BELGAZPROMBANK

Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2017

BELGAZPROMBANK

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Independent Auditors' Report

To the Shareholders and Management of Belorussian-Russian Belgazprombank Joint Stock

Opinion

We have audited the financial statements of Belorussian-Russian Belgazprombank Joint Stock (the "Bank"), which comprise the balance sheet as at 31 December 2017, the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Allowance for impairment of loans to corporate clients

See Note 18 «Loans to customers», Note 37 «Risk Management Policy». The carrying amount of loans issued to corporate clients as at 31 December 2017 equals BYN 2,385,374 thousand, the amount of impairment allowance – BYN 98,533 thousand.

Impairment of loans issued to clients is assessed by the management using their professional judgement and subjective assumptions.

Due to a significant volume of loans issued to corporate clients (amounting to 53% of total assets) and estimation uncertainty inherent to such loans, the given area represents a key audit matter.

We have focused on the sufficiency of the allowance for impairment of loans issued to corporate clients, as compared to historical losses incurred. We have paid special attention to assumptions and methodology used to measure allowance for impairment of loans issued to corporate clients, including the analysis of future cash flows related to secured loans that show signs of impairment.

We have evaluated the design and implementation of controls with regard to revealing impairment of loans issued to corporate clients.

For selected loans that are tested for impairment individually we have analyzed assumptions used by the Bank in calculating estimated future cash flows, including the cost of realizable collateral based on our understanding and available market data.

We have also ensured that disclosures in the financial statements adequately reflect the Bank's exposure to credit risk.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Vereschagina
Partner
Director of KPMG LLC

14 March 2018

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BELGAZPROMBANK

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Belarusian Rubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
Interest income	5, 33	299,059	349,400
Interest expense	5, 33	(134,949)	(171,128)
NET INTEREST INCOME BEFORE IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		164,110	178,272
Allowance for impairment losses on interest-bearing assets	6, 33	(27,479)	(42,698)
Recovery of assets previously written off		13,908	11,512
NET INTEREST INCOME		150,539	147,086
Net foreign exchange profit	7	85,885	654
Net (loss)/ gain on operations with financial instruments at fair value through profit or loss	8, 33	(42,859)	44,823
Fee and commission income	9, 33	47,895	41,071
Fee and commission expense	9, 33	(9,121)	(8,025)
Net (loss)/ gain on operations with precious metals	10	(1,028)	1,605
Provision for other transactions	6	(6)	(1,149)
Other income	11, 33	9,420	5,797
NET NON-INTEREST INCOME		90,186	84,776
OPERATING INCOME		240,725	231,862
OPERATING EXPENSES	12, 33	(139,082)	(120,039)
PROFIT BEFORE TAX		101,643	111,823
Income tax expense	13	(16,899)	(16,172)
NET PROFIT		**84,744**	**95,651**
Basic earnings per share (BYN)	31	0.0045	0.0051

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
14 March 2018
Minsk

Chief Accountant
N.M. Dylevskaya
14 March 2018
Minsk

The notes on pages 10-75 form an integral part of these financial statements.

BELGAZPROMBANK

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

	Year ended 31 December 2017	Year ended 31 December 2016
NET PROFIT	84,744	95,651
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss:		
Change in fair value of investments available for sale, transferred to profit or loss	(4,701)	(1,878)
Change in fair value of investments available for sale	5,920	7,769
Income tax	1,153	(1,294)
TOTAL OTHER COMPREHENSIVE INCOME	2,372	4,597
TOTAL COMPREHENSIVE INCOME	**87,116**	**100,248**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
14 March 2018
Minsk

Chief Accountant
N.M. Dylevskaya
14 March 2018
Minsk

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BELGAZPROMBANK

BALANCE SHEET AS AT 31 DECEMBER 2017
(in thousands of Belarusian Rubles)

	Notes	31 December 2017	31 December 2016
ASSETS:			
Cash and cash equivalents	14, 33	635,327	274,951
Precious metals		634	460
Securities at fair value through profit and loss	15, 33	70,748	-
Derivative financial instruments, assets	16, 33	146	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	17	76,942	9,108
Loans to customers	18, 33	2,681,656	1,931,975
Investments available for sale	19, 33	609,121	740,178
Non-current assets held for sale	20	37,042	37,942
Property, equipment and intangible assets	21	153,596	146,261
Investment property	22	-	454
Deferred tax assets	13	4,355	-
Other assets	23, 33	28,201	29,189
TOTAL ASSETS		**4,297,768**	**3,172,146**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	16, 33	962	623
Due to banks and other financial institutions	24, 33	553,119	650,900
Customer accounts	25, 33	2,799,187	1,639,725
Debt securities issued	26	77,557	70,756
Current income tax liability		13,746	3,022
Deferred income tax liability	13	-	3,309
Other liabilities	27, 33	10,925	11,075
Subordinated loans	28, 33	351,599	334,901
Total liabilities		3,807,095	2,714,311
EQUITY:			
Share capital	30	377,140	377,140
Investments available for sale revaluation at fair value reserve		8,857	6,485
Retained earnings		104,676	74,210
Total equity		490,673	457,835
TOTAL LIABILITIES AND EQUITY		**4,297,768**	**3,172,146**

On behalf of the Management Board:

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V.D. Babaryka
14 March 2018
Minsk

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N.M. Dylevskaya
14 March 2018
Minsk

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BELGAZPROMBANK

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

	Notes	Share capital	Investments available for sale revaluation at fair value reserve	Retained earnings	Total equity
1 January 2016		**313,009**	**1,888**	**73,373**	**388,270**
Comprehensive income					
Net profit		-	-	95,651	95,651
Other comprehensive income for the year, net of income tax					
Investments available for sale revaluation at fair value reserve					
Net change in fair value of available for sale investments		-	7,769	-	7,769
Net change in fair value of available for sale investments transferred to profit and loss		-	(1,878)	-	(1,878)
Tax related to other comprehensive income	13	-	(1,294)	-	(1,294)
Total other comprehensive income for the year		-	4,597	-	4,597
Total comprehensive income for the year		**-**	**4,597**	**95,651**	**100,248**
Transactions with shareholders					
Dividends paid	30	-	-	(30,683)	(30,683)
Increase in share capital		64,131	-	(64,131)	-
Total transactions with shareholders		**64,131**	**-**	**(94,814)**	**(30,683)**
31 December 2016		**377,140**	**6,485**	**74,210**	**457,835**
Comprehensive income					
Net profit		-	-	84,744	84,744
Other comprehensive income for the year, net of income tax					
Investments available for sale revaluation at fair value reserve					
Net change in fair value of available for sale investments		-	5,920	-	5,920
Net change in fair value of available for sale investments recognized in profit and loss		-	(4,701)	-	(4,701)
Tax related to other comprehensive income	13	-	1,153	-	1,153
Total other comprehensive income for the year		-	2,372	-	2,372
Total comprehensive income for the year		**-**	**2,372**	**84,744**	**87,116**
Transactions with shareholders					
Dividends paid	30	-	-	(54,278)	(54,278)
Total transactions with shareholders		**-**	**-**	**(54,278)**	**(54,278)**
31 December 2017		**377,140**	**8,857**	**104,676**	**490,673**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
14 March 2018
Minsk

Chief Accountant
N.M. Dylevskaya
14 March 2018
Minsk

The notes on pages 10-75 form an integral part of these financial statements.

BELGAZPROMBANK

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

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net profit		84,744	95,651
Adjustments:			
Allowance for impairment losses on interest-bearing assets	6	27,479	42,698
Provision for other transactions	6	6	1,149
Net change in fair value of derivative financial instruments		816	(991)
Net change in fair value of precious metals		(45)	51
Revaluation of precious metals balance sheet items	10	1,333	(1,222)
Net change in fair value of securities at fair value through profit and loss		1,172	-
Effect of assets recognition at non-market rate		47	379
Decrease in value of non-current assets held for sale		170	-
Depreciation and amortization	21	16,492	13,935
Loss from sale of property, equipment and non-current assets held for sale		30	86
Net change in payables to employees		142	836
Net interest income	5	(164,110)	(178,272)
Net change in accruals of commission and penalties		(1,435)	(547)
Profit on disposal of investments available for sale	11	(4,701)	(1,878)
Income tax expense	13	16,899	16,172
Foreign exchange differences, net	7	(74,818)	5,533
Cash flows from operating activities before changes in operating assets and liabilities		(95,779)	(6,420)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum mandatory reserve deposit with the National Bank of the Republic of Belarus		(18,921)	2,980
Due from the National Bank of the Republic of Belarus, banks and other financial institutions		(45,825)	66,834
Precious metals		(129)	80
Securities at fair value through profit or loss		(68,311)	76,926
Derivative financial instruments		1,005	47,810
Loans to customers		(638,104)	(128,989)
Other assets		(1,834)	(1,206)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(47,999)	212,462
Customer accounts		1,094,741	(251,296)
Other liabilities		117	4,665
Interest received		293,952	356,844
Interest paid		(136,012)	(168,537)
Income tax paid		(12,686)	(11,940)
Net cash inflow from operating activities		324,215	200,213

BELGAZPROMBANK

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Belarusian Rubles)

	Notes	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(21,490)	(25,422)
Proceeds on sale of property, equipment and non-current assets held for sale and investment real estate		6,892	1,877
Purchase of financial assets available for sale		(1,535,308)	(1,110,330)
Proceeds on disposal of investments available for sale		1,705,314	979,373
Net cash inflow/(outflow) from investing activities		155,408	(154,502)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of debt securities		157,041	59,587
Repayment of debt securities issued		(155,246)	(48,689)
Repayment of loans received from international financial institutions		(80,438)	(50,621)
Dividends paid	30	(54,278)	(30,683)
Net cash outflow from financing activities	29	(132,921)	(70,406)
NET CHANGE IN CASH AND CASH EQUIVALENTS		346,702	(24,695)
Effect of changes in foreign exchange rates on cash and cash equivalents		13,674	15,687
CASH AND CASH EQUIVALENTS, beginning of the year	14	274,951	283,959
CASH AND CASH EQUIVALENTS, end of the year	14	635,327	274,951

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
14 March 2018
Minsk

Chief Accountant
N.M. Dylevskaya
14 March 2018
Minsk

The notes on pages 10-75 form an integral part of these financial statements.

(IN THOUSANDS OF BELARUSIAN RUBLES UNLESS OTHERWISE STATED)

1. ORGANIZATION

Belorussian-Russian Belgazprombank Joint Stock (“Belgazprombank” or the “Bank”) initially named as “Bank Ekorazvitie” was established in 1990. Subsequently, the Bank was renamed into “Bank Olymp”. After acquisition of controlling interest by RAO “Gazprom” (Russian Federation) and CJSC “Gazprombank” (Russian Federation) the Bank was reorganized into an open joint stock company “Belgazprombank” and was registered by the National Bank of the Republic of Belarus on 28 November 1997.

The Bank conducts its business under the license for performing banking operations No. 8 issued by the National Bank on 24 May 2013. The Bank accepts deposits from the public and organizations, grants loans, transfers payments in the Republic of Belarus and abroad, exchanges currencies, carries out operations with securities and provides other banking services to its corporate customers and individuals.

The registered office of the Bank is located at 60/2 Pritytsky St., Minsk, 220121, Republic of Belarus.

As at 31 December 2017 and 2016 the structure of the Bank’s share capital was as follows:

Shareholders	**%**
PJSC “GAZPROM” (the Russian Federation)	49.66
Gazprombank (Joint-stock Company) (the Russian Federation)	49.66
JSC “Gazprom transgaz Belarus” (the Republic of Belarus)	0.50
State Committee on Property of the Republic of Belarus	0.18
Other	less than 0.01
Total	**100.00**

The ultimate controlling party of the Bank is the Government of the Russian Federation.

In 2014 sectoral sanctions of OFAC and the EU Council were introduced against some entities of the Russian Federation including Gazprombank (Joint-stock Company) and PJSC “GAZPROM”. These sanctions apply to companies in which the interests of persons and entities that are currently included in sanction lists are 50% or more. Belgazprombank is not subject to any sanctions since the effective shares of PJSC “GAZPROM” and Gazprombank (Joint-stock Company) in the Bank currently amount to 49.66% each.

These financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 14 March 2018.

Belarusian business environment

The Bank’s operations are primarily located in Belarus. Consequently, the Bank’s is exposed to the economy and financial markets of Belarus, which display emerging market characteristics. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Belarus.

The monetary policy regulations, adopted by the National Bank of the Republic of Belarus and effective over the past two years, have resulted in reduced inflation and a less-volatile Belarusian Rouble. However, the fairly recent devaluation of the Belarusian Rouble, and the subsequent period of high inflation, still leads to a certain level of uncertainty in the business environment.

The given financial statements reflect management’s assessment of how the Belarusian business environment has impacted the operations and financial position of the Bank. The business environment in the future may differ from management’s assessment.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Other basis of presentation criteria

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue to operate for the foreseeable future. The management and shareholders have intention to develop further the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These financial statements are presented in thousands of Belarusian rubles ("BYN thousand"), unless otherwise indicated.

These financial statements have been prepared on a historical cost basis, except for certain non-cash items incurred up to 31 December 2014, which were recognized in accordance with the International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" (IAS 29), and certain assets that are recognizes at revalued value or fair value as at each reporting date as indicated below.

During the 2014 and prior years the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with IAS 29. Starting from 1 January 2015, the economy of the Republic of Belarus is no longer considered hyperinflationary, thus the value of non-monetary assets, liabilities and equity of the Bank presented in measuring units as at 31 December 2014, was used to form the opening balances as at 1 January 2015.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value of assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on the above basis, except for leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairments of Assets.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 (Note 35) based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 inputs are unobservable inputs for the asset or liability.

When level of hierarchy as at the reporting date differs from the level that was previously assigned to assets or liabilities transfer into and out of the level occurs. The date of transfer is determined as the date of the event or change in circumstances that caused the transfer.

The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These financial statements have been prepared on the basis of Belarusian statutory accounting records maintained in accordance with Belarusian accounting rules and have been adjusted to conform to IFRS.

The Bank presents its balance sheet accounts broadly in order of liquidity. The analysis regarding recovery of financial assets or repayment of financial liabilities within 12 months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in Note 37.

The principal accounting policies are set out below.

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income from financial assets is recognized if it is probable that the Bank will generate economic benefits and the amount of income can be measured reliably.

Once a financial asset or a group of similar financial assets has been written off (partly written off) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Recognition of expenses under REPO and reverse REPO agreements

Gain/loss on the sale on repurchase (“repo”) and reverse repurchase agreements (“reverse repo”) is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest rate method and the sale price when such instruments are sold to third parties. When the repo (reverse repo) is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income

Loan maintenance fees, together with the related direct costs, are recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit or loss when the syndication has been completed. All other commissions are recognized at the date the services are rendered.

Recognition of dividend income

Dividend income from investments is recognized when the shareholder’s right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of lease income

The Bank's policy for recognition of income as a lessor is set out in the Leases section of this note.

Financial instruments

The Bank recognizes financial assets and liabilities in its balance sheet when it becomes a party to the contractual obligations of the financial instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial asset and financial liability are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or corresponding interpretation, and is specifically disclosed in the accounting policies of the Bank.

Financial assets

Financial assets are classified into the following categories: "at fair value through profit and loss", "held-to-maturity", "available-for-sale" and "loans and receivables". The classification depends on the nature and purpose of acquiring of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with the National Bank with original maturity within 90 days, due from banks with original maturity within 90 days, which may be freely converted to cash within a short period of time, except for guarantee deposits and other restricted balances.

Mandatory reserve deposit with the National Bank

Mandatory reserve deposit with the National Bank comprises mandatory reserve deposits with the National Bank which are not available to finance day to day operations of the Bank, and hence are not considered as part of cash and cash equivalents.

Financial assets measured at fair value through profit and loss

Financial asset is classified as at fair value through profit or loss when the financial asset is either held for trading or is designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as "held for trading" if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for derivatives that are financial guarantees or classified and effective hedging instruments)

Financial assets measured at fair value through profit or loss are stated at fair value, with any remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 35.

