Translation from the original in Russian

Closed Joint-Stock Company
Minsk Transit Bank

IFRS Financial Statements

for the year ended 31 December 2017
and Independent Auditors' Report

Contents

Independent Auditors' Report

Financial statements

Notes to the financial statements

KPMG LLC
57 Dziaržynskaha avenue
premises 53, office 53-2
220089 Minsk Belarus
Telephone +375 17 372 72 57
Fax +375 17 372 72 58
Mob. +375 29 104 75 15
Internet www.kpmg.by

Independent Auditors' Report

To the Shareholders and Management of Closed Joint-Stock Company Minsk Transit Bank

Opinion

We have audited the financial statements of Closed Joint-Stock Company Minsk Transit Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss, 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 customers	
The key audit matter	***How the matter was addressed in our audit***
The impairment of loans to customers is evaluated by the management, applying the professional judgement and judgemental assumptions. Due to the significant volume of loans granted to customers (72% of total assets) and uncertainty that is inherent to their evaluation, this issue is the key audit matter.	We evaluated design and implementation of controls regarding the identification of impairment of loans to customers. In relation to the sample of loans, the impairment measurement of which is carried out on an individual basis, we analyzed the assumptions, used by the Bank to calculate the expected future cash flows, including the value of collateral for sale, based on our understanding and available market information. We also focused on the sufficiency of collective allowance for impairment of loans, compared to historical losses incurred. We also evaluated whether the disclosures to the financial statements appropriately present 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 the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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

20 March 2018

Statement of Financial Position

As at 31 December 2017

(in thousands of Belarusian Roubles)

	Note	31 December 2017	31 December 2016
Assets			
Cash and cash equivalents	5	147 905	113 314
Amounts due from credit institutions	6	26 929	8 841
Derivative financial assets	7	32	-
Loans to customers	8	703 832	514 725
Investment securities available for sale	9	46 079	93 610
Investment property	10	3 628	3 914
Property and equipment	11	14 621	14 742
Intangible assets	12	19 353	15 887
Other assets	15	9 822	7 769
Total assets		**972 201**	**772 802**
Liabilities			
Amounts due to credit institutions	16	41 840	20 296
Derivative financial liabilities	7	6	47
Amounts due to customers	17	654 052	530 409
Debt securities issued	18	24 712	15 609
Other borrowings	19	11 257	33 235
Current income tax liabilities		2 622	899
Deferred income tax liabilities	13	18 786	11 581
Subordinated debt	20	34 997	34 741
Other liabilities	15	9 728	6 871
Total liabilities		**798 000**	**653 688**
Equity			
Share capital	21	57 134	57 134
Retained earnings		117 067	61 980
Total equity		**174 201**	**119 114**
Total equity and liabilities		**972 201**	**772 802**

Signed and approved for issue on behalf of the Management Board of CJSC MTBank

A.K. Zhyshkevich — Chairman of the Management Board

D.P. Shidlovich — Finance Director

20 March 2018

Республика Беларусь г. Минск Закрытое акционерное общество Минский транзитный банк МТБанк

Statement of Profit or Loss

For the year ended 31 December 2017

(in thousands of Belarusian Roubles)

	Note	2017	2016
Interest income			
Loans to customers		143 974	155 941
Investment securities available for sale		6 379	5 666
Amounts due from credit institutions		2 112	1 496
		152 465	**163 103**
Interest expense			
Amounts due to customers		(26 988)	(40 836)
Debt securities issued		(2 261)	(6 246)
Amounts due to credit institutions		(3 153)	(4 938)
Other borrowings		(2 095)	(3 755)
Subordinated debt		(1 935)	(1 698)
		(36 432)	**(57 473)**
Net interest income		**116 033**	**105 630**
Allowance for loan impairment	6, 8	(11 653)	(19 461)
Net interest income after allowance for loan impairment		**104 380**	**86 169**
Fee and commission income	24	58 505	36 674
Fee and commission expense	24	(21 206)	(17 259)
Net gains from investment securities available for sale		(124)	229
Net gains from foreign currencies	23	15 609	16 895
Gain from change in fair value of investment property	10	106	60
Gain on initial recognition of financial instruments at fair value	8, 16	600	329
Other income	25	15 305	10 764
Non-interest income		**68 795**	**47 692**
Personnel expenses	26	(37 167)	(32 268)
Depreciation and amortization	11, 12	(6 582)	(5 201)
Other operating expenses	26	(42 930)	(34 113)
Other impairment and provisions	14	(1 326)	(1 102)
Non-interest expense		**(88 005)**	**(72 684)**
Profit before income tax expense		**85 170**	**61 177**
Income tax expense	13	(21 264)	(14 763)
Profit for the year		**63 906**	**46 414**

Statement of Comprehensive Income

For the year ended 31 December 2017

(in thousands of Belarusian Roubles)

	Note	*2017*	*2016*
Profit for the year		**63 906**	**46 414**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Realized gain/(loss) on investment securities available for sale reclassified to the statement of profit or loss		124	(229)
Unrealized (loss)/gain on investment securities available for sale		(124)	165
Other net comprehensive loss to be reclassified to profit or loss in subsequent periods		-	**(64)**
Other comprehensive income /(loss) for the year		**-**	**(64)**
Total comprehensive income for the year		**63 906**	**46 350**

Statement of Changes in Equity

For the year ended 31 December 2017

(in thousands of Belarusian Roubles)

	Share capital	*Retained earnings*	*Fair value reserve (investment securities available for sale)*	*Total*
At 1 January 2016	**57 014**	**38 466**	**(155)**	**95 325**
Comprehensive income for the year				
Profit for the year	–	46 414	–	**46 414**
Other comprehensive loss				
Other comprehensive loss for the year	–	(219)	155	**(64)**
Total comprehensive income for the year	**–**	**46 195**	**155**	**46 350**
Transactions with shareholders				
Allocation of profit on increase in share capital	120	(120)	–	–
Dividends (Note 21)	–	(22 561)	–	**(22 561)**
Total transactions with shareholders	**120**	**(22 681)**	**–**	**(22 561)**
At 31 December 2016	**57 134**	**61 980**	–	**119 114**
Comprehensive income for the year				
Profit for the year	–	63 906	–	**63 906**
Total comprehensive income for the year	**–**	**63 906**	–	**63 906**
Transactions with shareholders				
Dividends (Note 21)	–	(8 819)	–	**(8 819)**
Total transactions with shareholders	–	**(8 819)**	**–**	**(8 819)**
At 31 December 2017	**57 134**	**117 067**	–	**174 201**

