | (1 705) | - | - | (319) |
| Loans outstanding as of 31 December, less allowance | - | 125 | 74 625 | - | 157 | 87 329 |
| Securities available-for-sale | - | - | 75 952 | - | - | 100 999 |
| Securities categorised at fair value through profit or loss. | - | - | 17 081 | - | - | - |

(in thousands of Belarusian rubles)

| | | | | | | |
|---|---|---|---|---|---|---|
| Amounts due to customers as of 1 January | 23 000 | 515 | 41 180 | - | 550 | 33 612 |
| Amounts due to customers as of 31 December | 23 000 | 362 | 40 008 | 23 000 | 515 | 41 180 |
| Amounts due to credit institutions | - | - | 11 523 | - | - | 40 |
| Commitments and guarantees issued | - | - | 11 303 | - | - | 5 581 |

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Shareholders, Republic of Belarus** | **Key management personnel** | **Other related parties** | **Shareholders, Republic of Belarus** | **Key management personnel** | **Other related parties** |
| Interest income | - | 23 | 10 205 | - | 35 | 18 683 |
| Interest expense | 2 883 | 11 | 1 754 | 5 110 | 430 | 2 335 |
| Net fee and commission income | - | - | 881 | - | - | 655 |
| Other income | - | - | 3 | - | - | - |
| Other operating expenses | - | - | 190 | - | - | 93 |

Compensation to key management personnel comprises the following:

| | 2017 | 2016 |
|---|---|---|
| Salaries and other short-term benefits | 1 083 | 1 010 |
| Social security costs | 368 | 343 |
| **Total key management personnel compensation** | **1 451** | **1 353** |

## 31. SEGMENT ANALYSIS

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

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

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking - representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

(in thousands of Belarusian rubles)

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

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

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

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

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

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

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

(iv) income taxes are not allocated to segments;

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

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

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

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

| | Retail banking | Corporate banking | Unallocated | As of 31 December 2017 |
|---|---|---|---|---|
| Interest income | 7 313 | 23 984 | - | 31 297 |
| Interest expense | (3 465) | (6 803) | - | (10 268) |
| Net interest income | 3 848 | 17 181 | - | 21 029 |
| Allowance for impairment | (399) | (3 250) | - | (3 649) |
| Net fee and commission income | 1 464 | 1 728 | 279 | 3 471 |
| Net gains from securities available- for-sale | - | 150 | - | 150 |
| Net gains from securities categorised at fair value through profit or loss. | - | 947 | - | 947 |
| Net gains/(losses) from foreign currency transactions: | | | | |
| - dealing | - | 2 615 | - | 2 615 |
| - transaction differences | - | - | 1 044 | 1 044 |
| Net gains from derivative financial instruments transactions | - | 47 | - | 47 |
| Other income | - | 5 944 | 168 | 6 112 |

(in thousands of Belarusian rubles)

| | | | | |
|---|---|---|---|---|
| Personnel expenses | - | - | (8 853) | (8 853) |
| Depreciation and amortization | - | - | (1 462) | (1 462) |
| Other operating expenses | - | - | (7 925) | (7 925) |
| Release/(expenses) of allowance for other assets | - | (124) | - | (124) |
| Segment result | 4 913 | 25 238 | (16 749) | 13 402 |
| Income tax expenses | - | - | (1 000) | (1 000) |
| Net profit/(loss) for the year | 4 913 | 25 238 | (17 749) | 12 402 |

| | Retail banking | Corporate banking | Unallocated | As of 31 December 2017 |
|---|---|---|---|---|
| Interest income | 7 406 | 29 870 | - | 37 276 |
| Interest expense | (4 498) | (10 606) | - | (15 104) |
| Net interest income | 2 908 | 19 264 | - | 22 172 |
| (Expenses)/release of allowance for loans impairment | (354) | (4 378) | | (4 732) |
| Net fee and commission income | 639 | 2 004 | - | 2 643 |
| Net gains from securities available- for-sale | - | 87 | - | 87 |
| Net gains/(losses) from foreign currency transactions: | | | | |
| - dealing | 21 | 1 906 | - | 1 927 |
| - transaction differences | - | - | (201) | (201) |
| Net gains from derivative financial instruments transactions | - | 3 473 | - | 3 473 |
| Other income | 83 | 1 697 | 468 | 2 248 |
| Personnel expenses | - | - | (8 476) | (8 476) |
| Depreciation and amortization | - | - | (1 258) | (1 258) |
| Other operating expenses | - | - | (7 790) | (7 790) |
| Release/(expenses) of allowance for other assets | 2 012 | 4 | - | 2 016 |
| Segment result | 5 309 | 24 057 | (17 257) | 12 109 |
| Income tax expenses | | - | (162) | (162) |
| Net profit/(loss) for the year | 5 309 | 24 057 | (17 419) | 11 947 |

## 32. CHANGES IN LIABILITIES RELATING TO FINANCIAL ACTIVITIES

Changes in liabilities relating to financial activities for 2017 and 2016 are represented as follows:

| | Debt securities issued | Total liabilities from financial activities |
|---|---|---|
| **Carrying amount as of 31 December 2015** | **5 192** | **5 192** |
| Receipt | 993 | 933 |
| Redemption | (4 090) | (4 090) |
| Interest paid | (945) | (945) |
| Interest accrued | 940 | 940 |
| Exchange differences | 23 | 23 |
| **Carrying amount as of 31 December 2016** | **2 113** | **2 113** |
| Receipt | 9 357 | 9 357 |
| Redemption | (10 119) | (10 119) |
| Interest paid | (259) | (259) |
| Interest accrued | 258 | 258 |

(in thousands of Belarusian rubles)

| | | |
|---|---|---|
| Exchange differences | 86 | 86 |
| **Carrying amount as of 31 December 2017** | **1 436** | **1 436** |

## 33. CAPITAL ADEQUACY

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

To support the requirements on capital management, NBRB requires banks to maintain the ratio of the Bank's capital to total risk-weighted assets. The ratio is calculated based on the financial statements prepared under National Financial Reporting Standards. The risk degree is determined according to the ratio of credit risks of NBRB specific to individual asset classes. As of 31 December 2017 the regulatory capital of the Bank is BYN 100 840 thousand, core capital is BYN 78 110 thousand. As of 31 December 2017 the regulatory capital adequacy ratio is 30% (standard – 10%), the core capital adequacy ratio is 19% (standard – 4.5%).

In accordance with the regulations the minimal level of regulatory capital should not be less than 52 750 thousand Belarusian rubles for the bank that has the right to conduct banking operations on attracting funds from individuals who are not individual entrepreneurs to accounts and (or) deposits and (or) opening and maintaining bank accounts of such individuals as of 31 December 2017.

As of 31 December 2017 and 31 December 2016 the Bank complied with the above requirements of the capital.

## 34. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

For the period starting from 1 January 2018 to 14 May 2018 official currency exchange rate of USD and EUR increased by 2.26 % and 1.63 % respectively, official currency exchange rate of RUB decreased by 5.77 %.

On 5 February 2018 the license №0220 / 5200-126-1154 dated 30 December 1993 amended, allowing the Bank to carry out trust management of securities.

According to the decision of the annual general meeting of shareholders of the Bank of 27 March 2018, dividends were announced based on the results of the Bank's activities for 2017 for ordinary shares in the amount of 0.0000091 belarusian rubles per share, for preference shares - 0.0000480 belarusian rubles per one share.

Chairman of the Management Board S.N. Belov

Deputy Chief Accountant – Deputy Head of Accounting and Reporting Department O.N. Shilova

Date of signature: 14 May 2018