Derivative financial instruments

The Bank uses the following derivative financial instruments: foreign currency forwards, forward securities contracts with open and fixed delivery date, precious metals swap contracts and exchange of deposits in different currencies with the National Bank (swap). These instruments are used by the Bank to manage its exposure to foreign exchange rate and price risks.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. As foreign currency forwards do not have an active market in the Republic of Belarus they are measured using interest rates parity model. The resulting gains or losses are recognized in financial results.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Bonds classified as available for sale, not quoted in an active market, are stated at fair value since, in the opinion of the Bank's management, their fair value can be reliably measured. Fair value is determined in the manner described in Note 35. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments available for sale revaluation reserve, with the exception of other-than-temporary impairment losses, interest calculated using the effective interest rate method, and foreign exchange translation differences, which are recognized in profit or loss. Where the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments available-for-sale revaluation reserve is reclassified to financial results in the period of disposal or impairment.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Available-for-sale equity investments that do not have a quoted market price and fair value of which cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans issued, and other receivables that have fixed or determinable payments and are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and purchase back agreements ("repos") and purchase and sale back agreements of financial assets ("reverse repos"). Repos and reverse repos are utilized by the Bank as an element of its liquidity management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the financial statements and consideration received under these agreements is recorded as collateralized deposit.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified as due from banks and/or loans to customers.

The Bank enters into repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Belarus and other CIS countries, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The transfer of securities to counterparties is only presented on the balance sheet if the risks and rewards of ownership are also transferred.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments classified as available for sale both quoted and not quoted in an active market, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization;
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Bank’s past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Repayment of loans earlier written off is recognized in profit or loss upon receipt.

If an available-for-sale financial asset is impaired, then income and expenses recognized in other comprehensive income are transferred to the profit or loss.

If, in a subsequent period, the amount of the impairment loss on financial assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the profit and loss to the extent that the carrying amount of financial assets at the date the impairment is reversed cannot exceed what the carrying amount would have been had the impairment not been recognized.

In respect of available-for-sale equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss.

In respect of available-for-sale debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-off of loans

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

Reclassification of financial assets

In December 2014 the Bank reclassified separate non-derivative financial assets held for trading (part of "at fair value through profit or loss" category) into assets available for sale. Effective from 1 July 2009, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category into the "Available-for-sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is performed at the election of management, and is determined on an instrument by instrument basis.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank’s own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank’s own equity instruments.

Financial liabilities

Financial liabilities, including due to banks and customer accounts, debt securities issued, other borrowings and other liabilities, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit and loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as the lessor

Finance lease receivables are recognized as loans to customers in the amount of the Bank's net investment in finance leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Bank's net investment in finance leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Bank as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Precious metals

Gold and other precious metals are recorded at fair value. To determine the fair value of assets denominated in precious metals the Bank uses the National Bank's bid prices effective as at the reporting date (considering their nominal in grams) which approximate fair values being discounted using London Bullion Market rates. To determine the fair value of liabilities denominated in precious metals and recorded in impersonal metal accounts the bank uses National Bank's of the Republic of Belarus accounting prices. Changes in the National Bank prices are recognized in net gain/(loss) on operations with precious metals.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss. Cost of property and equipment acquired before 1 January 2015 is restated for inflation.

Depreciation is recognized so as to write off the cost of property and equipment (other than properties under construction) less their residual values over their useful lives, using the straight-line basis. The estimated useful life, carrying values and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. In these financial statements the depreciation is calculated on a straight-line basis at the following annual rates:

	Average annual depreciation rate
Buildings and premises	2%
Computer equipment, furniture and other equipment	15%
Motor vehicles	14%

Properties under construction for production or administrative purposes are carried at cost restated for inflation, less any recognized impairment loss. Cost of construction includes professional fees. Such properties are classified to the appropriate categories of property and equipment when completed or ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property of the Bank includes a separate category of corporate collection of the works of art which are not subject to depreciation because of their unique nature and significant estimated useful lives.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on sale or other disposal of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at historical cost less accumulated amortization and accumulated impairment losses, if any. Cost of intangible assets acquired before 1 January 2015 is restated for inflation. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is calculated on a straight-line basis at the following annual rates:

	Average annual amortization rate
Intangible assets	34%

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

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Reversals of impairment losses are immediately recognized in profit or loss.

Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment property is initially measured at cost, including transaction costs.

Subsequent to initial recognition, investment properties are measured at cost net of accumulated depreciation and recognized impairment loss. Cost of investment property acquired before 1 January 2015 is restated for inflation. Depreciation is calculated on a straight line basis over the useful life of the assets, which is 100 years.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other reporting periods and items that are never taxable or deductible. Current income tax liability is calculated using tax rates that have been enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, as of the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year

Current and deferred income taxes are recognized through profit or loss, except when they relate to items that are recognized directly in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized directly in other comprehensive income or in equity respectively.

Operating taxes

In the Republic of Belarus, where the Bank operates, there are also various other tax requirements, which are assessed on the Bank's activities, except income tax. These taxes are included as a component of operating expenses in the income statement.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision obligation are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions recognized by the Bank include provisions for unused vacations of employees.

Commitments and contingencies

Commitments and contingent liabilities are not recognized in the balance sheet but are disclosed in the financial statements unless the outflow of economic benefits is remote. Contingent assets are not recognized but disclosed in the financial statements when an inflow of economic benefits is probable.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at fair value less related transaction costs and are subsequently measured at the higher of the amount initially recognized less cumulative amortization or the amount of possible losses related to this guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Functional currency

The functional currency of these financial statements is the national currency of the Republic of Belarus – Belarusian Ruble.

Foreign currency

In preparing the financial statements of the Bank, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items in a foreign currency that are measured at historical cost are not restated. Foreign exchange differences that arise during settlements related to monetary items or during translation of monetary items at rates other than those at which they were translated upon initial recognition during the period or in the previous financial statements are recognized in profit and loss in the period in which occur.

The exchange rates at the year-end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2017	**31 December 2016**
USD/BYN	1.9727	1.9585
EUR/BYN	2.3553	2.0450
100 RUB/BYN	3.4279	3.2440

Collateral

The Bank obtains collateral in respect of customer liabilities. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. The Bank classifies assets received through repossession under default loan agreements into this category, unless the Bank is going to use the repossessed assets in its investing and operating activities.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Operating segments

Operating segments are components that represent operational activity implying the generation of profit or the incurrence of expenses, which have an observable financial data related to them, that is regularly assessed by the Bank's management in the process of allocating resources and analyzing financial performance. The segments' operation analysis is represented in Note 34.

Change in accounting policy and reporting procedure

The Bank has adopted the following amendments to standards with a date of initial application of 1 January 2017.

- *Disclosure Initiative (Amendments to IAS 7)*. IAS 7 *Statement of Cash Flows* has been amended as part of the IASB's broader disclosure initiative to improve presentation and disclosure in financial statements. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. However, the objective could also be achieved in other ways.

- *Recognition of Deferred Tax Asset for Unrealised Losses (Amendments to IAS 12)*. The amendments to IAS 12 Income Taxes clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. Therefore, assuming that the tax base remains at the original cost of the debt instrument, there is a temporary difference. The amendments show that the entity can recognize a deferred tax asset if the future bottom line of its tax return is expected to be a loss if certain conditions are met.

- *Annual Improvements to IFRSs 2014–2016 Cycle* – various standards (Amendments to IFRS 12). Amendments to IFRS 12 Disclosure of Interests in Other Entities clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution**.**

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes.

Key sources of estimation uncertainty

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

Impairment of loans and receivables

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

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

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

Management believes that the amount of allowances for impairment reasonably reflect the incurred impairment losses of loans and receivables based on the current economic condition of borrowers.

Measurement of fair value of financial derivatives

Derivative financial instruments representing foreign currency forwards and swaps of deposits nominated in different currencies with the National Bank do not have an active market and are measured using interest rates parity model. Interest rates on financial instruments denominated in the same currency and with relevant maturity period are used as the rates.

Derivative financial instruments representing forward contracts with securities with open and fixed delivery dates are measured at fair value, which is calculated as net result between fair value of the claim and obligation.

Fair value of claims/commitments to receive/deliver cash is determined as cash flow, calculated based on the terms and conditions of the contract.

Derivative financial instruments representing swap contracts with precious metals are measured at fair value, which is calculated as net result between fair value of the claim and obligation.

Fair value of financial assets available for sale

As described in Note 35 for determination of fair value of certain financial instruments the Bank uses valuation techniques that take into account the inputs that are not based on observable market data. Note 35 provides details of the key assumptions used in determining the fair value of financial instruments, as well as a detailed analysis of the sensitivity of the estimates for these assumptions. Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

4. NEW STANDARDS AND INTEPRETATIONS NOT YET EFFECTIVE

The Bank has yet to adopt the following new and revised IFRS, issued and not yet effective:

Standards and Interpretations	**Effective for annual period beginning on or after**
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
IFRS 17 *Insurance contracts*	1 January 2021
Amendments to IFRS 4 *Insurance contracts* – The implementation of IFRS 9 *Financial instruments* with IFRS 4	1 January 2018
Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
Annual improvements of IFRS, for 2014 - 2016 – amendments to IFRS 1 and IAS 28	1 January 2018
Amendments to IAS 40: *Transfers of Investment Property*	1 January 2018
Clarification to IFRIC 22: *Foreign Currency Transactions and Advance Consideration*	1 January 2018
Amendments to IFRS 9 *Prepayment Features with Negative Compensation*	1 January 2019
Clarification to IFRIC 23: *Uncertainty over Income Tax Treatments*	1 January 2019
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2019

The Bank plans to implement the above standards, amendments and clarifications from the moment they become effective. It is expected that the following from the above mentioned standards, amendments and clarifications will have a significant influence on the Bank's financial statements in the period of their initial implementation.

IFRS 9 Financial Instruments

The Bank will initially adopt IFRS 9 on January 1, 2018. Based on the results of the preliminary estimates that have been completed by now, it is expected that the most significant influence on the Bank's financial statements due to IFRS 9 implementation will be connected with new impairment requirements. The implementation of the new model is expected to cause the increase of valuation allowances for credit losses and a higher volatility of expected credit losses amounts. The amount of valuation allowances for losses will increase with the expected deterioration of economic conditions and decrease with economic conditions becoming more favorable. This can be aggravated by a significant increase of valuation allowances for losses as financial instruments are transferred between the stages of credit quality conformity.

Based on the Bank's preliminary assessment it is expected that the adoption of impairment allowance creation model according to IFRS 9 Financial instruments will result in increase of impairment allowance («gross»). However the effect has not been measured with high precision as of the date of the financial statements issue.

The above assessment is preliminary since the adoption of the new standard has not been completed as yet. The actual influence of IFRS 9 as at 1 January 2018 can change, as:

The new standard will require the Bank to revise the accounting processes and elements of internal control, and these changes have not yet been completed;

The Bank has not finished testing and assessing controls for its new information systems;

The Bank modifies and improves its models for calculating expected credit losses;

New accounting policy provisions, assumptions and valuation methods can change until the Bank completes the preparation of its first financial statements covering the date of initial implementation.

Classification – financial assets

IFRS 9 includes a new approach to the classification and measurement of financial assets, reflecting the business model used for the management of these assets and characteristics of related cash flows.

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

Financial assets are measured at amortized cost only if they meet both of the following conditions and are not classified by the Bank's at its own discretion as measured at fair value through profit and loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income only if it meets both of the following conditions and is not classified by the Bank's at its own discretion as measured at fair value through profit and loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above are measured at fair value through profit and loss. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through other comprehensive income as at fair value through profit and loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of assets.
- how the performance of the portfolio is evaluated and reported to the Bank's management.
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- how managers of the business are compensated.
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at fair value through profit and loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest («SPPI» criterium), the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements;
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

The Bank's loans issued to corporate clients and individuals have a prepayment feature. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if a financial asset is acquired or originated at a premium or discount to its contractual par amount, the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination), and the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

Based on the preliminary assessment of the Bank, the adoption of the new financial assets classification requirements as at 1 January 2018 would not significantly impact financial assets recognition.

Impairment – Financial assets, loan commitments and financial guarantee contracts

In terms of impairment, IFRS 9 introduces a new, future-oriented model of "expected credit losses", which replaces the "incurred credit losses" model, established in IAS 39. Application of the new impairment model will require the Bank's significant professional judgments as to as changes in economic factors affect the expected credit losses, determined by weighing the probability of occurrence.

The new impairment model applies to the following financial instruments that are not measured at fair value through profit and loss:

- financial assets that are debt instruments;
- lease receivables; and
- loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognized on equity investments.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month expected credit losses or lifetime expected credit losses. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas:

assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

incorporating forward-looking information into the measurement of expected credit losses.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses and will be measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls – i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive;
- *financial assets that are credit-impaired at the reporting date*: the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments*: the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive;
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Inputs into measurement of expected credit losses

The key inputs into the measurement of expected credit losses are likely to be the term structures of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from internally developed statistical models and other historical data that leverage regulatory models. They will be adjusted to reflect forward-looking information.

Probability of default (PD) estimates are estimates at a certain date, which will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally compiled data comprising both quantitative and qualitative factors.

Loss given default (LGD) is the magnitude of the likely loss if there is a default.

Exposure at default (EAD) represents the expected exposure amount as at default date. The Bank will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default.

Forward-looking information

Under IFRS 9, the Bank will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of expected credit losses.

This assessment will be based on internal and external information. External information may include economic data and forecasts published by governmental bodies and monetary authorities of the Republic of Belarus. The Bank will also periodically carry out stress-testing of more extreme shocks to calibrate its determination of these other representative scenarios.

Impact assessment

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

As of the date the financial statements were issued, the Bank has not finished its assessment of loss allowances amount on the adoption of IFRS 9 at 1 January 2018.

Classification – financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of financial liabilities designated as at fair value through profit and loss are recognized in profit or loss, whereas under IFRS 9 these fair value changes will generally be presented as follows:

- the amount of the change in the fair value that is attributable to changes in the credit risk of the liability will be presented in other comprehensive income;
- the remaining amount of the change in the fair value will be presented in profit or loss.

The Bank does not classify at its own discretion any financial liabilities as measured at fair value through profit and loss and does not have any intentions to do so at the moment.

Impact assessment

Based on the preliminary assessment by the Bank, the adoption of IFRS 9 requirements with regard to financial liabilities classification as at 31 December 2017 would not have a significant impact on the financial statements.

Derecognition and contract modification

IFRS 9 incorporates the requirements of IAS 39 for the derecognition of financial assets and financial liabilities without substantive amendments.

However, it contains specific guidance for the accounting when the modification of a financial instrument not measured at fair value through profit and loss does not result in derecognition. Under IFRS 9, the Bank will recalculate the gross carrying amount of the financial asset (or the amortized cost of the financial liability) by discounting the modified contractual cash flows at the original effective interest rate and recognize any resulting adjustment as a modification gain or loss in profit or loss. Under IAS 39, the Bank does not recognize any gain or loss in profit or loss on modifications of financial liabilities and non-distressed financial assets that do not lead to their derecognition.

The Bank expects an immaterial impact from adopting these new requirements.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except the restatement of prior periods information. The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) of financial instruments. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves as at 1 January 2018.

IFRS 16 Leases

IFRS 16 introduces a uniform model for accounting treatment of lease agreements by lessees, which implies they are recognized in the lessee's balance sheet. According to this model, the lessee must recognize the asset in the form of the right of use, which is the right to use the underlying asset, and the lease liability representing the obligation to conduct lease payments. There are optional simplifications in relation to short-term leases and leases of low-cost items. For lessors, accounting rules generally remain the same as before - they will continue to classify leases into financial and operating types.

The Bank has started the assessment of the possible impact of the adoption of IFRS 16 on its financial statements. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Bank's borrowing rate at 1 January 2019, the composition of the Bank's lease portfolio at that date, the Bank's latest assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the Bank's finance leases.

As a lessee the Bank may apply the standard, using one of the following transition options:

- retrospective approach; or
- modified retrospective approach with optional practical simplifications.