Statement of Cash Flows

For the year ended 31 December 2017 (continued)

(in thousands of Belarusian Roubles)

	Note	2017	2016
Cash flows from operating activities			
Interest received		154 997	168 759
Interest paid		(36 423)	(56 073)
Fees and commissions received		57 243	34 877
Fees and commissions paid		(21 194)	(17 263)
Realized gains less losses from foreign currency transactions		12 909	17 787
Other income received		15 297	13 200
Personnel expenses paid		(36 563)	(31 590)
Other operating expenses paid		(41 825)	(33 662)
Cash flows from operating activities before changes in operating assets and liabilities		**104 441**	**96 035**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(16 663)	(723)
Loans to customers		(194 928)	(101 214)
Other assets		(2 356)	1 714
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		21 630	(16 840)
Amounts due to customers		117 435	117 211
Other liabilities		1 113	(590)
Net cash flows from operating activities before income tax		**30 672**	**95 593**
Income tax paid		(12 254)	(9 548)
Net cash from operating activities		**18 418**	**86 045**
Cash flows from investing activities			
Acquisition of investment securities		(1 392 391)	(1 188 064)
Proceeds from sale and redemption of investment securities		1 439 956	1 120 637
Proceeds from sale of investment property		392	838
Acquisition of property and equipment and intangible assets	11, 12	(9 747)	(16 204)
Proceeds from sale of property and equipment and intangible assets		153	28
Net cash from/(used in) investing activities		**38 363**	**(82 765)**
Cash flows from financing activities			
Proceeds from issue of debt securities		64 262	116 496
Redemption of debt securities issued		(55 620)	(133 584)
Proceeds from other borrowings		-	22 706
Repayment of other borrowings		(23 445)	(7 964)
Proceeds from subordinated loans		-	9 976
Dividends paid	21	(8 819)	(22 561)
Net cash used in financing activities		**(23 622)**	**(14 931)**
Effect of movements in exchange rates on cash and cash equivalents		1 432	4 679
Net increase/(decrease) in cash and cash equivalents		**34 591**	**(6 972)**
Cash and cash equivalents at 1 January		113 314	120 286
Cash and cash equivalents at 31 December	5	**147 905**	**113 314**

Statement of Cash Flows

For the year ended 31 December 2017 (continued)

(in thousands of Belarusian Roubles)

Reconciliation of changes in liabilities and cash flows from financing activities is set out below.

			Non-monetary changes	***Other changes***		
	31 December 2016	***Cash flow***	***Exchange rate movements***	***Interest paid***	***Interest accrued***	***31 December 2017***
Debt securities issued	15 609	8 642	122	(1 922)	2 261	24 712
Other borrowings	33 235	(23 445)	2 087	(2 715)	2 095	11 257
Subordinated debt	34 741	-	248	(1 927)	1 935	34 997
Total	**83 585**	**(14 803)**	**2 457**	**(6 564)**	**6 291**	**70 966**

1. Principal activities

Closed Joint Stock Company Minsk Transit Bank (hereinafter – "CJSC MTBank" or the "Bank") was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter − the "National Bank") on 14 March 1994 as a closed joint stock commercial bank with foreign investment. The Bank's activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on 6 May 2013. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until 29 July 2022 based on Decision No. 145 of 16 May 2012).

The Bank accepts deposits from the public, grants loans and transfers cash withiin the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its corporate clients and individuals. The Bank's head office is located in Minsk. During the reporting period, the Bank didn't change its legal address. The legal address as of 31 December 2017 and 2016 was Minsk, Tolstogo Street, 10.

During 2017, the Bank opened 2 payment processing centres. As of 31 December 2017, the Bank had the following structure: the head office, 6 centers of banking services and 57 payment processing centres located in Minsk, Brest, Gomel, Grodno, Vitebsk, Mogilev, Soligorsk, Svetlogorsk, Molodechno, Zhodino, Bobruisk, Baranovichi and Lida.

As of 31 December 2017 and 2016, the Bank had neither subsidiaries nor associates.
As of 31 December 2017 and 2016, the Bank's outstanding share capital was owned by the following shareholders:

Shareholder	***31 December 2017***	***31 December 2016***
BELNEFTEGAZ ALC	51,000%	50,999%
MTB Investments Holdings Limited (Cyprus)	47,969%	47,969%
Other	1,031%	1,032%
	100,000%	**100,000%**

As of 31 December 2017 and 2016, the Bank's ultimate controlling owner was Alexei Ivanovich Oleksin.

2. Basis of preparation

General

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

The Bank is required to maintain accounting records and prepare financial statements for regulatory purposes in Belarusian Roubles in accordance with Belarusian accounting and banking legislation and related instructions ("BAS"). These financial statements are based on the Bank's BAS accounting records, as adjusted and reclassified in order to comply with IFRS. The Bank's functional currency is Belarusian Rouble.

The financial statements have been prepared on a historical cost basis except for the estimate of non-monetary items recognized before 31 December 2014, which were accounted for in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* in accordance with Note 2 and items, accounting for which is given in *Significant accounting policies*. For example, investment securities available-for-sale, investment property and derivative financial instruments have been measured at fair value.

These financial statements are presented in thousands of Belarusian Roubles (hereinafter – "BYN thous."), unless otherwise indicated, taking into account the denomination of the official currency held in the Republic of Belarus on 1 July 2016.

(in thousands of Belarusian Roubles)

Securities issued by the Bank are not included in the quotation sheets of OJSC Belarusian Currency and Stock Exchange, the Bank is not recognized as listed company and, accordingly, does not apply IAS 33 *Earnings per share* and IFRS 8 *Operating segments*.

Inflation accounting

Starting from 1 January 2011, the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with the criteria of IAS 29 *Financial Reporting in Hyperinflationary Economies* (hereinafter – "IAS 29"). Accordingly, adjustments and reclassifications of items for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, taking into account changes in the general purchasing power of the Belarusian Rouble.

Starting from 1 January 2015, the economy of the Republic of Belarus is no longer considered as hyperinflationary. 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.