The lessee must apply the selected option consistently to all of its lease contracts where it acts as a lessee.

The Bank is currently planning the initial adoption of IFRS 16 on January 1, 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Bank is assessing the potential impact of using these practical expedients.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Bank has not activated the option of IFRS 15 early adoption in preparing its financial statements for the year ended on 31 December 2017.

At the moment the Bank is performing a detailed assessment of the potential impact of the adoption of IFRS 15 on its financial statements. This focused on a review of fees and commission income.

The Bank earns fee and commission income (other than fees included in the calculation of the effective interest rate) on provision of the following services (see Note 9):

- Settlement and cash operations with clients;
- Bank payment card operations;
- Documentary operations;
- Foreign exchange operations;
- Settlements with banks and other.

The analysis performed indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income.

5. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Interest income:		
Interest income on financial assets recorded at amortized cost:		
Interest income on impaired assets	241,094	280,195
Interest income on unimpaired assets	5,351	10,535
Interest income on assets at fair value	52,614	58,670
Total interest income	**299,059**	**349,400**
Interest income on financial instruments recorded at amortized cost:		
Interest on loans to customers	241,094	280,195
Interest on due from banks and other financial institutions	4,284	5,220
Interest income on REPO transactions	588	4,495
Other interest income	479	820
Total interest income on financial instruments recorded at amortized cost	246,445	290,730
Interest income on financial instruments at fair value		
Interest on investments available for sale	49,082	55,330
Interest on securities at fair value through profit or loss	3,532	3,340
Total interest income on financial assets at fair value	52,614	58,670
Interest expense:		
Interest expense on financial liabilities recorded at amortized cost	134,949	171,128
Total interest expense	**134,949**	**171,128**
Interest on financial instruments recorded at amortized cost:		
Interest on customer accounts	71,755	119,242
Interest on deposits from banks and other financial institutions, on loans from the National Bank	29,806	22,846
Interest on subordinated loans	26,179	24,578
Interest on debt securities issued	5,731	4,305
Interest on REPO transactions	1,157	117
Other interest expense	321	40
Total interest expense on financial liabilities recorded at amortized cost	**134,949**	**171,128**
Net interest income before allowance for impairment losses on interest bearing assets	**164,110**	**178,272**

6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest-bearing assets were as follows:

	Loans to customers
1 January 2016	**113,350**
Provision	42,698
Write-off of assets	(37,015)
31 December 2016	**119,033**
Provision	27,479
Write-off of assets	(31,265)
31 December 2017	**115,247**

The movements in other provisions were as follows:

	Other assets	Guarantees and other contingencies	Total
1 January 2016	**1,301**	**364**	**1,665**
Provision of allowance for impairment	827	322	1,149
31 December 2016	**2,128**	**686**	**2,814**
Provision/(recovery) of allowance for impairment	43	(37)	6
31 December 2017	**2,171**	**649**	**2,820**

Allowance for impairment losses on assets are deducted from corresponding assets (Note 23). Provisions for guarantees and other contingent liabilities are recorded in other liabilities (Note 27).

7. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Foreign exchange differences, net	74,818	(5,533)
Trading operations, net	11,067	6,187
Total net foreign exchange gain	**85,885**	**654**

8. NET (LOSS)/ GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on operations with financial instruments at fair value through profit or loss comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Net (loss)/ gain on securities at fair value through profit or loss	(1,172)	1,315
Net (loss)/ gain derivative financial instruments	(41,687)	43,508
Net (loss)/ gain on operations with financial instruments at fair value through profit or loss	**(42,859)**	**44,823**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Fee and commission income:		
Settlement and cash operations with clients	26,264	24,315
Bank payment card operations	18,345	13,944
Documentary operations	1,589	1,281
Foreign exchange operations	960	965
Other	737	566
Total fee and commission income	**47,895**	**41,071**
Fee and commission expense:		
Bank payment card operations	4,589	3,759
Legal support of banking operations	2,045	2,037
Maintenance of bank accounts	996	900
Operations with securities	384	312
Foreign exchange operations	374	397
Documentary operations	293	120
Payments accepted for the bank	236	235
Other	204	265
Total fee and commission expense	**9,121**	**8,025**

10. NET (LOSS)/ GAIN ON OPERATIONS WITH PRECIOUS METALS

Net gain on operations with precious metals comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Financial result from operations with precious metals	305	383
The revaluation of balance sheet items in precious metals	(1,333)	1,222
Total net (loss)/ gain on operations with precious metals	**(1,028)**	**1,605**

11. OTHER INCOME

Other income comprises:

	Year ended 31 December 2017	Year ended 31 December 2016
Net gain from disposal of investments available for sale	4,701	1,878
Fines and penalties	1,581	1,690
Lease payments	1,493	627
Settlement of tax payments	487	1,112
Considerations from payment service providers	459	133
Dividends	132	83
Other	567	274
Total other income	**9,420**	**5,797**

12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2017	Year ended 31 December 2016
Staff costs	45,281	45,285
Depreciation and amortization expense	16,492	13,931
Obligatory social contributions	11,933	11,193
Expenses for services of automated interbank and international settlement system	10,773	8,385
Remuneration to the members of the Board of Directors and Revision Committee	9,008	5,625
Charity and sponsorship expenses	8,212	2,733
Contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	5,940	5,622
Taxes, other than income tax	4,493	2,373
Expenses on maintenance of banking software	4,266	4,748
Information and consulting services	3,497	1,047
Stationery and office expenses	3,473	4,372
Insurance expenses	2,785	2,264
Rent and property and equipment maintenance	2,453	3,007
Advertising expenses	1,563	1,831
Communication expenses	1,322	1,145
Security expenses	1,079	999
Vehicles maintenance and fuel expenses	724	647
Other	5,788	4,832
Total operating expenses	**139,082**	**120,039**

13. INCOME TAX

The Bank measures and records its current income tax payable in accordance with the tax regulations of the Republic of Belarus where the Bank operates. These regulations may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Major sources of non-deductible expenses include non-deductible payments to employees, some insurance and charity payments. Major amounts of non-taxable income relate to operations with securities issued by the Belarusian government, companies and banks.

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2017 and 2016 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax book bases' differences for certain assets and liabilities.

The Bank provides for current income tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the periods ended 31 December 2017 and 2016 tax rate for the Bank was 25%.

Tax effect of temporary differences and movement of deferred taxes as at 31 December 2017 and 31 December 2016 are as follows:

	31 December 2017	Changes in deferred taxes recognized in profits or losses	Changes in deferred taxes recognized in other comprehensive income	31 December 2016	Changes in deferred taxes recognized in profits or losses	Changes in deferred taxes recognized in other comprehensive income	1 January 2016
Loans to customers	5,368	6,260	-	(892)	(1,253)	-	361
Other assets	1,225	(444)	-	1,669	765	-	904
Derivative financial instruments	407	790	-	(383)	(375)	-	(8)
Debt securities issued	297	270	-	27	27	-	-
Other liabilities	221	(43)	-	264	119	-	145
Non-current assets available for sale	43	43	-	-	-	-	-
Precious metals	-	(11)	-	11	12	-	(1)
Investments available for sale	(42)	-	1,153	(1,195)	-	(1,294)	99
Investment property	-	76	-	(76)	1	-	(77)
Due to banks and other financial institutions	(417)	99	-	(516)	(127)	-	(389)
Due from National Bank of the Republic of Belarus, banks and other financial institutions	(782)	(314)	-	(468)	(393)	-	(75)
Property, equipment and intangible assets	(918)	(139)	-	(779)	55	-	(834)
Provisions for guarantees, letters of credit and other off-balance sheet operations	(1,047)	(76)	-	(971)	(13)	-	(958)
Deferred tax (assets)/ liabilities	**4,355**	**6,511**	**1,153**	**(3,309)**	**(1,182)**	**(1,294)**	**(833)**

A reconciliation of income tax expense and accounting profit for the years ended 31 December 2017 and 2016 is presented below:

	Year ended 31 December 2017	**Year ended 31 December 2016**
Profit before tax	101,643	111,823
	25%	25%
Tax at the statutory tax rate	25,411	27,956
Tax effect of permanent differences:		
Tax effect of non-taxable income and other deductions	(16,640)	(18,978)
Tax effect of non-deductible expenses	7,704	3,082
Tax effect of other permanent differences	424	4,112
Income tax expense	**16,899**	**16,172**
Current income tax expense	23,410	14,990
Deferred income tax benefit recognized in profit or loss	(6,511)	1,182
Income tax expense	**16,899**	**16,172**

14. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Deposits with the National Bank, banks and other financial institutions with original maturity within 90 days	222,887	29,204
Correspondent accounts and demand deposits	175,204	115,384
Cash at the correspondent accounts in the National Bank	173,916	56,069
Cash	63,320	74,294
Total cash and cash equivalents	**635,327**	**274,951**

15. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss comprise the following trading securities:

	Interest to nominal	31 December 2017	31 December 2016
Bonds:			
Eurobonds of the Republic of Belarus	8.95%	51,884	-
Bonds of Russian Banks	8.20%	18,864	-
Total securities at fair value through profit or loss		**70,748**	**-**

In accordance with the Amendments to IAS 39 Financial Instruments: Recognition and Measurement (paragraph 50B) and IFRS 7 Financial instruments: Disclosures dated 28 October 2008 the Bank decided to reclassify the eurobonds issued by residents of the Russian Federation from assets at fair value through profit or loss to the investments available for sale on 20 December 2014.

The reclassification was performed due to the factors set forth below, which were classified by the Bank as rare (unusual) events that are unlikely to reoccur in the foreseeable future.

In the second half of 2014 the state of the Russian economy significantly deteriorated affected by escalation of the conflict in Ukraine and imposition of sanctions on a number of residents of the Russian Federation, as well as by twofold reduction of oil prices.

The increasing internal economic problems in combination with limited access to external loan market led to significant outflow of foreign investments from the country, devaluation of Russian Ruble, reduction of foreign exchange reserves and caused inflation processes and drop in GDP.

The existing economic situation had a significant negative impact on the stability of the banking sector: increase in credit risk and doubtful debts, drop in profitability, formation of the need for additional provisioning for loan losses and for additional capitalization (including system-important banks).

The above trends gave rise to decrease in the sovereign ratings of the Russian Federation and a number of residents by the largest international rating agencies, which in combination with other factors significantly affected the evaluation of the financial state of both Russian banks and the Russian Federation on the whole.

The Bank qualified the assets covered by the specified amendments as assets in respect of which the intention for resale in near future was definitely changed and classified them as available for sale. The Bank evaluated whether there was an active market for each security that qualified for possible reclassification. On the basis of this evaluation the securities were reclassified into “investments available for sale” category from the date when the market for the specified securities started demonstrating certain signs of inactivity. All securities were reclassified between the categories at their fair value effective as at the reclassification date. The fair value was estimated on the basis of various measurement models including mathematic models.

The information on the reclassification carried out and about the value of the financial assets on reclassification date and at subsequent reporting dates is specified below. Carrying value of financial assets corresponded to fair value on the said dates:

	Fair value				
	at reclassification date	31 December 2014	31 December 2015	31 December 2016	31 December 2017
Securities at fair value through profit or loss	(47,283)	-	-	-	-
Investments available for sale (Note 19)	47,283	51,297	80,143	80,891	-

During the year ended 31 December 2017 the Bank sold part of securities of Russian issues that were classified as "Investments available for sale" in 2014, with the value at the date of disposal of BYN 82,510 thousand. The fair value of these securities at the time of reclassification amounted to BYN 42,440 thousand.

During the year ended 31 December 2016 the Bank sold part of securities of Russian issues that were classified as "Investments available for sale" in 2014, with the value at the date of disposal of BYN 10,132 thousand. The fair value of these securities at the time of reclassification amounted to BYN 4,843 thousand.

The approaches to determination of the fair value of the reclassified investments available for sale and their analysis by fair value hierarchy are presented in Note 35.

16. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2017, derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	**Liabilities**
Foreign currency forward contracts:			
USD/EUR	USD 296,273,265	93	(17)
EUR/USD	EUR 1,000,000	3	-
USD/RUB	USD 24,500,000	-	(77)
Total foreign currency forward contracts		**96**	**(94)**
	Contractual amount of purchased securities)	**Fair value**	
		Assets	**Liabilities**
Forward contracts on purchase of securities			
Eurobonds of Eurasian Development Bank	USD 10,609,700	-	(4)
Total forward contracts on purchase of securities		**-**	**(4)**
	Nominal amount (mass in grams of purchased metal)	**Fair value**	
		Assets	**Liabilities**
Precious metals swap contracts	Gold 692,795	50	(864)
Total metals swap contracts		**50**	**(864)**
Total derivative financial instruments		**146**	**(962)**

As at 31 December 2016 derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency forward contracts:			
USD/EUR	USD 65,328,070	1,121	-
RUB/EUR	RUB 960,676,500	408	-
RUB/USD	RUB 244,805,000	89	-
BYN/USD	BYN 981,500	2	-
USD/RUB	USD 1,000,000	-	(29)
BYN/RUB	BYN 8,050,000	-	(59)
Total foreign currency forward contracts		**1 620**	**(88)**

	Nominal amount (mass in grams of purchased metal)	Fair value	
		Assets	Liabilities
Precious metals swap contracts	Gold 161,630	8	(535)
Total metals swap contracts		**8**	**(535)**
Total derivative financial instruments		**1,628**	**(623)**

17. DUE FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS, BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from the National Bank of the Republic of Belarus, banks and other financial institutions are represented as follows:

	31 December 2017	31 December 2016
Funds provided under repurchase agreement	37,043	-
Mandatory reserve deposit with the National Bank of the Republic of Belarus	26,315	7,394
Time deposits with original maturity over 90 days	11,837	-
Funds pledged as a collateral	1,747	1,714
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**76,942**	**9,108**

As at 31 December 2017 reverse repurchase agreements were concluded with two Belarusian banks for the period of up to three months. The Bank received foreign currency government long-term bonds and bonds of the National Bank of the Republic of Belarus as a collateral with the fair value of EUR 15,772,423.

18. LOANS TO CUSTOMERS

Loans to customers are represented as follows:

	31 December 2017	31 December 2016
Issued loans	2,765,175	2,020,605
Net investments in finance lease	31,728	30,403
	2,796,903	2,051,008
Allowance for impairment losses	(115,247)	(119,033)
Total loans to customers	**2,681,656**	**1,931,975**

The table below summarizes the information on the loans and financial lease liabilities by types of borrowers:

	31 December 2017	31 December 2016
Corporate loans	2,385,374	1,861,572
Allowance for impairment losses	(98,533)	(109,724)
Total corporate loans less allowance for impairment losses	**2,286,841**	**1,751,848**
Loans to individuals	411,529	189,436
Allowance for impairment losses	(16,714)	(9,309)
Total loans to individuals less allowance for impairment losses	**394,815**	**180,127**

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2017 and 2016 are disclosed in Note 6.

As at 31 December 2017 the Bank provided loans to nine customers totaling BYN 802,385 thousand before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2016 the Bank provided loans to seven customers totaling BYN 511,665 thousand before allowance for impairment losses where exposure of each borrower individually exceeded 10% of the Bank's equity.

Below is the structure of the Bank's credit portfolio by industries as at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Analysis by sectors:		
Trade	509,369	492,051
Retail portfolio	411,529	189,436
Chemicals and petrochemicals	365,520	226,006
Investments in real estate	204,911	98,682
Financial and insurance services	190,927	82,444
Metallurgy	141,891	135,688
Gas transportation	129,167	84,573
Oil industry	127,413	101,777
Food industry	106,222	123,512
Transport	105,082	47,697
Machinery construction	102,886	88,737
Light industry	100,887	99,049
Other industry	95,483	78,633
Construction	62,658	48,080
Energetics	43,051	47,234
Agriculture	19,572	22,205
Timber industry	17,595	20,186
Media business	1,733	4,613
Other	61,007	60,405
	2,796,903	2,051,008
Less allowance for impairment losses	(115,247)	(119,033)
Total loans to customers	**2,681,656**	**1,931,975**

All loans were issued to companies operating in the Republic of Belarus, which reflects a significant geographical concentration characteristic of the Belarussian banking system on the whole.

Retail portfolio comprises the following products:

	31 December 2017	31 December 2016
Bank cards	164,476	101,009
Car loans	97,504	14,086
Loans on real estate	79,085	45,199
Delay consumer loans	63,886	22,337
Consumer loans	6,242	6,473
Other	336	332
	411,529	189,436
Allowance for impairment losses	(16,714)	(9,309)
Total loans to individuals	**394,815**	**180,127**

Delay consumer loans represent a program according to which individuals pay by installments for the consumer goods purchased in the chain of stores participating in the program.
Analysis of credit quality of loans provided to retail customers by products and overdue periods is presented in the following table:

Loans to individuals determined to be impaired collectively	**Bank cards**	**Car loans**	**Loans on real estate**	**Delay consumer loans**	**Consumer loans**	**Other**	**31 January 2017 Total**
Undue	**152,289**	**96,807**	**78,220**	**62,497**	**6,128**	**336**	**396,277**
Overdue	**12,187**	**697**	**865**	**1,389**	**114**	**-**	15,252
Less than 30 days	6,035	523	464	604	38	-	7,664
from 31 to 60 days	1,745	106	137	286	20	-	2,294
from 61 to 90 days	1,158	21	16	179	22	-	1,396
from 91 to 180 days	1,902	26	158	268	8	-	2,362
More than180 days	1,347	21	90	52	26	-	1,536
Allowance for impairment losses	**(10,617)**	**(1,270)**	**(1,308)**	**(3,339)**	**(178)**	**(2)**	**(16,714)**
Loans to individuals less allowance for impairment losses	**153,859**	**96,234**	**77,777**	**60,547**	**6,064**	**334**	**394,815**

Loans to individuals determined to be impaired collectively	**Bank cards**	**Car loans**	**Loans on real estate**	**Delay consumer loans**	**Consumer loans**	**Other**	**31 January 2016 Total**
Undue	**93,089**	**13,914**	**44,139**	**21,865**	**6,172**	**332**	**179,511**
Overdue	**7,920**	**172**	**1,060**	**472**	**301**	**-**	**9,925**
Less than 30 days	2,835	67	343	120	151	-	3,516
from 31 to 60 days	1,241	48	139	178	9	-	1,615
from 61 to 90 days	943	8	197	70	23	-	1,241
from 91 to 180 days	1,725	33	100	73	89	-	2,020
More than180 days	1,176	16	281	31	29	-	1,533
Allowance for impairment losses	**(7,141)**	**(202)**	**(922)**	**(904)**	**(138)**	**(2)**	**(9,309)**
Loans to individuals after allowance for impairment losses	**93,868**	**13,884**	**44,277**	**21,433**	**6,335**	**330**	**180,127**

Analysis of credit quality of loans provided to customers by classes of loans and impairment assessment model is presented in the following table:

As at 31 December 2017	Loans before allowance for impairment losses	Allowance for impairment	Loans less allowance for impairment losses	Allowance for impairment to gross loans before allowance for impairment losses,%
Loans to individuals determined to be impaired collectively				
Undue	396,277	13,373	382,904	3.37
Overdue:	15,252	3,341	11,911	21.91
Less than 30 days	7,664	356	7,308	4.65
from 31 to 60 days	2,294	322	1,972	14.04
from 61 to 90 days	1,396	251	1,145	17.98
from 91 to 180 days	2,362	1,080	1,282	45.72
More than180 days	1,536	1,332	204	86.72
Total loans to individuals determined to be impaired collectively	**411,529**	**16,714**	**394,815**	**4.06**
Loans to corporate clients determined to be impaired collectively				
Undue	1,338,529	28,034	1,310,495	2.09
Overdue:	19,598	389	19,209	1.98
Less than 30 days	5,959	89	5,870	1.49
from 31 to 60 days	1,554	39	1,515	2.51
from 61 to 90 days	1,092	18	1,074	1.65
from 91 to 180 days	1,833	61	1,772	3.33
More than 180 days	9,160	182	8,978	1.99
Total loans to corporate clients determined to be impaired collectively	**1,358,127**	**28,423**	**1,329,704**	**2.09**
Loans determined to be impaired individually with a reserve ratio higher than the collective one				
Undue	1,007,080	59,610	947,470	5.92
Overdue:	20,167	10,500	9,667	52.07
Less than 30 days	12	12	-	100.00
from 31 to 60 days	2,228	1,114	1,114	50.00
from 61 to 90 days	-	-	-	-
from 91 to 180 days	181	181	-	100.00
More than 180 days	17,746	9,193	8,553	51.80
Total loans determined to be impaired individually with a reserve ratio higher than the collective one	**1,027,247**	**70,110**	**957,137**	**6.83**
	2,796,903	**115,247**	**2,681,656**	**4.12**

As at 31 December 2016	Loans before allowance for impairment losses	Allowance for impairment	Loans less allowance for impairment losses	Allowance for impairment to gross loans before allowance for impairment losses,%
Loans to individuals determined to be impaired collectively				
Undue	179,511	6,545	172,966	3.65
Overdue:	9,925	2,764	7,161	27.85
Less than 30 days	3,516	161	3,355	4.58
from 31 to 60 days	1,615	246	1,369	15.23
from 61 to 90 days	1,241	242	999	19.50
from 91 to 180 days	2,020	1,021	999	50.54
More than 180 days	1,533	1,094	439	71.36
Total loans determined to be impaired collectively	**189,436**	**9,309**	**180,127**	**4.91**
Loans to corporate clients determined to be impaired collectively				
Undue	1,104,259	28,336	1,075,923	2.57
Overdue:	44,575	9,059	35,516	20.32
Less than 30 days	22,136	5,609	16,527	25.34
from 31 to 60 days	1,267	48	1,219	3.79
from 61 to 90 days	2,296	35	2,261	1.52
from 91 to 180 days	3,583	74	3,509	2.07
More than 180 days	15,293	3,293	12,000	21.53
Total loans to corporate clients determined to be impaired collectively	**1,148,834**	**37,395**	**1,111,439**	**3.26**
Loans determined to be impaired individually with a reserve ratio higher than the collective one				
Undue	702,234	61,825	640,409	8.80
Overdue:	10,504	10,504	-	100.00
Less than 30 days	-	-	-	-
from 31 to 60 days	-	-	-	-
from 61 to 90 days	-	-	-	-
from 91 to 180 days	-	-	-	-
More than 180 days	10,504	10,504	-	100.00
Total loans determined to be impaired individually with a reserve ratio higher than the collective one	**712,738**	**72,329**	**640,409**	**10.15**
	2,051,008	**119,033**	**1,931,975**	**5.80**

Undue corporate clients' loan liabilities impaired individually that show reliable signs of impairment as at 31 December 2017 amount to BYN 111,570 thousand, with the allowance of BYN 29,665 thousand.

Undue corporate clients' loan liabilities impaired individually that show reliable signs of impairment as at 31 December 2016 amount to BYN 79,814 thousand, with the allowance of BYN 27,372 thousand.

The information about the loans by types of collateral is represented in the following table. The information is based on the carrying amount of the loans rather than on the fair value of the collateral:

	31 December 2017	31 December 2016
Loans collateralized by real estate and rights thereon	1,148,750	1,012,685
Loans collateralized by equipment and rights thereon	509,658	270,467
Loans collateralized by inventories	249,094	182,078
Loans collateralized by liens over receivables	235,494	203,156
Loans collateralized by securities	103,007	7,205
Loans collateralized by insurance of credit risk exposure	101,436	85,767
Loans collateralized by guarantees of legal entities	40,558	19,179
Loans collateralized by guarantees of individuals	18,291	15,098
Loans collateralized by cash and guarantee deposit	6,183	6,494
Unsecured loans and loans collateralized by other and mixed types of collateral	384,432	248,879
	2,796,903	2,051,008
Less allowance for impairment losses	(115,247)	(119,033)
Total loans to customers	**2,681,656**	**1,931,975**

During the impairment assessment of loans issued to individually significant clients, the Bank determines the estimated value of the collateral as at the reporting date. As at 31 December 2016 and 31 December 2017 the fair value of the collateral for individually impaired loans is as follows:

	31 December 2017		**31 December 2016**	
Type of collateral	**Fair value of the collateral**	**Depreciated amount of the loan**	**Fair value of the collateral**	**Depreciated amount of the loan**
Real estate	536,725	463,582	536,321	423,905
Goods for sale	156,730	146,819	132,359	114,306
Liens over receivables	203,603	182,576	47,692	42,702
Vehicles	78,036	64,860	44,753	42,083
Equipment	145,301	114,700	49,761	51,643
Credit risk insurance	34,758	27,458	20,741	14,360
Pledge of rights for property	24,328	19,849	9,577	4,133
Other collaterals	8,814	7,403	25,815	19,606
	1,188,295	**1,027,247**	**867,019**	**712,738**

Loans on real estate are collateralized by real estate. Car loans are collateralized by cars. For reals estate loans and car loans the fair value of the collateral is measured at the date the loan is issued and is not adjusted taking into account further changes at the reporting date.

As at 31 December 2017, the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale amounted to BYN 474 thousand and BYN 37,042 thousand respectively.

As at 31 December 2016, the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale and investment property amounted to BYN 186 thousand, BYN 37,942 thousand and BYN 454 thousand respectively

The components of net investments in finance lease as at 31 December 2017 and 2016 are as follows:

	31 December 2017	31 December 2016
Less than one year	8,866	12,579
From one year to five years	27,074	44,683
More than 5 years	1,826	-
Minimum payments on financial lease	37,766	57,262
Less: unearned finance income	(6,038)	(26,859)
Net investments in finance lease before allowance for impairment	**31,728**	**30,403**
Allowance for impairment	(1,834)	(4,000)
Total accounts receivable under finance leases	**29,894**	**26,403**
Less than one year	7,204	6,753
From one year to five years	23,034	23,650
More than 5 years	1,490	-
Net investments in finance lease before allowance for impairment	**31,728**	**30,403**
Allowance for impairment	(1,834)	(4,000)
Net investments in finance lease	**29,894**	**26,403**

19. INVESTMENTS AVAILABLE FOR SALE

Investments available for sale comprise:

	Interest rate to nominal	31 December 2017	Interest rate to nominal	31 December 2016
Short-term bonds issued by the National Bank of the Republic of Belarus in foreign currency	2.75%-6.30%	414,136	4.42%-8.41%	485,976
including,				
pledged under repurchase agreements		*11,158*		-
Long-term governmental bonds in foreign currency	5.0%-7.00%	116,603	6.9%-7.15%	114,109
Bonds issued by foreign issuers	4.77%-5.0%	45,520	4.77%-10.2%	80,891
Eurobonds of the Republic of Belarus	6.88%	17,390		-
Bonds issued by Belarusian banks, BYN	11.0%	13,030	18.0%	23,763
including,				
pledged under repurchase agreements		*13,030*		-
Bonds issued by local authorities, BYN	11.0%	1,831		-
Other unquoted equity instruments		611		578
Short-term bonds issued by the National Bank of the Republic of Belarus, BYN	-	-	11.92%-12.26%	34,861
Total investments available for sale		**609,121**		**740,178**

As at 31 December 2017 investments available for sale with the fair value of BYN 24,188 thousand were represented as collateral of funds received under repurchase transactions with banks (Note 24) and clients (Note 25) in the amount of BYN 12,518 thousand and 10,009 thousand, respectively, with the maturities of up to six months.

As at 31 December 2016 investments available for sale amounting to BYN 51,043 thousand were pledged as collateral for one of the loans due to banks (Note 24).

Eurobonds issued by Russian issuers with the fair value of BYN 80,891 thousand as at 31 December 2016 that were reclassified from the category of assets measured at fair value through profit or loss into the category of investments available for sale were sold in 2017 (Note 15). Income from changes of fair value of these financial assets, recognized in the statement of profits or losses for the period ended 31 December 2017 amounted to BYN 4,042 thousand.

20. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2017 and 31 December 2016 non-current assets held for sale included property (real estate, motor vehicle, equipment), that had been transferred to the Bank to repay debt on loans or obtained by the Bank through foreclosure of leasing items in the amounts of BYN 37,042 thousand and BYN 37,942 thousand, respectively.

As at 31 December 2017 and 31 December 2016 the management of the Bank intends to sell the property classified as non-current assets held for sale. The Bank plans to complete sale transactions within next 12 months.

21. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings and premises	Computer equipment, furniture and other equipment	Vehicles	Corporate collection of art works	Investments into property, equipment and intangible assets	Intangible assets	Total
Initial cost, restated for hyperinflation effect							
As at 1 January 2016	63,390	38,306	3,342	10,491	27,385	23,310	166,224
Additions	-	-	-	-	24,756	-	24,756
Transfers among categories	7,924	18,655	471	3,879	(40,358)	9,429	-
Disposals	(129)	(1,102)	(193)	-	-	(250)	(1,674)
As at 31 December 2016	71,185	55,859	3,620	14,370	11,783	32,489	189,306
Additions	-	-	-	-	24,588	-	24,588
Transfers among categories	11,400	4,026	419	67	(26,108)	10,196	-
Disposals	(1,049)	(1,016)	(57)	-	-	(107)	(2,229)
As at 31 December 2017	81,536	58,869	3,982	14,437	10,263	42,578	211,665
Accumulated depreciation, restated for hyperinflation effect							
As at 1 January 2016	4,149	16,417	1,297	-	-	8,567	30,430
Charge for the year	994	6,729	465	-	-	5,743	13,931
Eliminated on disposal	(117)	(791)	(193)	-	-	(215)	(1,316)
As at 31 December 2016	5,026	22,355	1,569	-	-	14,095	43,045
Charge for the year	1,150	6,862	504	-	-	7,976	16,492
Eliminated on disposal	(337)	(967)	(57)	-	-	(107)	(1,468)
As at 31 December 2017	5,839	28,250	2,016	-	-	21,964	58,069
Residual value							
31 December 2017	**75,697**	**30,619**	**1,966**	**14,437**	**10,263**	**20,614**	**153,596**
31 December 2016	**66,159**	**33,504**	**2,051**	**14,370**	**11,783**	**18,394**	**146,261**

22. INVESTMENT PROPERTY

As at 31 December 2016, investment property included two buildings with a total book value of BYN 454 thousand which were sold in 2017. Movements in the investment property are disclosed below:

1 January 2016	**458**
Depreciation for the period	(4)
31 December 2016	**454**
Disposals	(454)
31 December 2017	**-**

As at 31 December 2017 and 31 December 2016, operating rental income comprised investment property rental income of BYN 116 thousand and BYN 143 thousand, respectively.

23. OTHER ASSETS

Other assets comprise:

	31 December 2017	31 December 2016
Other financial assets:		
Commission income and penalties accrued	6,426	4,991
Settlements on Bank payment cards	5,189	3,354
Receivables reclaimable due to termination of joint venture agreement	1,107	1,107
Receivables for sale of non-current assets held for sale	235	876
Other debtors	5,076	2,625
Allowance for impairment losses	(2,171)	(2,128)
Total other financial assets	**15,862**	**10,825**
Other non-financial assets:		
Prepaid expenses and other non-financial assets	4,749	4,575
Taxes recoverable and prepaid taxes other than income tax	4,565	7,636
Prepayments for property, equipment and other assets	2,591	5,793
Inventories in stock	434	360
Total other assets	**28,201**	**29,189**

Movements in allowance for impairment losses on other assets for the years ended 31 December 2017 and 2016 are disclosed in Note 6.

24. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2017	31 December 2016
Loans from banks and non-banking financial institutions	456,058	444,918
Loans from international financial organizations	69,776	141,682
Correspondent and demand accounts of other banks	14,767	64,300
Loans received under repurchase agreements	12,518	-
Total due to banks and other financial institutions	**553,119**	**650,900**

As at 31 December 2017 loans received under repurchase agreements comprised short-terms loans received from two Belarusian banks with maturities of up to six months that were collaterized by debt securities with the fair value of BYN 13,030 thousand (Note 19).

As at 31 December 2017 due to banks and other financial institutions included loans from four banks totaling BYN 386,453 thousand that individually exceeded 10% of the Bank's equity, which represents a significant concentration (70% from the total amount).