Operating environment

The Bank operates in the Republic of Belarus. Consequently, the Bank is exposed to the economy and financial markets of the Republic of Belarus, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, 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 the Republic of Belarus. The methods of monetary policy regulation, adopted by the National Bank of the Republic of Belarus, made it possible to reduce both the volatility of the Belarusian Rouble and the level of inflation over the past two years. Despite this, the period of depreciation of the Belarusian Rouble and the period of high inflation that followed stabilization, still lead to some uncertainty in the conditions of economic activity in the Republic of Belarus.

The presented financial statements reflect management's assessment of the impact of the business environment in the Republic of Belarus on the operations and the financial position of the Bank. The actual impact of the future business environment may differ from management's assessment.

3. Significant Accounting Policies

Changes in accounting policies

The standards that have been applied during 2017 did not significantly impact the Bank's financial statements.

Measurement of fair values

The Bank measures such financial instruments as available-for-sale securities and derivatives at fair value at each reporting date. The information about the fair value of financial instruments measured at amortized cost is disclosed in Note 28.

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

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

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

(in thousands of Belarusian Roubles)

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

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

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

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

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 *Financial instruments: recognition and measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate.

The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the statement of profit or loss when the investments are impaired, as well as through the amortization process.

(in thousands of Belarusian Roubles)

Loans and receivables

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

Available-for-sale financial assets

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

Amortized cost

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument .

Reclassification of financial assets

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from the National Bank, excluding mandatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual obligations.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and reclassified as securities pledged under sale and repurchase agreements, in case if the counterparty has the right to sell or repledge them under the contract terms. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

In the normal course of business, the Bank uses various derivative financial instruments (including foreign exchange forwards and swaps). These financial instruments are held for trading and are initially recorded at fair value. Fair value is determined on the basis of market quotations or valuation models based on the current market and contractual value of the underlying instruments and other factors.

Derivative financial instruments with positive fair values are recorded as assets, and with negative fair value as liabilities. Gains and losses arising from transactions with these instruments are recorded in the statement of profit or loss in net income/(expense) on foreign currency transactions.

Financial liabilities

Financial liabilities, including amounts due to banks and customers, debt securities issued, other borrowings, subordinated debt 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 used to calculate the amortized cost of a financial liability and allocate interest expenses over the relevant period.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when they are discharged, cancelled or expire. When 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 original liabilities and 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 or loss.

Leases

i. Finance lease − Bank as lessor

The Bank recognizes lease receivables at the amount equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

ii. Operating lease − Bank as lessee

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

(in thousands of Belarusian Roubles)

Measurement of financial instruments

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

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

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

Offsetting of financial instruments

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

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

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

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment can include:

considerable financial difficulties of an issuer or counterparty;
breach of contract, for example, refusal or delinquency in payment of interests or principal;
non-payment or interests and principal overdue;
high possibility of bankruptcy or financial reorganization of the borrower;
disappearance of an active market for this financial asset due to financial difficulties.

Amounts due from credit institutions and loans to customers

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

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans together with the associated allowance are written off according to the decision of the Bank's Management Board when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If write-off is later reversed, the reversal is recognized in the statement of profit or loss.

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

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

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

Available-for-sale financial investments

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss − measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit or loss − is reclassified from other comprehensive income to the statement of profit or loss.

Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

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

Loans restructuring

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

The accounting treatment of such restructuring is as follows:

- if the currency of the loan has been changed, the initial loan is derecognized and the new loan is recognized in the statement of financial position.
- if the loan restructuring is not caused by the financial difficulties of the borrower, the Bank uses a similar approach as in respect of the derecognition of financial liabilities described below.
- if the loan restructuring is due to the financial difficulties of the borrower and the loan is deemed impaired after this restructuring, the Bank recognizes the difference between the present values of the future cash flows discounted using the original effective interest rate and the carrying amount before the restructuring as an expense for impairment in the reporting period. If the loan is not impaired after restructuring, the Bank recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews the 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, and their recoverable amount is measured using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the contractual obligations are discharged, cancelled or 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, and the difference in the respective carrying amounts is recognized in the statement of profit or loss.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", in the amount of the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required for settling any financial obligation arising as a result of the guarantee.

Any increase in the liability, related to financial guarantees, is accounted for in the statement of profit or loss. The premium received is recognized in the statement of profit or loss on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the legislation of the Republic of Belarus.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Besides, there are various operating taxes applying to the Bank's activities in the Republic of Belarus. These taxes are recognized in other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and impairment losses, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the equipment that is recorded when that cost is incurred, if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

	Years
Buildings	8-100
Computers and office equipment	5-15
Vehicles	6-9
Furniture and fixtures	5-50

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each reporting year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include software and licenses for software and activities that should be licensed.
Intangible assets acquired separately are initially measured at cost adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets have finite useful lives and are amortized over the periods of 3 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

(in thousands of Belarusian Roubles)

Investment property

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

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.
Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Net gains/(losses) resulting from changes in the fair value of investment property are recorded in the statement of profit and loss as gains/(losses) from change in fair value of investment property. Earned rental income is recognized in the statement of profit or loss in other income.

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

Impairment of non-financial assets

Non-financial assets, other than deferred tax assets, are evaluated at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs of disposal 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in the financial statements.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and that can be estimated reliably.

Retirement and other employee benefit obligations

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

(in thousands of Belarusian Roubles)

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are recognized as a decrease in the amount received from the issue.

Non-cash contributions are included in the share capital at fair value of the contributed assets as of the contribution date.

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers.

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

Foreign currency translation

The financial statements are presented in Belarusian Roubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated to the functional currency at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate as at the reporting date. Gains and losses resulting from foreign currency transactions are recognized in the statement of profit or loss as net gains from foreign currency transactions. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate at the date when the fair value was determined.

(in thousands of Belarusian Roubles)

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the National Bank on the date of the transaction are included in gains less losses from transactions in foreign currencies, except for differences arising on the translation of available for sale equity instruments, excluding difference resulting from impairment, in which case foreign exchange differences, recognized in other comprehensive income, are reclassified in profit or loss.