As at 31 December 2016 due to banks and other financial institutions included loans from two banks totaling BYN 354,144 thousand, that individually exceeded 10% of the Bank's equity, which represents a significant concentration (54% from the total amount).

As at 31 December 2016 two of the loans due to banks are collateralized by the securities in total amount BYN 51,043 thousand, respectively (Notes 19).

25. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2017	31 December 2016
Term deposits	1,716,063	1,346,328
Current/settlement accounts and demand deposits	1,073,115	293,397
Funds received from clients under repurchase agreements	10,009	-
Total customer accounts	**2,799,187**	**1,639,725**

As at 31 December 2017 the Bank concluded a repurchase agreement with a client with a maturity of up to three months that was collateralized by foreign currency bonds with a fair value of BYN 11,158 thousand (Note 19).

Analysis by sectors:	31 December 2017	31 December 2016
Individuals	1,066,642	1,026,212
Gas transportation	1,003,668	93,986
Machinery construction	137,831	122,275
Trade	114,851	95,571
Financial and insurance services	88,713	88,812
Construction	62,617	55,438
Oil industry	54,992	12,444
Transport	43,277	24,879
Other industry	39,041	14,752
Investments in real estate	29,461	17,523
Light industry	24,257	3,750
Chemicals and petrochemicals	20,038	10,299
Food industry	18,013	4,810
Agriculture	12,379	9,190
Timber industry	7,444	4,618
Media business	5,664	4,036
Energetics	2,914	2,867
Metallurgy industry	2,825	6,204
Communications	2,119	8,019
Other	62,441	34,040
Total customer accounts	**2,799,187**	**1,639,725**

As at 31 December 2017 customer accounts totaling BYN 1,033,691 thousand (37% of the total) comprised the balances of accounts of three customers, respectively, which represented significant concentration.

As at 31 December 2016 customer accounts totaling BYN 184,082 thousand (11% of the total) comprised the balances of accounts of five customers, respectively, which represented significant concentration.

As at 31 December 2017 and 31 December 2016, customer accounts of BYN 23,184 thousand and BYN 14,238 thousand respectively, were held as collateral against letters of credit, guarantees and loans issued by the Bank

26. DEBT SECURITIES ISSUED

Debt securities issued are represented by bonds held by individuals and legal entities.

	31 December 2017	31 December 2016
Bonds issued by the Bank and held by individuals	56,946	54,802
Bonds issued by the Bank and held by legal entities	20,611	15,954
Total debt securities issued	**77,557**	**70,756**

27. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2017	31 December 2016
Other financial liabilities		
Settlements on other banking operations and accrued expenses	3,823	3,717
Provision for guarantees and other contingent liabilities	649	686
Settlements for property and equipment and other assets	454	880
Total other financial liabilities	**4,926**	**5,283**
Other non-financial liabilities:		
Compensation payable to employees	3,689	3,547
Payables to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	1,527	1,523
Taxes payable other than income tax	602	557
Prepayments received	-	3
Other non-financial liabilities	181	162
Total other liabilities	**10,925**	**11,075**

Movements in provision for guarantees and other contingent liabilities for the years ended 31 December 2017 and 2016 are disclosed in Note 6.

28. SUBORDINATED LOANS

	Currency	Maturity	Interest rate	31 December 2017	31 December 2016
The subordinated loan from “Gazprombank” (Joint-stock Company)	Russian rubles	January 2022	5.95%	181,665	174,084
The subordinated loan from PJSC “GAZPROM”	Russian rubles	January 2022	8.25%	169,934	160,817
Total subordinated loans				**351,599**	**334,901**

Subordinated loans were attracted in January 2015.

Payments on this debt are subordinated to repayments of the Bank's liabilities to all other creditors.

29. RECONCILIATION OF CHANGES IN LIABILITIES AND CASH FLOWS FROM FINANCING ACTIVITIES

	Loans received from international financial institutions (Note 24)	Debt securities issued	Subordinated loans
Balance as at 31 December 2016	**141,682**	**70,756**	**334,901**
Cash flow			
Inflows	-	157,041	-
Outflows	(80,438)	(155,246)	-
Total changes due to cash flows from financing activities	**(80,438)**	**1,795**	**-**
Non-monetary changes			
Foreign currency gains	9,116	2,433	18,852
Other changes			
Interest paid	(6,873)	(3,158)	(28,333)
Interest accrued	6,289	5,731	26,179
Balance as at 31 December 2017	**69,776**	**77,557**	**351,599**

30. SHARE CAPITAL

As at 31 December 2016, authorized, issued and fully paid capital of the Bank consisted of 1,893,177,880,000 ordinary shares and 393,220,000 preference shares with par value of BYN 0,0001 each (at historical cost).

During the year ended 31 December 2017 by the Resolution of the General Meeting of Shareholders the Bank consolidated shares at exchange ratio 0.01. As at 31 December 2017, authorized, issued and fully paid capital of the Bank consisted of 18,931,778,800 ordinary shares and 3,932,200 preference shares with par value of BYN 0.01 each.

Hyperinflation effect accumulated before 31 December 2014 amounts to BYN 187,783 thousands.

In the year ended 31 December 2016, the General Meeting of Shareholders of the Bank adopted a resolution on increase of the share capital by issuing 641,169,080,351 shares of ordinary stock and 133,175,137 shares of preferred stock with par value of BYN 0.0001 each. The share capital was increased out of the Bank’s retained earnings.

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meetings, but which may not be less than 1% of par value. The decision on payment of dividends is made on the General Meeting of Shareholders upon the recommendation of the Board of Directors. The Bank has no obligation to redeem preference shares, except for the cases provided in the legislation of the Republic of Belarus, as well as cases of voluntary assumption of such obligations.

During the period ended 31 December 2017, the Bank declared and paid dividends for 2016 on ordinary and preference shares in the amount of BYN 54,278 thousands. The amount of declared and paid dividends per one ordinary and one preference share is BYN 0.002866 thousand.

During the period ended 31 December 2016, the Bank declared and paid dividends for 2015 on ordinary and preference shares in the amount of BYN 30,683 thousand. The amount of declared and paid dividends per one ordinary and one preference share is BYN 0.001620 thousand.

31. EARNINGS PER SHARE

The table below shows indicators of earnings and weighted average number of ordinary shares used for calculating basic earnings per share.

	Year ended 31 December 2017	**Year ended 31 December 2016**
Earnings used for calculating earnings per share	84,744	95,651
Weighted average number of ordinary shares used for calculating earnings per share	18,935,711,000	18,935,710,974
Earnings per share (BYN)	0.0045	0.0051

32. DEFERRED FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank becomes a party to financial instruments with off-balance sheet risks for the purpose of meeting the needs of its customers. These instruments, being susceptible to various degrees of credit risk, are not recognized in the balance sheet.

The Bank's maximum exposure to credit risk on contingent liabilities and loan commitments in the case of other party's failure to execute their obligations and impairment of all counterclaims, collateral or security, is represented by the contractual amounts of those instruments.

As at 31 December 2017 and 31 December 2016, the nominal or contract value of contingent liabilities and loan commitments were as follows:

	31 December 2017	**31 December 2016**
Contingent liabilities and loan commitments:		
Commitments on loans and unused credit lines, cancellable	487,528	459,808
Guarantees issued and similar commitments before allowances for losses	94,054	70,239
Letters of credit, not covered by cash before allowances for losses	29,586	68,284
Letters of credit, covered by cash	10,853	967
Letters of credit, not covered by cash, the applicant under which is Bank	3,438	-
Total contingent liabilities and loan commitments	**625,459**	**599,298**

Allowance for guarantees and other contingent liabilities are included in other liabilities (Note 27).

Legal proceedings – In the normal course of business, customers and counterparties can claim against the Bank. Management is of the opinion that no material losses will be incurred and accordingly no provision has been made in these financial statements.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2017 and 31 December 2016, the Bank had no liabilities for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Legislation - Certain provisions of Belarusian business and tax legislation in particular are subject to varying interpretations and may be applied inconsistently. In addition, interpretations made by Management may be different from official interpretations and compliance with law may be challenged by the authorities. As a result, the Bank may be subject to additional tax payments and fines and other preventive actions. Management of the Bank believes that the Bank made all required tax and other payments and no additional provisions are needed in these financial information. A tax period remains open for review by the tax authorities in subsequent periods.

Operating environment – In 2017 the global economy growth accelerated. According to International Monetary Fund, the global GDP growth was 3.7% against 3.2% in 2016 (the data is not audited). More than a half of growth rate relates to the developing Asian countries. The engine of this region is China, GDP of which grew by 6.9% at the year end (according to the National Bureau of Statistics of China, the date is not audited).

According to the U.S. Department of Commerce Bureau of Economic Analysis, at the year end the growth of the USA's GDP was 2.6% (the data is not audited). Stable economic growth of the country was explained by increased economic activity of entities, growth of domestic consumption and, therefore, growth of prices.

At the end of 2017 the Eurozone's economy growth was 2.5% p.a. against 1.9% at the end of 2016 (according to Eurostat, the data is not audited). Thus, economic growth rates in Eurozone reached their maximum indicator for the last 10 years.

The Russian economy has experienced a process of stabilization due to the increase in energy prices, a decrease in the level of inflation and depreciation of the ruble volatility. However, the overall macroeconomic situation in Russia remains negative, which is caused by uncertainty in the commodities market, internal imbalances and sectoral sanctions related to the conflict in Ukraine.

Sanctions against the residents of the Russian Federation often affect the interests of Belarusian entrepreneurs because of the close integration of the economies. However, according to the current definition of sectoral sanctions from the EU and the USA implemented against the main shareholders of PJSC "GAZPROM" and Gazprombank (Joint-stock Company) have no impact on Belgazprombank. The fact that the Bank is not a subject to sanctions is mentioned in earlier published releases of Fitch Ratings agency.

Taking into account specificity of the national market, unfavorable economic conditions in the Russian Federation may have negative effect on residents of the Republic of Belarus. The Bank in its business activities conducts a number of transactions with residents of the Russian Federation, as well as residents of the Republic of Belarus, that experience a negative impact on their financial and economic activities from the residents of the Russian Federation. However, the Bank is following a prudent policy, maintaining sufficient financial stability cushion to absorb external shocks.

According to the National Statistical Committee of the Republic of Belarus, at the end of 2017 Belarusian economy growth was being recovered against the inflation slow-down to 4.6%, decrease in interest rates and continuation of dollarization processes. According to the National Statistical Committee of the Republic of Belarus, by 2016 GDP growth amounted to 2.4%, mainly due to increase of industrial production by 6.1%. There is a gradual increase in profitability and decrease in the number of loss-making entities. Inflation slow-down allowed the National Bank to maintain its interest rate reduction policy aimed at activation of lending of entities and loan debt burden decrease. Preservation of positive real interest rates of deposits in national currency and stabilization of the foreign exchange market increase attractiveness of savings in the national currency, helping to reduce the level of dollarization of the economy. Implementation of measures by the National Bank aimed at stimulating attraction of national currency funds of individuals and legal entities and foreign currency system liberalization contribute to maintenance of stable national currency rate. According to statistics provided by the National Bank, At the end of 2017 the national currency weakened in relation to USD by 0.7% and to RUB – by 5.7%. More significant weakening of national currency in relation to EUR (by 15.2% in 2017) was associated with EUR strengthening in the global currency market pending cancellation of the policy of quantitative easing.

Nevertheless, the banking system generates a certain number of risks accumulated during the period of economic decline. The main threats to the financial stability are associated with the implementation of the accumulated credit risk in the deteriorating financial situation of the real sector and the decline in business activity, as well as the high level of dollarization.

33. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The ultimate controlling party of the Bank is the Government of the Russian Federation.

For financial statements disclosure purposes the Bank groups its related parties into the following categories:

shareholders;
companies under common control;
key management personnel.

Details of transactions between the Bank and related parties are disclosed below:

	Year ended 31 December 2017		**Year ended 31 December 2016**	
	Transactions with related parties	**Total category as per financial information caption**	**Transactions with related parties**	**Total category as per financial information caption**
Interest income	**4,852**	**299,059**	**1,656**	**349,400**
– shareholders	45		107	
– entities under common control	4,681		1,301	
– key management personnel	126		248	
Interest expenses	**(59,340)**	**(134,949)**	**(74,974)**	**(171,128)**
– shareholders	(38,372)		(37,592)	
– entities under common control	(20,401)		(36,829)	
– key management personnel	(567)		(553)	
Allowance for impairment of interest-bearing assets	**5**	**(27,479)**	**(6)**	**(42,698)**
- key management personnel	5		(6)	
Net gain from financial instruments at fair value through profit or loss	**(10,904)**	**42,859**	**22,181**	**44,823**
– shareholders	(10,714)		21,005	
– entities under common control	(125)		1,176	
– key management personnel	(65)		-	
Fee and commission income	**2,076**	**47,895**	**1,311**	**41,071**
– shareholders	-		1	
– entities under common control	2,071		1,306	
– key management personnel	5		4	
Fee and commission expense	**(321)**	**(9,121)**	**(107)**	**(8,025)**
– shareholders	(179)		(56)	
– entities under common control	(142)		(51)	
Other income	**4,260**	**9,420**	**147**	**5,797**
– entities under common control	4,260		147	
Operating expenses	**(14,449)**	**(139,082)**	**(13,895)**	**(120,039)**
– entities under common control	(967)		(1,257)	
– key management personnel	(13,482)		(12,638)	

Remuneration of the key management personnel for the years ended 31 December 2017 and 31 December 2016 was represented by short-term remunerations.

The balance sheet as at 31 December 2017 and 31 December 2016 included the following amounts which arose due to transactions with related parties:

	31 December 2017		31 December 2016	
	Related party balances	**Total category as per financial information caption**	**Related party balances**	**Total category as per financial information caption**
Cash and cash equivalents	**225,663**	**635,327**	**85,707**	**274,951**
– shareholders	16,727		71,110	
– entities under common control	208,936		14,597	
Securities at fair value through profit or loss	**18,864**	**70,748**	**-**	**-**
- entities under common control	18,864		-	-
Derivative financial instruments, asset	**66**	**146**	**665**	**1,628**
– shareholders	64		665	
– key management personnel	2		-	
Loans to customers before allowance for impairment	**593**	**2,796,903**	**845**	**2,051,008**
– entities under common control	1		12	
– key management personnel	592		833	
Allowance for impairment	**(18)**	**(115,247)**	**(23)**	**(119,033)**
– key management personnel	(18)		(23)	
Investments available for sale	**45,520**	**609,121**	**59,536**	**740,178**
– entities under common control	45,520		59,536	
Other assets	**91**	**28,201**	**128**	**29,189**
– entities under common control	91		108	
– key management personnel	-		20	
Derivative financial instruments, liabilities	**131**	**962**	**-**	**623**
– shareholders	73		-	
– key management personnel	58			
Due to banks and other financial institutions	**261,334**	**553,119**	**358,006**	**650,900**
– shareholders	199,933		245,995	
– entities under common control	61,401		112,011	
Current/operating accounts and demand deposits	**664,161**	**1,073,115**	**36,967**	**293,397**
– entities under common control	663,656		36,520	
– key management personnel	505		447	
Term deposits	**451,338**	**1,716,063**	**196,463**	**1,346,328**
– entities under common control	425,106		184,058	
– key management personnel	26,232		12,405	
Other liabilities	**536**	**10,925**	**751**	**11,075**
– shareholders	189		234	
– entities under common control	-		193	
– key management personnel	347		324	
Subordinated loans	**351,599**	**351,599**	**334,901**	**334,901**
– shareholders	351,599		334,901	
Contingent liabilities	**1,894**	**625,459**	**2,647**	**599,298**
– entities under common control	1,441		2,121	
– key management personnel	453		526	

Transactions with related parties were performed under conditions similar to those with unrelated parties.

Additional information about terms and conditions of transactions with related parties can be found in the following notes: transactions with securities carried at fair value through profit or loss – Note 15; transactions with available for sale investments – Note 19, transactions with subordinated loans – Note 28.

34. ANALYSIS BY SEGMENTS

As at 31 December 2017 the Bank allocated the following reporting segments:

- Segment of work with legal parties and individual enterpreneurs (hereinafter – IE) – includes issue of loans, attraction of deposits and other transactions with legal entiteis and individual enterpreneurs, as well as transactions, economic nature of which is related to provision of services to legal parties and IE;

- Segment of work with individuals – includes issue of loans, attraction of deposits and other transactions with individuals, as well as transactions, economic nature of which is related to provision of services to individuals.

- Segment of work with financial institutions (banks and non-banking financial institutions) – includes transactions on inter-bank and financial markets related to raising and depositing of cash, transactions of buying and selling foreign currencies, securities and other financial instruments.

To recognize settlements, which cannot be classified as any of the allocated operating segments, an additional segment "Capital Center" is introduced. This segment is auxiliary and is used only for recognition of interim and additional calculations.

Accounting principles per operating segments are in line with the main accounting principles described in these financial statements.

Financial results of operating segments are formed by recognizing:

- Direct income and expenses of an operational segment;
- reallocated/allocated (indirect) income and expenses of a segment;
- transfer income and expenses of a segment.

Information by operating segments is represented below:

	Segment of work with legal parties and IE	Segment of work with individuals	Segment of work with financial institutions	Capital Center	31 December 2017/ the year ended 31 December 2017
Interest income	186,093	84,553	57,485	5,958	334,089
incl. intersegment interest income	-	(29,072)	-	(5,958)	(35,030)
Total interest income	186,093	55,481	57,485	-	299,059
Interest expenses	(74,960)	(36,376)	(58,643)	-	(169,979)
incl. intersegment interest expenses	22,482	-	12,627	-	35,109
Total interest expenses	(52,478)	(36,376)	(46,016)	-	(134,870)
Losses from interest bearing asset impairment	(9,771)	(16,961)	-	(747)	(27,479)
Reversal of previously written off assets	9,841	4,067	-	-	13,908
Net profit from foreign currency transactions	26,764	4,730	53,375	1,016	85,885
Net (loss)/ gain from transactions with financial instruments recognized at fair value through profit or loss	(201)	618	(43,276)	-	(42,859)
Income on services and commissions	26,358	21,453	84	-	47,895
Expenses on services and commissions	(461)	(7,168)	(1,476)	(16)	(9,121)
Net (loss)/ gain on transactions with precious metals	(1,077)	49		-	(1,028)
Creation of provision for other transactions	(6)	-	-	-	(6)
Other income	946	1,504	4,834	2,136	9,420
Total operating income	**163,526**	**56,469**	**12,383**	**8,347**	**240,725**
Operating expenses	(46,824)	(46,092)	(4,231)	(41,935)	(139,082)
Profit before tax	**116,702**	**10,377**	**8,152**	**(33,588)**	**101,643**
Income tax expense	**-**	**-**	**-**	(16,899)	(16,899)
Net profit	**116,702**	**10,377**	**8,152**	**(50,487)**	**84,744**
Assets of segments	**2,324,150**	**436,542**	**1,329,233**	**207,843**	**4,297,768**
Liabilities of segments	**1,744,596**	**1,118,563**	**572,611**	**371,325**	**3,807,095**

Most part of operating income from transactions with external clients is represented by transactions with residents of the Republic of Belarus. There are no counteragents income from which would amount to more than 10% of total operational income. Most assets are located in the Republic of Belarus.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

In accordance with IFRS, the fair value is determined based on the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The carrying value of financial assets and liabilities in the following table approximates their fair value:

	31 December 2017		31 December 2016	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	635,327	635,327	274,951	274,951
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	76,942	76,942	9,108	9,108
Loans to customers	2,681,656	2,681,656	1,931,975	1,931,975
Other financial assets	15,862	15,862	10,825	10,825
Due to banks and other financial institutions	553,119	553,119	650,900	650,900
Customer accounts	2,799,187	2,799,187	1,639,725	1,639,725
Debt securities issued	77,557	77,557	70,756	70,302
Other financial liabilities	4,926	4,926	5,283	5,283
Subordinated loans	351,599	349,552	334,901	317,801

For financial assets and liabilities carried at amortized cost, with short maturities (less than 3 months) it is assumed that the carrying amounts approximates fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

Due from the National Bank of the Republic of Belarus, banks and other financial institutions

The fair value of term deposits in banks, according to management, is not significantly different from the carrying value as all deposits are placed with a floating interest rate or a fixed interest rate, which corresponds to the market.

Loans to customers

Loans to customers have both floating and fixed interest rates. As there is no active secondary market for such loans and advances in the Republic of Belarus, reliable market value of this portfolio is not available.

The fair value of loans with floating rates, according to management, approximates their carrying value.

For loans with fixed rates, there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of loans with a fixed rate does not materially differ from their carrying value.

Due to banks and other financial institutions

Loans from banks and other financial institutions have both floating and fixed interest rates.

The fair value of borrowed funds at floating interest rates, according to management, approximates their carrying value.

For the majority of loans with fixed-rate, maturities do not exceed one year. Due to these factors, the fair value of loans with fixed rates does not materially differ from their carrying value.

Customer accounts

Customer deposits have both floating and fixed interest rates.

The fair value of deposits with floating rates, according to management, approximates their carrying value.

For deposits with fixed rates there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of deposits with fixed rates does not materially differ from their carrying value.

Debt securities issued

Debt securities are issued by the Bank at fixed rates. On the whole, the debt financial instruments rates are in line with the market rates. The Management believes that the fair value of such instruments does not significantly differ from their carrying values.

Subordinated loans

The fair value of subordinated debt, loans which are carried at amortized cost is calculated as the present value of cash flows using the relevant rate for these instruments at the reporting date

The fair value of financial assets and financial liabilities of the Bank recognized at fair value on an ongoing basis

Some financial assets and financial liabilities of the Bank are recorded at fair value at the end of each reporting period. The table below provides information on how the fair value of these financial assets and financial liabilities is determined (including valuation techniques used, and the inputs).

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2017	**31 December 2016**				
Derivative financial instruments (assets) (Note 16)	96	1,620	Level 2	Discounted cash flows. Future cash flows are estimated using interest rates parity model. The rates for short-term interbank placements nominated in the relevant currency and with relevant maturity periods are applied as rates for the model.	Not applicable	Not applicable
Precious metals derivatives (assets) (Note 16)	50	8	Level 2	The net result between the fair value of the claim for cash / precious metals and obligations to supply / payment for precious metals / cash. The fair value of claims / liabilities for precious metals is the corresponding price of the precious metal, set by the National Bank of the Republic of Belarus. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities for the cash flows/supply of funds	Not applicable	Not applicable
Securities at fair value through profit or loss (Note 15)	70,748	-	Level 2	Buyer's quotes in an inactive market	Not applicable	Not applicable
The securities reclassified to investments available for sale (Note 19)	-	80,891	Level 2	Buyer's quotes in an inactive market	Not applicable	Not applicable
Other investments available-for-sale, net of equity investments (Note 19)	608,510	658,709	Level 2	Discounted cash flow. Rates are defined as the rates for financial instruments with similar level of risk, nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable
Derivative financial instruments (liabilities) (Note 16)	94	88	Level 2	Discounted cash flow. Future cash flows are estimated using interest rates parity model. Rates are defined as the sovereign risk rates for financial instruments nominated in the relevant currency and with relevant maturity periods	Not applicable	Not applicable

Financial assets / financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2017	31 December 2016				
Precious metals derivatives (liabilities) (Note 16)	864	535	Level 2	The net result of the fair value of the claim for the cash funds / precious metals and liability for supply / payment of precious metals / funds. The fair value of claims / liabilities for precious metals is the corresponding price of the precious metal, set by the National Bank of the Republic of Belarus. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities to the cash flows/ supply of funds.	Not applicable	Not applicable
Derivatives with securities (liabilities) (Note 16)	4	-	Level 2	The net result between the fair value of the claim for the cash/securities and obligations for supply/payment of securities/cash. Discounted cash flows are taken as the fair value of claims/ liabilities for the securities. Rates for financial instruments with a similar level of risk, denominated in the same currency and with relevant period of maturity are accepted as the rates. The value of cash flow, calculated on the basis of the terms and conditions of the contract, is taken as the fair value of the claims/liabilities to the cash flows/ supply of funds.	Not applicable	Not applicable

36. CAPITAL MANAGEMENT

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel II):

	31 December 2017	31 December 2016
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	377,140	377,140
Retained earnings	104,676	74,210
Total Tier 1 capital	**481,816**	**451,350**
Subordinated loan	240,908	225,675
Investments available for sale fair value revaluation reserve	8,857	6,485
Total regulatory capital	**731,581**	**683,510**
Risk-weighted assets	4,412,823	3,488,072
Capital ratios:		
Tier 1 capital	11%	13%
Total equity	17%	20%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain ratios of Tier 1 capital (4%) and total capital (8%) to total risk weighted assets.

The Bank manages its capital to ensure compliance with legislation requirements and ability to continue as a going concern while maximizing the return to shareholders through the optimization of the debt to equity ratio of the Bank.

The Bank's management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The Bank`s management estimates the amount of capital required to achieve strategic objectives and the planned increase of assets, as well as optimal balance between profitability and capital adequacy, considering requirements of the shareholders, partners of the Bank and regulatory institutions. The Bank performs analysis of risk factors, that influence the Bank's capital, and optimizes these risks by means of a balanced funding policy.

The National Bank of the Republic of Belarus sets and controls performance of the following requirements to the regulatory capital of the Bank calculated based on the financial information prepared in accordance with the legislation of the Republic of Belarus:

Ratio of Tier 1 fixed capital to risk weighted assets - 4.5% (based on conservation buffer 5.75%);

Ratio of Tier 1 capital to risk weighted assets - 6% (based on conservation buffer 7.25%);

Ratio of regulatory capital of the Bank to risk weighted assets - 10% (based on conservation buffer 11.25%);

As at 31 December 2017 and 31 December 2016 the Bank ensured compliance with all external regulatory requirements in relation to capital.

37. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's business. The Bank manages risks in the course of the constant process of identification, evaluation and observation, by establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as stock prices. The Bank is also subject to operational risks, risk of loss of business reputation.

Risk management structure

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors ensures general organization of the risk management system, exclusion of the conflicts of interest and conditions to its occurrence in the risk management process. The Board of Directors approves the risk management system development strategy and the Risk Management Policies of the Bank, determines the maximum risk exposure in the form of risk appetite which is defined as an acceptable (safe) risk level for ensuring the financial reliability and long-term operation of the Bank on the basis of the strategy, nature, scope and complexity of the types of activity and the financial position. The Risk Committee of the Board of Directors bears responsibility for creating an effective risk management system of the Bank, ensuring the appropriate level of financial reliability and information security, ensuring compliance of the Bank's risk profile with the strategic characteristics of its activity, exercising control over the compliance with the established restrictions (limits) according to the Bank’s risk level (including the risk appetite). The Management Board organizes the Bank's risk management system and ensures that the Bank performs the objectives and goals set forth by the Board of Directors in the relevant sphere. The Management Board approves regulations on the management of certain risk types that are developed to implement the Strategy and in compliance with the Risk Management Policies sets forth the procedure and the frequency with which risk reports are provided to the governing bodies, collective bodies of the Bank. The Management Board bears responsibility for the operating effectiveness of the risk management system, for the maintenance of adequate risk profile of the Bank. Committees implement the certain risk type management policy, set limits and restrictions for certain types of banking operations, financial instruments or operators, exercise control over prescribed risk levels and carry out activities aimed at minimizing negative risks impact on the Bank’s activities. Within the authority delegated by the Management Board, Credit Committees and Assets and Liabilities Management Committee make decisions on operations exposed to risks.

Risk Management Department coordinates the risk management process, develops techniques to assess the level of credit, market, operational, liquidity and reputational risks, regularly assesses and monitors the specified risks and aggregated risk of the Bank, performs risk stress testing, carries out independent expert review of the credit transactions within the prescribed authority and prepares risk reports for the management of the Bank, shareholders and stakeholders of the Bank. Risk Management Department is independent from subordination to the risk-generating units (officers) of the Bank, which allows to ensure the provision of complete and accurate information on risk profile of the Bank to the management of the Bank.

Within the internal control system Internal Audit Department assesses whether methodology and procedures on risk management are fully and effectively implemented, assesses the management effectiveness of certain types of risks and the risk management system of the Bank as a whole.

Departments of the Bank (individual officers) are responsible for risk identification for the lines of business, development and implementation of measures for minimization and operational control over risks related to their operation within the given authority.

As a part of risk management measures the Bank provides employees with powers of attorney which define authority levels that do not require approval of management bodies of the Bank.

Systems of risk evaluation and communication

The Bank’s risks are evaluated based on probabilistic quantitative methods establishing in monetary equivalent the maximum threshold of possible loss which will not be exceeded with a certain level of probability. The Bank also simulates the “stress scenarios” which will take place in case unlikely events occur.

Risk monitoring and control are mainly based on comparison of calculated indicators with the limits set by the Bank. The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum aggregate risk, which should not exceed the equity of the Bank.
The management bodies of the Bank make decisions aimed at optimization of risk levels and also set limits on maximum risk for particular activities. They also set maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits for divisions of the Bank on certain active and passive operations, interest rate level associated with them, limits on active operations with financial institutions, limits on operations with securities, industry limits of credit risk. Credit Committees approve aggregate limits and sub-limits on certain types of active transactions with corporate clients and the terms for financing.

The Management Board distributes and approves maximum risk for various banking activities in accordance with strategic priorities and analysis of the existing trends in the Bank and their possible future changes submitted by Risk Management Department.

Regional offices must adhere to the principles of risk management accepted by the Bank. Control over compliance with the set limits is performed on an on-going basis. Such control is performed by the employees who execute banking transactions in an ordinary course of business, by the Internal Control and Audit Department in the course of audits, by Risk Management Department in the course of risk evaluation and monitoring, by the Reporting Department and during preparation of reports on prudential financial statements. External control is carried out by the Revision Commission of the Bank.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. The information together with relevant commentary is submitted to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank, committees of the Bank responsible for management of certain risks control, and to the managers of departments of the Bank. The reports contain information on the Bank’s risk profile, risk appetite, the levels of aggregate risk and certain risk types, major factors influencing these levels and changes in risk level. The Management Board receives a detailed quarterly report on risks with the information necessary for risks evaluation and decision-making.

The system of risk reporting implemented in the Bank enables access of all departments to the accurate information which is required for the management decisions.

Excessive risk concentrations

Risk concentration occurs in case a number of counterparties perform similar activities or activities taking place in one geographical region, or parties have similar economic characteristics. As a result of changes in economic, political and other conditions risk concentration has similar impact on the ability of these parties to meet their contractual obligations. Risk concentration reflects relative sensitivity of the Bank’s performance to the changes in conditions which have impact on particular industry or geographical region.

In order to avoid excessive risk concentration the Bank’s policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolios, including by the types of active operations, industries, the sources of their resources, currency types.

Credit risk

Credit risk is the risk that the Bank will incur losses in case its clients or counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring compliance with the credit limits set.

Credit risk is managed in three directions: credit risk management over lending to corporate clients, credit risk management of the operations with retail customers, credit risk management over operations with financial institutions.

Levels of credit risk assumed are managed by the following procedures:

- Segregation of duties between authorized management bodies in decision-making process;
- Limits setting for operations with the purpose of credit risk minimization;
- Regular analysis of debtors' financial position and their ability to meet credit obligations;
- Requirement of collateral for credit operations in order to limit risk exposure;
- Constant monitoring of the level and status of the risks taken and preparation of appropriate risk reports to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank and other stakeholders;
- Evaluating and ensuring capital adequacy necessary for coverage of risks taken by the Bank in the course of business;
- Ongoing internal control over adherence to the policies regulating operations, risks assessment and management carried out by the Internal Control and Audit Department.

Off-balance sheet credit commitments represent unused portions of credit in the form of credit lines, guarantees and unsecured letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. In relation to credit risk associated with off-balance sheet financial instruments the Bank potentially carries loss which equals to total amount of unused credit lines. However, the probable amount of loss is less than total amount of unused credit lines since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to loans, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

The Bank implemented credit risk escalation procedure for the purpose of early identification and control over credit risks.