The official exchange rate applied in the preparation of the financial statements as of 31 December 2017 and 2016 is as follows:

	31 December 2017	*31 December 2016*
USD/BYN	1.9727	1.9585
EUR/BYN	2.3553	2.0450
RUR/BYN	0.034279	0.03244

Future changes in accounting policies

Standards issued but not yet effective

IFRS 9 Financial Instruments

The Bank plans to apply IFRS 9 initially on 1 January 2018. Based on the results of the preliminary assessment that have been completed by now, it is expected that the most material impact on the Bank’s financial statements due to IFRS 9 implementation will be related to 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 cannot be reliably estimated as of the date of the financial statements issue.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of 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 at the Bank’s 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.

(in thousands of Belarusian Roubles)

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 at the Bank's 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 contract 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" criterion), 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 individuals and legal entities 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 affect 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 Bank 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 in measurement of expected credit losses

The key inputs in 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. 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.

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.

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.

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 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 adopted this standard early.

The Bank is in the process of initial assessment of the potential impact of the adoption of IFRS 15 on its financial statements, focusing on 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 (Note 24):
Transactions with payment cards;
Settlement and cash services;
Documentary operations;
Foreign exchange transactions;
Inter-bank settlement and others.

The initial assessment indicates that IFRS 15 will not have a material impact on the timing of recognition or measurement of fees and commission income. The Bank plans to apply IFRS 15 in its financial statements for the year ended 31 December 2018 and use retrospective approach.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces the existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives and interpretation* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Bank has started an initial assessment of the potential impact of the adoption of IFRS 16 on its financial statements. So far, the most significant impact identified is that the Bank will recognise assets and liabilities for its operating leases of premises. 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. The Bank has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Bank's finance leases.

As a lessee, the Bank can either apply the standard using a:
- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Bank currently plans to apply IFRS 16 initially on 1 January 2019. The Bank has not yet determined which transition approach to apply.

As a lessor, the Bank is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

The Bank has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen, the extent to which the Bank uses the practical expedients and recognition exemptions, and any additional leases that the Bank enters into. The Bank expects to disclose its transition approach and quantitative information before adoption.

Other amendments

The following new or amended standards are not expected to have a significant impact on the Bank's financial statements:

Annual Improvements to IFRS Standards 2014–2017 Cycle – Amendments to IFRS 1 and IAS 28
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
Transfers of Investment Property (Amendments to IAS 40)
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
IFRIC 22 — Foreign Currency Transactions and Advance Consideration
IFRIC 23 — Uncertainty over Income Tax Treatments

4. Critical accounting judgments and estimates

To apply the Bank's accounting policies, management used its judgments and made estimates with respect to the determination of amounts recognized in the financial statements. Estimates and underlying assumptions are based on experience and other factors that are considered to be reasonable under the circumstances. Actual results may differ from these estimates. Estimates and associated assumptions are regularly reviewed. Changes in estimates are recognized in the period in which the estimate was revised, if the change affects only this period, or in the period to which the change relates, and in future periods, if the change affects both current and future periods. Below are the most significant cases of using judgments and estimates:

Allowance for loan impairment

The Bank regularly evaluates its loans and receivables for impairment. Based on the experience, the Bank uses its judgment in estimating 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 the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.
The assumptions made by the Bank's management and taken into account in determining loan impairment allowance are disclosed in Note 8.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

(in thousands of Belarusian Roubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2017	*31 December 2016*
Cash on hand	44 724	35 696
Current accounts with the National Bank of the Republic of Belarus	57 457	47 144
Current accounts with other credit institutions	45 724	20 680
Term deposits with credit institutions up to 90 days	-	9 794
Cash and cash equivalents	**147 905**	**113 314**

As of 31 December 2017, current accounts with credit institutions include BYN 16 373 thousand (2016: BYN 11 953 thousand) placed with 5 banks (2016: 8 banks) in the member countries of the Organization for Economic Co-operation and Development (hereinafter − “OECD”).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2017	*31 December 2016*
Term deposits placed for more than 90 days	21 631	5 308
Obligatory reserves with the National Bank of the Republic of Belarus	5 332	3 563
Less allowance for impairment	(34)	(30)
Amounts due from credit institutions	**26 929**	**8 841**

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

As of 31 December 2017, the amounts due from credit institutions included BYN 7 103 thousand placed as collateral for obligations under settlements using payment cards and international payment systems (2016: BYN 5 278 thousand).

Movements in the allowance for impairment are as follows:

	2017	*2016*
At 1 January	**30**	**–**
Charge	3	1 321
Amount written off	–	(1 883)
Translation differences	1	592
At 31 December	**34**	**30**

7. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

(in thousands of Belarusian Roubles)

	31 December 2017			*31 December 2016*		
	Notional amount, equivalent to BYN	*Fair value*		*Notional amount, equivalent to BYN*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards - foreign contracts	15 827	7		–	–	–
Forwards - domestic contracts	17 127	25	(6)	3 902	–	(47)
Total derivative assets/liabilities	**32 954**	**32**	**(6)**	**3 902**	**–**	**(47)**

In the table above, foreign contracts are contracts concluded with non-residents of the Republic of Belarus, whereas domestic contracts are contracts concluded with residents of the Republic of Belarus.

As of 31 December 2017 and 31 December 2016, the Bank has positions in the following types of derivatives:

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in case of credit default swaps) to make payments with respect to defined credit events based on the notional amounts.

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts traded in the over-the-counter market.

8. Loans to customers

Loans to customers comprise:

	31 December 2017	*31 December 2016*
Loans to individuals	359 987	247 532
Loans to legal entities	335 699	272 749
Finance leases	18 221	9 435
Gross loans to customers	**713 907**	**529 716**
Less allowance for impairment	(10 075)	(14 991)
Loans to customers	**703 832**	**514 725**

Reconciliation of the allowance for impairment of loans to customers by classes is as follows:

	Corporate clients	*Individuals*	*Total*
At 1 January 2017	**6 608**	**8 383**	**14 991**
Amounts written-off	(6 447)	(10 316)	(16 763)
Translation differences	197	-	197
Charge for the year	4 091	7 559	11 650
At 31 December 2017	**4 449**	**5 626**	**10 075**
Individual impairment	2 403	-	2 403
Collective impairment	2 046	5 626	7 672
	4 449	**5 626**	**10 075**
Gross individually assessed loans before individually assessed allowance for impairment	**25 724**	**-**	**25 724**
Gross collectively assessed loans before collectively assessed allowance for impairment	**328 196**	**359 987**	**688 183**

(in thousands of Belarusian Roubles)

	Corporate clients	*Individuals*	*Total*
At 1 January 2016	**9 348**	**10 006**	**19 354**
Amounts written-off	(10 356)	(12 608)	(22 964)
Translation differences	461	-	461
Charge for the year	7 155	10 985	18 140
At 31 December 2016	**6 608**	**8 383**	**14 991**
Individual impairment	3 172	-	3 172
Collective impairment	3 436	8 383	11 819
	6 608	**8 383**	**14 991**
Gross individually assessed loans before individually assessed allowance for impairment	**21 433**	**-**	**21 433**
Gross collectively assessed loans before collectively assessed allowance for impairment	**260 751**	**247 532**	**508 283**

Individually assessed loans

The following debt is assessed on an individual basis:

1. borrowers with overdue debt more than 90 days and gross accounts payable exceeding 0.1 percent of IFRS capital of the Bank calculated in accordance with the provisions of the Basel agreement (hereinafter - "IFRS capital under Basel") at the previous quarter reporting date; and borrowers with overdue debt up to 90 days and gross accounts payable exceeding 0.5 percent of IFRS capital of the Bank under Basel at the previous quarter reporting date;
2. individually significant borrowers (gross accounts payable of which exceeds 1 percent of IFRS capital of the Bank under Basel at the previous quarter reporting date), on which there was a decrease in recoverability (hereinafter – the "R") by more than 5 percentage points compared to the previous reporting date (the beginning of the year);
3. individually significant borrowers, the recoverability of which has changed by less than 5 percentage points compared to the previous reporting date and if at the previous reporting date the borrower was included in the individual assessment (excluding the transfer from group assessment to individual assessment based on professional judgment);
4. borrowers with overdue debt exceeding 180 days and gross accounts payable of which exceeds 0.05% of IFRS capital of the Bank calculated in accordance with the provisions of the Basel agreement (hereinafter - "IFRS capital under Basel") at the previous quarter reporting date.

The table below provides information on allowances created on the basis of the borrower's individual assessment in the context of credit quality categories:

	31 December 2017		***31 December 2016***	
	Total loans assessed on an individual basis	***Allowance on an individual basis***	**Total loans assessed on an individual basis**	***Allowance on an individual basis***
Allowance rate				
Up to 2%	–	–	128	3
2%-5%	11 577	343	–	–
5%-20%	12 255	1 292	17 287	1 873
20%-50%	1 892	769	4 018	1 296
More than 50%	–	–	–	–
Total	25 724	2 404	21 433	3 172

Interest income accrued on loans individually assessed as impaired ones for the year ended 31 December 2017 comprised BYN 2 871 thousand (2016: BYN 2 134 thousand).

(in thousands of Belarusian Roubles)

According to the requirements of the legislation of the Republic of Belarus, loans to legal entities and individuals are written off not later than 270 days after the loan has become overdue, and in some cases they are written off on the basis of the court decision.

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

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions - cash or securities;
- for commercial lending - charges over real estate properties, inventory and trade receivables;
- for car lending - pledge of car.

The Bank also obtains guarantees from parent companies for loans to their subsidiaries.

Presented below is information on loans to customers as at 31 December in the context of collateral types. Information represents loans before allowances, rather than the fair value of the collateral:

	31 December 2017	***31 December 2016***
Real estate	173 446	141 857
Goods for sale	65 111	39 628
Fixed assets	55 168	45 115
Cash	36 413	48 513
Right to receive accounts receivable	3 760	2 090
Other	964	–
Unsecured	379 045	252 513
Loans to customers	**713 907**	**529 716**

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

As at 31 December 2017, loans secured by guarantee deposits amounted to BYN 36 413 thousand (31 December 2016: BYN 48 513 thousand).

Management estimates that the impairment allowance for loans to corporate customers with collateral would have been higher by BYN 11 811 thousand excluding collateral (31 December 2016: BYN 25 581 thousand). Loans to individuals are measured on a collective basis, which does not take into account the collateral type and value. As at 31 December 2017, 99.85% of the individuals' credit portfolio or BYN 359 458 thousand (31 December 2016: 99.68% or 246 750 thousand rubles) is represented by loans without collateral.

The Bank estimates the impairment allowance for loans to corporate customers based on the analysis of future cash flows on loans with individual indications of impairment and based on experience of actual losses incurred on portfolios of loans for which individual indications of impairment have not been identified.

In determining the impairment allowance for loans to corporate customers, management makes the following assumptions:

- the annual level of actual losses incurred, calculated using the historical loss rate, is 0.77% on average on the corporate portfolio;
- reduction in the fair value of the principal types of collateral in case of sale makes up for real estate 30% -40%, for transport and equipment - 20% -50%.

(in thousands of Belarusian Roubles)

Changes in earlier made estimates could affect the loan impairment allowance. For example, with an increase in the net present value of estimated cash flows by ten percent, the impairment allowance for loans to corporate customers as at 31 December 2017 would be by BYN 423 thousand (31 December 2016: BYN 720 thousand) less, with a decrease by ten percent, the impairment allowance would be BYN 529 thousand higher (31 December 2016: BYN 956 thousand).

The change in the historical loss rate in the calculation of the allowance on a collective basis provides the following effect: an increase by 1 percentage point contributed to the growth of the allowance by BYN 3 262 thousand (31 December 2016: BYN 2 573 thousand), a decrease by 0.1 percentage point decreased the allowances by BYN 326 thousand (31 December 2016: BYN 257 thousand).

The Bank estimates the impairment allowance for loans to retail customers based on experience of actual losses incurred for these types of loans. Significant assumptions used by management when determining the impairment allowance for loans to retail customers include the following: in the calculation of the main indicators used to measure expected credit losses, the Bank's statistical data are used over the last year.

The increase by 1 percentage point in the reservation rate, calculated on the basis of these statistics, will lead to an increase in the impairment allowance for loans to individuals as at 31 December 2017 by BYN 3 544 thousand (31 December 2016: BYN 2 644 thousand), a decrease by 1 percentage point - to a decrease by BYN 3 544 thousand (31 December 2016: BYN 2 644 thousand).

Concentration of loans to customers

As at 31 December 2017, the concentration of loans issued by the Bank to ten largest independent borrowers made up BYN 147 180 thousand or 21% of gross loan portfolio. An allowance in the amount of BYN 1 828 thousand was charged for the loans. The amount due from one of the largest borrowers made up BYN 29 566 thousand (as at 31 December 2016: BYN 30 077 thousand) and is fully covered by the guarantee deposit in cash (Notes 17, 30).