The Bank assesses a credit risk on the basis of qualitative and quantitative characteristics of the risk. The qualitative assessment of credit risk by separate transactions is carried out while analyzing the financial statements and non-financial information about the customer (goodwill, competitive position, transparency of the ownership structure, etc.) in interconnection with the required transaction parameters both when credit experts prepare economic report on the possibility to carry out transactions and when the employees of Risk Management Department carry out independent expert review of the credit transaction risk assessment. The assessment of the quality of credit portfolio is performed on the basis of set credit risk indicators. The Bank carries out quarterly credit risk quantitative evaluation, which is based on the assessment of the probability of the events leading to risk and assessment of potential losses. The results of evaluation are submitted to the credit committees and are the basis for amendments of the credit policy.

Maximum credit risk exposure

For financial assets recognized on the balance sheet the maximum exposure to credit risk equals to a carrying value of those assets, net of allowance for impairment losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, less provisions made for losses on these instruments.

The maximum amount of credit risk of the Bank may vary depending on individual risks of different assets and general market risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities.

	31 December 2017 Maximum credit risk exposure	31 December 2016 Maximum credit risk exposure
Cash and cash equivalents (less cash on hand)	572,007	200,657
Securities at fair value through profit or loss	70,748	-
Derivative financial instruments	146	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	76,942	9,108
Loans to customers	2,681,656	1,931,975
Investments available for sale (less unquoted equity investments)	608,510	739,600
Other financial assets	15,862	10,825
Guarantees issued and similar contingencies	71,154	52,317
Letters of credit not covered by cash	29,451	67,835
Total	**4,126,476**	**3,013,945**

Financial assets are graded according to the current credit rating they have been issued by an internationally recognized agency. The highest possible rating is AAA.

The sovereign credit rating in foreign currency of the Republic of Belarus according to the international rating agency Standard & Poor's in 2017 increased to level B (earlier, since 2011 – "B-"), the outlook is stable.

The following table presents Bank's financial assets by counterparties' credit ratings given by internationally recognized agencies Standard & Poor's and Fitch (for government bodies – by country sovereign credit ratings):

	AA	A	BBB	BB	Below BB-	Not rated	31 December 2017 Total
Cash and cash equivalents (less cash on hand)	1,577	1,399	57,310	212,976	270,817	27,928	572,007
Securities at fair value through profit or loss	-	-	18,864	-	51,884	-	70,748
Derivative financial instruments, assets	-	-	-	96	-	50	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	92	26,882	49,968	76,942
Loans to customers	-	-	-	-	-	2,681,656	2,681,656
Investments available for sale (less unquoted equity investments)	-	-	45,520	-	561,159	1,831	608,510
Other financial assets	-	115	176	-	2,473	13,098	15,862
Total financial assets	**1,577**	**1,514**	**121,870**	**213,164**	**913,215**	**2,774,531**	**4,025,871**

	A	BBB	BB	Below BB-	Not rated	31 December 2016 Total
Cash and cash equivalents (less cash)	10,103	6,200	110,233	70,381	3,740	200,657
Derivative financial instruments, assets	-	-	1,564	54	10	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	7,394	1,714	9,108
Loans to customers	-	-	-	-	1,931,975	1,931,975
Investments available for sale (less unquoted equity investments)	-	59,537	21,354	658,709	-	739,600
Other financial assets	214	-	-	1,720	8,891	10,825
Total financial assets	**10,317**	**65,737**	**133,151**	**738,258**	**1,946,330**	**2,893,793**

The banking industry is generally exposed to credit risk through its financial instruments and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Belarus. The exposure to credit risk is monitored on a regular basis to ensure the compliance of credit limits and creditworthiness according to the Bank's risk management policy.

The carrying value of impaired loans to customers is disclosed in Note 18. As at 31 December 2017 and 2016 other financial assets comprised impaired assets in the amount of BYN 791 thousand and BYN 886 thousand respectively. As at 31 December 2017 and 2016 the Bank had no past due but not impaired financial assets.

Collateral

A major portion of loans is either collateralized or secured with guarantees from institutions or individuals. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are regularly updated regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 18.

The fair value of collateral is measured at the date the loan is issued. Monitoring of the market value of collateral is performed on a regular basis, its results are reported to the management of the Bank. If necessary, borrowers are requested to provide additional collateral in accordance with the underlying agreement.

Offsetting of financial assets and liabilities

Information disclosed in the tables below includes information on financial assets and liabilities that are subject to legally effective master netting agreements or similar agreements applicable to similar financial instruments, regardless of whether they are off set in the Balance Sheet or not.

Similar financial instruments include repurchase transactions, reverse repurchase transactions, agreements on securities borrowing and lending. Information on such financial instruments as loans and deposits is not disclosed in the tables below, except for the cases when they are set off in the Balance Sheet.

The tables below contains financial assets and liabilities that are subject to legally effective master netting agreements or similar agreements as at 31 December 2016 and 2017:

Types of financial assets/ financial liabilities	31 December 2017			31 December 2016		
	Full amounts of recognized financial assets/ financial liabilities	Amounts that were not off set in the Balance Sheet	Net amount	Full amounts of recognized financial assets/ financial liabilities	Amounts that were not off set in the Balance Sheet	Net amount
Reverse repurchase agreements, agreements on securities borrowing or similar agreements	37,043	(37,149)	(106)	-	-	-
Total financial assets	**37,043**	**(37,149)**	**(106)**	**-**	**-**	**-**
Repurchase agreements, agreements on securities lending or similar agreements	(22,527)	24,188	1,661	(51,043)	51,043	-
Total financial liabilities	**(22,527)**	**24,188**	**1,661**	**(51,043)**	**51,043**	**-**

Geographical concentration

The Bank regularly controls the risk associated with changes in legislation, economic development and financial sphere of countries, where the Bank's counterparties reside, and assesses its impact on the activities of the Bank (Note 32). This approach is aimed at minimization of possible losses from investment climate changes in the respective countries. The Assets and Liabilities Management Committee manages country risks of the Bank.

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

	Belarus	CIS countries	OECD countries	Other countries	31 December 2017 Total
FINANCIAL ASSETS					
Cash and cash equivalents	338,907	212,967	82,449	1,004	**635,327**
Securities at fair value through profit or loss	51,884	18,864	-	-	**70,748**
Derivative financial instruments, assets	50	96	-	-	**146**
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	75,194	1	1,747	-	**76,942**
Loans to customers	2,681,583	58	9	6	2,681,656
Investments available for sale	563,581	45,520	20	-	**609,121**
Other assets	15,542	29	291	-	**15,862**
TOTAL FINANCIAL ASSETS	**3,726,741**	**277,535**	**84,516**	**1,010**	**4,089,802**
FINANCIAL LIABILITIES					
Derivative financial instruments	787	175	-	-	**962**
Due to banks and other financial institutions	171,392	263,196	118,531	-	**553,119**
Customer accounts	2,640,491	50,182	71,136	37,378	**2,799,187**
Debt securities issued	77,557	-	-	-	**77,557**
Other liabilities	4,523	231	171	1	**4,926**
Subordinated loan	-	351,599	-	-	**351,599**
TOTAL FINANCIAL LIABILITIES	**2,894,750**	**665,383**	**189,838**	**37,379**	**3,787,350**
OPEN POSITION	**831,991**	**(387,848)**	**(105,322)**	**(36,369)**	

	Belarus	CIS countries	OECD countries	Other countries	31 December 2016 Total
FINANCIAL ASSETS					
Cash and cash equivalents	146,986	108,529	18,867	569	274,951
Derivative financial instruments, assets	10	1,564	54	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	7,394	-	1,714	-	9,108
Loans to customers	1,931,910	47	10	8	1,931,975
Investments available for sale	659,267	80,891	20	-	740,178
Other assets	10,584	27	214	-	10,825
TOTAL FINANCIAL ASSETS	**2,756,151**	**191,058**	**20,879**	**577**	**2,968,665**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	594	29	-	-	623
Due to banks and other financial institutions	78,323	345,625	226,952	-	650,900
Customer accounts	1,498,013	34,203	81,383	26,126	1,639,725
Debt securities issued	70,756	-	-	-	70,756
Other liabilities	4,485	524	256	18	5,283
Subordinated loan	-	334,901	-	-	334,901
TOTAL FINANCIAL LIABILITIES	**1,652,171**	**715,282**	**308,591**	**26,144**	**2,702,188**
OPEN POSITION	**1,103,980**	**(524,224)**	**(287,712)**	**(25,567)**	

Liquidity Risk

Liquidity risk is the risk that the Bank will have problems in performing its financial obligations involving settlements in cash or other financial asset.

A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization process and appointed officers responsible for certain stages of risk management.

The management manages assets and liabilities by taking into account liquidity, risk of simultaneous withdrawal and daily monitoring of future cash flows. The process comprises evaluation of expected cash flows, availability of high-quality collateral, which may be used for obtaining additional funds if required. Short-term liquidity is managed by the Treasury of the Bank, which carries out operations on the money market for the purpose of current liquidity maintenance and future cash flows optimization.

The Bank holds a diversified assets portfolio that can be realized in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in cash funds. Besides, in accordance with the legislation, the Bank has an obligatory reserve deposit with the National Bank. The amount of the deposit depends on the level of deposits attracted from clients.

The following tables present the analysis of liquidity and interest-rate risks which discloses term to maturity, calculated for non-discounted cash flows on financial liabilities (principal and interest) at the earliest date when the Bank will be liable to redeem the liability. The amounts disclosed in these tables do not reconcile to the amounts recorded in the balance sheet as the presentation below includes maturity analysis of financial liabilities, that comprise total undiscounted remaining contractual payments (including interest payments).

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2017 Total
FINANCIAL LIABILITIES						
Interest bearing financial liabilities						
Due to banks	(117,890)	(43,719)	(158,116)	(257,668)	-	(577,393)
Customer accounts	(1,004,799)	(198,555)	(839,779)	(509,446)	(76,780)	(2,629,359)
Debt securities issued	(10,762)	(2,143)	(42,467)	(27,427)	-	(82,799)
Subordinated loans	(12,313)	(3,380)	(10,601)	(422,868)	-	(449,162)
Total interest bearing financial liabilities	**(1,145,764)**	**(247,797)**	**(1,050,963)**	**(1,217,409)**	**(76,780)**	**(3,738,713)**
Non-interest bearing financial liabilities						
Due to banks	(11,825)	-	-	-	-	(11,825)
Customer accounts	(193,535)	(3,275)	(29,858)	(10,004)	-	(236,672)
Other financial liabilities	(4,857)	(13)	(56)	-	-	(4,926)
Financial guarantees and similar labilities	(71,154)	-	-	-	-	(71,154)
Letters of credit, not covered by cash	(28,765)	(574)	(112)	-	-	(29,451)
Total non-interest bearing financial liabilities	**(310,136)**	**(3,862)**	**(30,026)**	**(10,004)**	**-**	**(354,028)**
TOTAL FINANCIAL LIABILITIES	**(1,455,900)**	**(251,659)**	**(1,080,989)**	**(1,227,413)**	**(76,780)**	**(4,092,741)**
Derivative financial liabilities						**(962)**
Inflow	248,424	2,798	28,195	9,868	-	289,285
Outflow	(248,615)	(2,866)	(28,752)	(10,496)	-	(290,729)
Total net cash flows from derivatives	**(191)**	**(68)**	**(557)**	**(628)**	**-**	**(1,444)**

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2016 Total
FINANCIAL LIABILITIES						
Interest bearing financial liabilities						
Due to banks and other financial institutions	(182,931)	(43,896)	(177,954)	(299,291)	(59)	(704,131)
Customer accounts	(306,041)	(211,400)	(300,278)	(567,360)	(306,156)	(1,691,235)
Debt securities issued	(3,665)	(277)	(9,448)	(63,396)	-	(76,786)
Subordinated loans	(13,267)	-	(13,231)	(106,903)	(335,302)	(468,703)
Total interest bearing financial liabilities	**(505,904)**	**(255,573)**	**(500,911)**	**(1,036,950)**	**(641,517)**	**(2,940,855)**
Non-interest bearing financial liabilities						
Due to banks and other financial institutions	(12,002)	-	-	-	-	(12,002)
Customer accounts	(120,240)	(2,218)	(6,933)	-	-	(129,391)
Other financial liabilities	(4,980)	(154)	(82)	(67)	-	(5,283)
Financial guarantees and similar labilities	(52,317)	-	-	-	-	(52,317)
Letters of credit, not covered by cash	(58,520)	(171)	(450)	(8,694)	-	(67,835)
Total non-interest bearing financial liabilities	**(248,059)**	**(2,543)**	**(7,465)**	**(8,761)**	-	**(266,828)**
TOTAL FINANCIAL LIABILITIES	**(753,963)**	**(258,116)**	**(508,376)**	**(1,045,711)**	**(641,517)**	**(3,207,683)**
Derivative financial liabilities						**(623)**
Inflow	12,137	841	6,691	-	-	19,669
Outflow	(12,344)	(1,004)	(7,135)	-	-	(20,483)
Total net cash flows from derivatives	**(207)**	**(163)**	**(444)**	**-**	**-**	**(814)**