Structure of credit portfolio in the context of the customer types is as follows:

	31 December 2017	***31 December 2016***
Individuals	359 987	247 532
Private companies	347 600	274 500
State organizations	6 320	7 684
Loans to customers	**713 907**	**529 716**

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

	31 December 2017	***31 December 2016***
Individuals	359 987	247 532
Wholesale and retail trade	171 696	130 117
Manufacturing	60 105	70 263
Real estate	41 050	25 958
Transport	27 571	13 798
Construction	19 957	10 810
Food industry	6 609	5 193
Other	26 932	26 045
Loans to customers	**713 907**	**529 716**

In 2017, the Bank financed start-up companies in the framework of a joint program with OJSC Development Bank of the Republic of Belarus. The interest rate on loans issued under this program as at 31 December 2017 made up 10%. Losses on initial recognition of financial instruments at fair value for 2017 made up BYN 62 thousand (2016: BYN 560 thousand). Balances under these loan agreements amounted to BYN 3 775 thousand as at 31 December 2017, BYN 3 602 thousand as at 31 December 2016.

(in thousands of Belarusian Roubles)

Finance lease receivables

The analysis of finance lease receivables as at 31 December 2017 is as follows:

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2017*
Gross investments in finance leases	14 145	6 989	**21 134**
Unearned future finance income on finance leases	(2 027)	(886)	**(2 913)**
Net investments in finance leases	**12 118**	**6 103**	**18 221**

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

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2016*
Gross investments in finance leases	7 183	5 139	12 322
Unearned future finance income on finance leases	(1 336)	(1 551)	(2 887)
Net investments in finance leases	**5 847**	**3 588**	**9 435**

The information on the allowance for impairment in the context of finance lease receivables as at 31 December is as follows:

	31 December 2017	*31 December 2016*
Allowance for individual impairment	-	114
Allowance for collective impairment	146	209
Total allowance for impairment	**146**	**323**

9. Investment securities available for sale

Available-for-sale securities comprise:

	31 December 2017	*31 December 2016*
Bonds issued by the National Bank	21 143	71 000
Bonds issued by republican management bodies	13 560	11 760
Bonds issued by Belarusian banks	10 860	10 334
Investments in equity instruments	516	516
Securities available for sale	**46 079**	**93 610**

In 2017, the Bank purchased bonds of the National Bank of the Republic of Belarus in USD.

As at 31 December 2017, the following financial assets are transferred as collateral for funds borrowed from banks (Note 16): government long-term bonds of the Ministry of Finance of the Republic of Belarus of 233 issue in quantity of 5 000 items amounting to BYN 9 862 thousand; long-term bonds of the National Bank of the Republic of Belarus of 21 issue in quantity of 1 058 items amounting to BYN 1 971 thousand and long-term bonds of the National Bank of the Republic of Belarus of 34 issue in quantity of 848 items amounting to BYN 1 642 thousand. As at 31 December 2016, government long-term bonds of the Ministry of Finance of the Republic of Belarus of 122 issue in quantity of 100 items amounting to BYN 2 040 thousand; government long-term bonds of the Ministry of Finance of the Republic of Belarus of 103 issue in quantity of 52 iterms amounting to BYN 5 127 thousand are transferred as collateral.

(in thousands of Belarusian Roubles)

10. Investment property

Movements in investment property are as follows:

	2017	***2016***
At 1 January	**3 914**	**4 692**
Additions	–	–
Disposals	(392)	(838)
Change in fair value	106	60
At 31 December	**3 628**	**3 914**

As at 31 December 2017, gains from change in fair value of investment property are unrealized. These gains are recognized in the statement of profit or loss as gains from change in fair value of investment property.

The measurement of fair value as at 31 December 2017 and 2016 was performed by professional independent appraisers applying income and market methods of valuation. The income method is based on future discounted cash flows from the use of investment property. The market method uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets.

The table below summarizes the information on the amounts of rental income and direct operating expenses related to investment property and recognized in profit or loss for the period:

	31 December 2017	***31 December 2016***
Rental income derived from investment property (Note 25)	248	455
Direct operating expenses (including repairs and maintenance) related to investment property that generated rental income	(6)	(104)
	242	**351**

As at 31 December 2017, the Bank has a permanent structure at the following address: Minsk, Alibegova St. 15, with an area of 2 788.90 m^2, the fair value of which is BYN 3 628 thousand (as at 31 December 2016 – BYN 3 521 thousand). This permanent structure is a pledged property under the concluded between Joint-Stock Company Development Bank of the Republic of Belarus and CJSC MTBank mortgage agreement No. unnumb. dated 11 May 2016.

(in thousands of Belarusian Roubles)

11. Property and equipment

Movements in property and equipment are as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Construction in progress*	*Total*
Cost						
At 1 January 2017	**4 855**	**12 909**	**770**	**7 844**	**41**	**26 419**
Additions	38	2 145	-	358	121	2 662
Disposals	(15)	(6)	(18)	(66)	–	(105)
At 31 December 2017	**4 878**	**15 048**	**752**	**8 136**	**162**	**28 976**
Accumulated depreciation						
At 1 January 2017	**(1 056)**	**(6 948)**	**(420)**	**(3 253)**	**–**	**(11 677)**
Depreciation charge	(104)	(1 773)	(84)	(815)	–	(2 776)
Disposals	15	6	18	59	–	98
At 31 December 2017	**(1 145)**	**(8 715)**	**(486)**	**(4 009)**	**–**	**(14 355)**
Net book value						
At 1 January 2017	**3 799**	**5 961**	**350**	**4 591**	**41**	**14 742**
At 31 December 2017	**3 733**	**6 333**	**266**	**4 127**	**162**	**14 621**

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Construction in progress*	*Total*
Cost						
At 1 January 2016	**4 633**	**9 018**	**812**	**6 487**	**87**	**21 037**
Additions	303	3 916	163	1 474	-	5 856
Disposals	(81)	(25)	(205)	(163)	-	(474)
Reclassification between groups	-	-	-	46	(46)	-
At 31 December 2016	**4 855**	**12 909**	**770**	**7 844**	**41**	**26 419**
Accumulated depreciation						
At 1 January 2016	(892)	(5 328)	(494)	(2 664)	-	(9 378)
Depreciation charge	(238)	(1 645)	(92)	(734)	-	(2 709)
Disposals	74	25	166	145	-	410
At 31 December 2016	**(1 056)**	**(6 948)**	**(420)**	**(3 253)**	**-**	**(11 677)**
Net book value						
At 1 January 2016	**3 741**	**3 690**	**318**	**3 823**	**87**	**11 659**
At 31 December 2016	**3 799**	**5 961**	**350**	**4 591**	**41**	**14 742**

As at 31 December 2017 and 2016, the value of fully depreciated fixed assets made up BYN 5 892 thousand and BYN 3 442 thousand, respectively. As at 31 December 2017 and 2016, the Bank has no impairment of property and equipment.

(in thousands of Belarusian Roubles)

12. Intangible assets

Movements in intangible assets are as follows:

	2017	*2016*
Cost		
At 1 January	**23 390**	**11 298**
Additions	7 377	12 108
Disposals	(261)	(16)
At 31 December	**30 506**	**23 390**
Accumulated amortization		
At 1 January	(7 503)	(5 025)
Amortization charge	(3 806)	(2 492)
Disposals	156	14
At 31 December	**(11 153)**	**(7 503)**
Net book value		
At 1 January	**15 887**	**6 273**
At 31 December	**19 353**	**15 887**

As at 31 December 2017 and 2016, the value of fully amortized intangible assets amounted to BYN 1 195 thousand and BYN 1 244 thousand, respectively.

The Bank's intangible assets are primary represented by software used in banking (accounting systems, software for processing systems and business lines) and licensing agreements for its use.

13. Taxation

Income tax expense comprises:

	2017	*2016*
Current income tax charge	14 059	11 807
Deferred tax charge − origination and reversal of temporary differences	7 205	2 956
Income tax expense	**21 264**	**14 763**

Belarusian legal entities should account for and pay taxes by themselves. The income tax rate for banks is set at 25% from 1 January 2015, excluding income from transactions with securities that are not taken into account when determining gross profit in accordance with the Tax Code of the Republic of Belarus.

The Bank calculates deferred tax assets and liabilities as at 31 December 2017 and 2016 using 25% tax rate.

The effective income tax rate differs from the statutory income tax rate. Reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2017	*2016*
Profit before tax	**85 170**	**61 177**
Statutory tax rate	25%	25%
Estimated income tax expense at statutory rate	**21 293**	**15 294**
Securities tax credits	(1 655)	(1 211)
Capital investment tax credits	(74)	(194)
Non-deductible expenditures	1 579	803
Income recognized for tax purposes only	121	71
Income tax expense	**21 264**	**14 763**

(in thousands of Belarusian Roubles)

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

	31 December 2015	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2016*	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2017*
Tax effect of deductible temporary differences					
Derivative financial assets	(146)	(131)	**15**	(14)	**1**
Derivative financial liabilities	–	3	**3**	(3)	**–**
Investment property	169	128	**297**	(81)	**216**
Property and equipment	78	(16)	**62**	(62)	**–**
Debt securities issued	–	–	**–**	41	**41**
Amounts due to customers	424	(424)	**–**	343	**343**
Other assets	–	903	**903**	(487)	**416**
Other liabilities	36	51	**87**	99	**186**
Tax effect of taxable temporary differences					
Amounts due from credit institutions	(45)	(113)	**(158)**	(107)	**(265)**
Derivative financial assets	–	–	**–**	–	**–**
Loans to customers	(8 272)	(1 733)	**(10 005)**	(6 248)	**(16 253)**
Investment securities available for sale	(61)	(176)	**(237)**	221	**(16)**
Investment property	–	–	**–**	–	**–**
Property and equipment	–	–	**–**	(37)	**(37)**
Intangible assets	(114)	32	**(82)**	34	**(48)**
Other assets	(128)	128	**–**	–	**–**
Amounts due to credit institutions	–	(85)	**(85)**	(178)	**(263)**
Amounts due customers	–	(46)	**(46)**	46	**–**
Derivative financial liabilities	–	–	–	(3)	**(3)**
Debt securities issued	(101)	100	**(1)**	1	**–**
Other borrowings	(35)	(7)	**(42)**	26	**(16)**
Provisions	(579)	(1 575)	**(2 154)**	(787)	**(2 941)**
Other liabilities	–	–	–	–	–
Subordinated debt	(143)	5	**(138)**	(9)	**(147)**
Deferred tax liabilities, net	**(8 625)**	**(2 956)**	**(11 581)**	**(7 205)**	**(18 786)**

(in thousands of Belarusian Roubles)

14. Other impairment losses and provisions

The movements in impairment allowances and other provisions were as follows:

	Other assets	*Guarantees and letters of credit*	*Total*
As at 1 January 2016	**827**	**52**	**879**
Charge/(reversal)	1 077	(56)	1 102
Foreign exchange differences	-	4	4
Amount written off	(23)	-	(23)
At 31 December 2016	**1 881**	**-**	**1 881**
Charge	1 108	-	1 108
Amount written off	(7)	-	(7)
At 31 December 2017	**2 982**	**-**	**2 982**

The allowance for impairment of assets is deducted from the carrying amount of the related assets. Provisions for guarantees and letters of credit are recorded in liabilities.

15. Other assets and liabilities

Other assets comprise:

	31 December 2017	*31 December 2016*
Accrued commission income	3 660	2 386
Accounts receivable	3 110	3 093
Accounts receivablefor banking operations	2 118	616
Total financial assets	**8 888**	**6 095**
Prepaid taxes other than income tax	1 241	471
Prepayment and other debtors	1 208	1 234
Prepaid expenses	1 009	1 175
Inventory	458	675
Total non-financial assets	**3 916**	**3 555**
Less − allowance for impairment of other assets (Note 14)	(2 982)	(1 881)
Other assets	**9 822**	**7 769**

As at 31 December 2017, prepayments and other debtors included the amount of prepayment for property and equipment in the amount of BYN 389 thousand (2016 – BYN 723 thousand). In 2017, the impairment of inventory in the amount of BYN 218 thousand was recognized (in 2016 was BYN 81 thousand).