The following table presents an analysis of liquidity risk based on carrying values of financial assets and liabilities based on their expected maturity. Management estimates expected maturity of financial assets and liabilities based on historical data analysis, existence of an active market and other factors affecting the period of assets and liabilities realization/settlement.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Past due	Maturity undefined	31 December 2017 Total
FINANCIAL ASSETS								
Interest bearing financial assets								
Cash and cash equivalents	250,559	-	-	-	-	-	-	250,559
Securities at fair value through profit or loss	70,748	-	-	-	-	-	-	70,748
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	6,624	42,256	-	-	-	-	1,747	50,627
Loans to customers	95,431	440,646	650,587	1,277,338	208,495	9,159	-	2,681,656
Investments available for sale	91,560	105,976	231,990	155,967	23,017	-	-	608,510
Total interest bearing financial assets	**514,922**	**588,878**	**882,577**	**1,433,305**	**231,512**	**9,159**	**1,747**	**3 662 100**
Non-interest bearing financial assets								
Cash and cash equivalents	384,768	-	-	-	-	-	-	384,768
Derivative financial instruments, assets	128	1	17	-	-	-	-	146
Due from the National Bank of the Republic of Belarus banks and other financial institutions	-	-	-	-	-	-	26,315	26,315
Investments available for sale	-	-	-	-	-	-	611	611
Other financial assets	8,922	96	53	20	-	1,560	5,211	15,862
Total non-interest bearing financial assets	**393,818**	**97**	**70**	**20**	**-**	**1,560**	**32,137**	**427,702**
TOTAL FINANCIAL ASSETS	**908,740**	**588,975**	**882,647**	**1,433,325**	**231,512**	**10,719**	**33,884**	**4,089,802**
FINANCIAL LIABILITIES								
Interest bearing financial liabilities								
Due to banks and other financial institutions	117,550	41,337	148,367	234,040	-	-	-	541,294
Customer accounts	533,634	192,170	820,976	476,988	72,072	-	466,675	2,562,515
Debt securities issued	10,762	2,015	38,017	26,763	-	-	-	77,557
Subordinated loans	11,731	-	-	339,868	-	-	-	351,599
Total interest bearing financial liabilities	**673,677**	**235,522**	**1,007,360**	**1,077,659**	**72,072**	**-**	**466,675**	**3,532,965**
Non-interest bearing financial liabilities								
Due to banks and other financial institutions	11,825	-	-	-	-	-	-	11,825
Customer accounts	96,476	3,275	29,858	10,004	-	-	97,059	236,672
Debt securities issued	-	-	-	-	-		-	-
Derivative financial instruments, liabilities	184	52	380	346	-	-	-	962
Other financial liabilities	4,087	13	56	-	-	-	770	4,926
Total non-interest bearing financial liabilities	**112,572**	**3,340**	**30,294**	**10,350**	**-**	**-**	**97,829**	**254,385**
TOTAL FINANCIAL LIABILITIES	**786 249**	**238,862**	**1,037,654**	**1,088,009**	**72,072**	**-**	**564,504**	**3,787,350**
Liquidity gap	122,491	350,113	(155,007)	345,316	159,440			
Interest sensitivity gap	(158,755)	353,356	(124,783)	355,646	159,440			
Cumulative interest sensitivity gap	(158,755)	194,601	69,818	425,464	584,904			
Cumulative interest sensitivity gap as a percentage of total financial assets	(3.9%)	4.8%	1.7%	10.4%	14.3%			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Past due	Maturity undefined	31 December 2016 Total
FINANCIAL ASSETS								
Interest bearing financial assets								
Cash and cash equivalents	120,370	-	-	-	-	-	-	120,370
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	1,714	1,714
Loans to customers	130,066	355,840	638,422	712,661	82,165	12,821	-	1,931,975
Investments available for sale	77,120	162,567	322,368	103,356	74,189	-	-	739,600
Total interest bearing financial assets	**327,556**	**518,407**	**960,790**	**816,017**	**156,354**	**12,821**	**1,714**	**2,793,659**
Non-interest bearing financial assets								
Cash and cash equivalents	154,581	-	-	-	-	-	-	154,581
Derivative financial instruments, assets	1,624	1	3	-	-	-	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	7,394	7,394
Investments available for sale	-	-	-	-	-	-	578	578
Other financial assets	3,802	186	369	315	-	1,052	5,101	10,825
Total non-interest bearing financial assets	**160,007**	**187**	**372**	**315**	**-**	**1,052**	**13,073**	**175,006**
TOTAL FINANCIAL ASSETS	**487,563**	**518,594**	**961,162**	**816,332**	**156,354**	**13,873**	**14,787**	**2,968,665**
FINANCIAL LIABILITIES								
Interest bearing financial liabilities								
Due to banks and other financial institutions	182,849	39,054	161,161	255,782	52	-	-	638,898
Customer accounts	183,752	202,264	267,882	467,273	272,478	-	116,685	1,510,334
Debt securities issued	3,665	79	6,385	60,627	-	-	-	70,756
Subordinated loans	13,267	-	-	-	321,634	-	-	334,901
Total interest bearing financial liabilities	**383,533**	**241,397**	**435,428**	**783,682**	**594,164**	**-**	**116,685**	**2,554,889**
Non-interest bearing financial liabilities								
Due to banks and other financial institutions	12,002	-	-	-	-	-	-	12,002
Customer accounts	43,636	2,218	6,933	-	-	-	76,604	129,391
Derivative financial instruments, liabilities	193	153	277	-	-	-	-	623
Other financial liabilities	4,512	154	82	67	-	-	468	5,283
Total non-interest bearing financial liabilities	**60,343**	**2,525**	**7,292**	**67**	**-**	**-**	**77,072**	**147,299**
TOTAL FINANCIAL LIABILITIES	**443,876**	**243,922**	**442,720**	**783,749**	**594,164**	**-**	**193,757**	**2,702,188**
Liquidity gap	43,687	274,672	518,442	32,583	(437,810)			
Interest sensitivity gap	(55,977)	277,010	525,362	32,335	(437,810)			
Cumulative interest sensitivity gap	(55,977)	221,033	746,395	778,730	340,920			
Cumulative interest sensitivity gap as a percentage of total financial assets	(1.9%)	7.4%	25.1%	26.2%	11.5%			

For the following categories of financial assets and financial liabilities the expected periods differ from the contractual ones.

Securities at fair value through profit and loss – the expected period of sale of the securities at fair value through profit and loss reported as at 31 December 2017 was determined by the management as less than 1 month as far as there is active market where these securities may be sold within a short period of time.

Customer accounts – the Bank's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationship, this amount is estimated using statistical methods based on historical data of fluctuations on customer accounts balances during 90 days before the reporting date, thus, such stable customer deposits are included in the category "Maturity undefined".

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2017 and 2016:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Past due	Maturity undefined	31 December 2017 Total
Securities at fair value through profit or loss, interest bearing	51,926	-	-	18,822	-	-	-	70,748
Customer accounts, interest bearing	1,000,309	192,170	820,976	476,988	72,072	-	-	2,562,515
Customer accounts, non-interest bearing	193,535	3,275	29,858	10,004	-	-	-	236,672
Liquidity gap, considering contractual maturity	(511,991)	350,113	(155,007)	364,138	159,440			

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Past due	Maturity undefined	31 December 2016 Total
Customer accounts, interest bearing	300,437	202,264	267,882	467,273	272,478	-	-	1,510,334
Customer accounts, non-interest bearing	120,240	2,218	6,933	-	-	-	-	129,391
Liquidity gap, considering contractual maturity	(149,602)	274,672	518,442	32,583	(437,810)			

The Bank expects that not all contingent or contractual liabilities will require settlement before maturity. The Management of the Bank believes that it will be able to sell its liquid assets to settle liabilities on customer accounts in case of demand for repayment before maturity. Beside that the Management of the Bank believes that if the financing from its counteragent banks decreases the Bank will get support from the shareholders by extending credit line limit to maintain liquidity.

Term deposits of individuals are included in customer accounts. Under the amendments to the legislation of the Republic of Belarus regarding deposits attracted by the Bank starting from 12 November 2016 the Bank is required to return the attracted amounts of deposits from individuals under revocable deposits upon request of the individual, at the same time there are no obligations to early repayment of long-term deposits.

For the purpose of early identification and control over liquidity risk the Bank implemented liquidity risk escalation procedure and developed a plan for business continuity and restoration of its operations in case of a crisis situation (liquidity crisis).

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its claims and obligations which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits.

Market risk includes interest-rate risk, currency risk.

Interest-rate risk

Interest-rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate and net interest income will change because of changes in interest rates. This risk arises due to cumulative misbalance of terms and rate types of the interest bearing assets and liabilities, as well as due to high sensitivity to changes in the interest rates on debt instruments acquired for the purpose of receiving revenues from their resale.

Interest-rate risk is managed by a collective body – The Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank's operating departments, within which they can operate, and ensures control over the risk of interest rate margin change by monitoring the gap between interest bearing assets and liabilities. The Bank monitors its current financial performance on continuing basis, estimates interest rate sensitivity and its effect on profit and equity.

The effect of interest rate changes on Bank's comprehensive income is evaluated based on the amounts of financial assets and liabilities with variable interest rates, as well as on amounts of assets carried at fair value with fixed interest rate as at reporting date. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature. The estimation follows from the assumption that the Bank's portfolio structure does not change and is based on "the reasonably possible changes in risk variables". The level of these changes is determined by the management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank's comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve including all assets and liabilities, the shift was estimated to be equal to 1 percentage points for all financial instruments disregarding of their nominal currency. In addition, it was assumed that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period. All other variables were held constant.

	31 December 2017		**31 December 2016**	
	Interest rate/discount rate 1%	**Interest rate/discount rate 1%**	**Interest rate/discount rate 1%**	**Interest rate/discount rate 1%**
Impact on profit before taxation:				
Assets				
Cash and cash equivalents	2,402	(2,402)	1,154	(1,154)
Securities at fair value through profit or loss	68	(60)	-	-
Derivative financial instruments, assets, impact on fair value of discount rate change	35	(11)	5	(4)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	416	(416)	-	-
Loans to customers	17,802	(17,802)	13,679	(13,679)
Investments available for sale	2,979	(2,979)	3,190	(3,190)
Liabilities				
Derivative financial instruments, liabilities, impact on fair value of discount rate change	336	(367)	32	(33)
Due to banks and other financial institutions	(2,731)	2,731	(3,684)	3,684
Customer accounts	(14,915)	14,915	(5,761)	5,761
Debt securities issued	(164)	164	(15)	15
Subordinated loans	-	-	-	-
Impact on profit before taxation:	6,228	(6,235)	8 600	(8 600)
Impact on other comprehensive income				
Investments available for sale, impact on fair value of discount rate change	(8,604)	9,297	(9 204)	9 431
Impact on comprehensive income after taxation	(2,849)	3,537	(1 661)	1 888

Currency risk

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

Asset and Liability Management Committee manages the currency risk by defining the open currency position on the basis of the estimated devaluation of the national currency and other macroeconomic indicators. The Treasury Department performs daily control over the open currency position of the Bank to ensure its compliance with the limits.

The Bank performs quantitative assessment of the currency risk using Value-at-Risk model. The assessment results are regularly reported to the management and are used for management decisions.

The Bank's exposure to currency risk is as follows:

	BYN	USD 1USD= BYN 1.9727	EUR 1EUR= BYN 2.3553	RUB 1RUB= BYN 0.034279	Other currencies	31 December 2017 Total
FINANCIAL ASSETS						
Cash and cash equivalents	195,538	46,905	177,221	214,649	1,014	635,327
Securities at fair value through profit or loss	-	51,884	-	18,864	-	70,748
Derivative financial instruments, assets	146	-	-	-	-	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	26,315	13,583	37,043	1	-	76,942
Loans to customers	818,592	557,242	1,111,670	194,152	-	2,681,656
Investments available for sale	15,472	584,319	9,330	-	-	609,121
Other financial assets	12,027	1,376	2,199	260	-	15,862
TOTAL FINANCIAL ASSETS	**1,068,090**	**1,255,309**	**1,337,463**	**427,926**	**1,014**	**4,089,802**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	958	4	-	-	-	962
Due to banks and other financial institutions	163,199	87,702	299,025	3,193	-	553,119
Customer accounts	521,542	1,715,983	455,956	48,219	57,487	2,799,187
Debt securities issued	10,693	51,543	15,321	-	-	77,557
Other financial liabilities	3,259	123	1,011	533	-	4,926
Subordinated loans	-	-	-	351,599	-	351,599
TOTAL FINANCIAL LIABILITIES	**699,651**	**1,855,355**	**771,313**	**403,544**	**57,487**	**3,787,350**
CURRENCY POSITION	**368,439**	**(600,046)**	**566,150**	**24,382**	**(56,473)**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts:

	BYN	USD	EUR	RUB	Other currencies	31 December 2017 Total
		1USD= BYN 1.9727	1EUR= BYN 2.3553	1RUB= BYN 0.034279		
Claims on derivative financial instruments and spot contracts	-	632,790	2,355	-	57,008	692,153
Liabilities on derivative financial instruments and spot contracts	(15,620)	(40,018)	(589,167)	(48,477)	-	(693,282)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**(15,620)**	**592,772**	**(586,812)**	**(48,477)**	**57,008**	
TOTAL CURRENCY POSITION	**352,820**	**(7,274)**	**(20,662)**	**(24,095)**	**535**	

	BYN	USD	EUR	RUB	Other currencies	31 December 2016 Total
		1USD= BYN 1.9585	1EUR= BYN 2.0450	1RUB= BYN 0.03244		
FINANCIAL ASSETS						
Cash and cash equivalents	31,034	49,538	81,576	112,043	760	274,951
Derivative financial instruments, assets	1,628	-	-	-	-	1,628
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	7,394	1,714	-	-	-	9,108
Loans to customers	489,985	618,334	607,475	216,181	-	1,931,975
Investments available for sale	59,202	630,791	50,185	-	-	740,178
Other financial assets	8,255	2,036	339	195	-	10,825
TOTAL FINANCIAL ASSETS	**597,498**	**1,302,413**	**739,575**	**328,419**	**760**	**2,968,665**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	623	-	-	-	-	623
Due to banks and other financial institutions	40,436	284,973	312,863	12,628	-	650,900
Customer accounts	253,111	1,065,467	277,075	32,047	12,025	1,639,725
Debt securities issued	-	57,647	13,109	-	-	70,756
Other financial liabilities	3,631	263	928	461	-	5,283
Subordinated loans	-	-	-	334,901	-	334,901
TOTAL FINANCIAL LIABILITIES	**297,801**	**1,408,350**	**603,975**	**380,037**	**12,025**	**2,702,188**
CURRENCY POSITION	**299,697**	**(105,937)**	**135,600**	**(51,618)**	**(11,265)**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts:

	BYN	USD	EUR	RUB	Other currencies	31 December 2016
		1USD= BYN 1.9585	1EUR= BYN 2.0450	1RUB= BYN 0.03244		Total
Claims on derivative financial instruments and spot contracts	9,032	129,903	-	39,106	11,671	189,712
Liabilities on derivative financial instruments and spot contracts	(4,530)	(16,047)	(158,128)	(10,102)	-	(188,807)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**4,502**	**113,856**	**(158,128)**	**29,004**	**11,671**	
TOTAL CURRENCY POSITION	**304,199**	**7,919**	**(22,528)**	**(22,614)**	**406**	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to an increase by 20% and decrease by 10% of USD, EUR and RUB against national currency as at 31 December 2017 and 2016. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates, which is used when reporting foreign currency risk internally to key management personnel of the Bank. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for an anticipated value change in foreign currency rates.

	As at 31 December 2017		As at 31 December 2016	
	BYN/USD 20%	BYN/USD -10%	BYN/USD 20%	BYN/USD -10%
Impact on profit before taxation	(1,361)	680	1,610	(805)
Impact on comprehensive income after taxation	(1,021)	510	1,208	(604)

	As at 31 December 2017		As at 31 December 2016	
	BYN/EUR 20%	BYN/EUR -10%	BYN/EUR 20%	BYN/EUR -10%
Impact on profit before taxation	(4,137)	2,068	(4,506)	2,253
Impact on comprehensive income after taxation	(3,103)	1,551	(3,380)	1,690

	As at 31 December 2017		As at 31 December 2016	
	BYN/RUB 20%	BYN/RUB -10%	BYN/RUB 20%	BYN/RUB -10%
Impact on profit before taxation	(4,802)	2,401	(4,540)	2,270
Impact on comprehensive income after taxation	(3,602)	1,801	(3,405)	1,703

Limitations of sensitivity analysis

The above interest-rate risk and currency risk sensitivity analysis demonstrate the effect of a change in a key assumption mentioned above, while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets held at market value on the balance sheet may be affected significantly. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion**.**

Operational risk

The Bank is subject to operational risk at all stages of its activity. Operational risk is the risk of loss arising from non-compliance of procedures specified by local regulations for banking operations and other transactions with legislation or breach thereof by employees, incompetence or human error, software and systems failure or external events.

To collect information on operational risk occurrence events the Bank maintains a corresponding database. It reflects data on events of operational risk occurrence and amounts of operational loss broken down by Bank activities, certain banking operations (processes), circumstances for occurrence and detection thereof.

The Bank performs assessment of operational risk to analyze operational risk condition and make correct management decisions.

Proactive methods of operational risk management in the Bank include maintaining of operational risks register and use of key operational risk indicators system, usage of self-assessment and risk-audit procedures. The Banks places special emphasis on ensuring business continuity and planning its operations in case of unexpected situations.

To increase the effectiveness of operational risk management the Bank developed and implemented operational risk escalation scenario.

Operational risk realization can result not only in financial losses, but can also damage Bank's reputation and negatively affect employees' performance efficiency. The Bank cannot expect to eliminate all operational risks, but it endeavors to expand the sphere of identified and manageable operational risk. This is implemented through internal control system development by setting limits and controls, risk insurance, process management system development and transfer of parts of risks to third parties. Internal control system implies efficient distribution of job responsibilities and authorized accesses to documents and other information, procedures for approval, comparative check and assessment in place, including internal audit, and development of personnel training system.

The Bank performs regular stress tests of operational risk to assess the resistance to realization of rare but plausible catastrophic events. The stress test results are submitted to the Management for managerial decision-making.

38. SUBSEQUENT EVENTS

In January 2018 the National Bank of the Republic of Belarus announced another reduction of refinancing rate from 11% to 10.5% from 14 February 2018, which is associated with slow-down of inflation processes.

In February 2018 the International Rating Agency Fitch Ratings raised the long-term Issuer Default Rating (IDR) and the Bank's support rating from "B-" to "B" and from "5" to "4" respectively, the outlook is "Stable".

In the beginning of 2018 the Republic of Belarus moved from the seventh to the sixth group of countries according to the credit risk classification in the rating of Organization for Economic Co-operation and Development (OECD), which includes all developed countries.