Other liabilities comprise:

	31 December 2017	*31 December 2016*
Accounts payable on banking operations	1 284	565
Accounts payable to suppliers (contractors)	564	609
Accrued commission expenses	8	1
Other	2 071	1 571
Total financial liabilities	**3 927**	**2 746**
Commitments to staff	2 982	2 591
Taxes payable, other than income tax	1 664	1 103
Accounts payable to the Deposit Insurance Agency	440	376
Deferred income	49	55
Other expenses	666	–
Total non-financial liabilities	**5 801**	**4 125**
Other liabilities	**9 728**	**6 871**

(in thousands of Belarusian Roubles)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2017	*31 December 2016*
Term deposits and loans from local banks	40 053	19 289
Term deposits and loans of the National Bank	–	489
Current accounts	1 787	518
Amounts due to credit institutions	**41 840**	**20 296**

As at 31 December 2017, amounts due to credit institutions of BYN 40 053 thousand (96%) were due to five banks.

As at 31 December 2016, amounts due to credit institutions of BYN 16 620 thousand (82%) were due to three banks.

As at 31 December 2017 funds of credit institutions include funds attracted through REPO transactions, in the amount of BYN 3 499 thousand (31 December 2016: BYN 6 876 thousand), as security for which were pledged securities held in the Bank's portfolio (Note 9). As security for borrowings from one of the resident banks in the amount of BYN 11 117 thousand, The Bank provided securities as collateral (Note 9) and secured by real estate (Note 10).

Gain on initial recognition of loans

In 2017 the Bank financed start-up companies as part of a joint program with OJSC Development Bank of the Republic of Belarus (Note 8). As at 31 December 2017, funds under this program were BYN 7 144 thousand (2016: BYN 3 246 thousand). Gain on initial recognition of financial instruments at fair value for 2017 was BYN 662 thousand (2016: BYN 889 thousand).

17. Amounts due to customers

Amounts due to customers comprise:

	31 December 2017	*31 December 2016*
Term deposits	351 703	327 271
Current customer accounts	302 349	203 138
Customer accounts	**654 052**	**530 409**
Cash held as security against letters of credit	**1 817**	**1 481**

Term deposits include deposits held by the Bank as security against irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

As of 31 December 2017, amounts due to customers in the amount of BYN 139 187 thousand (21%) were due to ten largest customers (2016: BYN 113 210 thousand (21%). As at 31 December 2017, the amount of debt on the guarantee deposit of the largest of these clients was BYN 33 674 thousand (31 December 2016: BYN 33 674 thousand) and represented collateral for the loan (Note 8).

Term deposits include deposits of individuals in the amount of BYN 173 344 thousand (2016: BYN 184 384 thousand).

(in thousands of Belarusian Roubles)

Breakdown of customer accounts by economic sector is as follows:

	31 December 2017	*31 December 2016*
Private companies	346 193	250 913
Individuals	296 960	270 349
State organizations	10 899	9 147
Amounts due to customers	**654 052**	**530 409**

Breakdown of customer accounts by economic sector is as follows:

	31 December 2017	*31 December 2016*
Individuals	296 960	270 349
Trade	90 606	58 391
Construction	68 435	5 221
Transport	67 047	42 158
Individual entrepreneurs	23 695	10 205
Insurance	18 782	7 197
Manufacturing	12 369	49 460
Entertainment services	11 513	1 303
Publishing activities	4 746	48
Software development and information technologies	2 330	20 560
Financial services	2 132	3 639
Education	1 334	4 343
Government bodies	538	–
Non-profit organizations	39	491
Real estate	–	23 416
Telecommunications	–	1 282
Other	53 526	32 346
Amounts due to customers	**654 052**	**530 409**

18. Debt securities issued

Debt securities issued are primarily placed through non-public sales and comprised the following:

	31 December 2017	*Maturity*	*Effective interest rate*	*31 December 2016*	*Maturity*	*Effective interest rate*
Interest-bearing bonds in BYN	23 602	2018	7-11,5%	12 635	2017	18%-27%
Interest-bearing bonds in USD	918	2018	5,5%	2 807	2017	5%-7%
Interest-bearing bonds in EUR	192	2018	5,5%	167	2017	6%
Debt securities issued	**24 712**			**15 609**		

In 2016 and 2017, the Bank timely and fully fulfilled obligations on issued securities.

(in thousands of Belarusian Roubles)

19. Other borrowings

Other borrowings comprised the following:

	Currency	*Type of interest rate*	*Attraction year*	*Maturity year*	*31 December 2017*	*31 December 2016*
European Bank for Reconstruction and Development	USD	floating	2013	2017-2018	–	6 177
European Bank for Reconstruction and Development	BYN	floating	2014	2017	–	2 211
Nordic Environment Finance Corporation	EUR	floating	2014	2019	2 399	6 190
Incofin	EUR	fixed	2016	2017-2018	4 849	14 677
FINETHIC S.C.A., SICAV-SIF (Symbiotics)	USD	fixed	2016	2018	2 004	1 990
DUAL RETURN VISION MICROFINANCE FUN (Symbiotics)	USD	fixed	2016	2018	2 005	1 990
Other borrowings					**11 257**	**33 235**

As at 01 January 2018 the Bank did not comply with Tier 1 ratio, taking into account the conservation buffer of the prudential reporting (Note 21). The implementation of prudential standards is a financial covenant under long-term contracts. Aa at the reporting date, the Bank received confirmation from counterparties that the violation of the standard will not result in early withdrawal of resources, except for the contract with Nordic Environment Finance Corporation dated 25 April 2014, borrowings under which are recognized in the financial statements in the amount of BYN 2 399 thousand.

20. Subordinated debt

Subordinated debt comprises the following:

	Attraction date	*Maturity date*	*Interest rate*	*31 December 2017*	*31 December 2016*
Subordinated loan 1 in USD	8 April 2010	8 April 2023	6%	9 074	9 009
Subordinated loan 2 in USD	29 April 2010	29 April 2023	6%	9 420	9 352
Subordinated loan 3 in BYN	23 July 2014	23 July 2023	5%	160	153
Subordinated loan 4 in BYN	17 October 2014	27 October 2023	5%	364	363
Subordinated loan 5 in USD	19 June 2015	19 June 2025	6%	3 945	3 917
Subordinated loan 6 in USD	30 September 2015	30 September 2025	6%	1 973	1 959
Subordinated loan 7 in USD	15 September 2016	30 September 2026	5%	10 061	9 988
Subordinated debt				**34 997**	**34 741**

In 2017 and 2016, the Bank timely and fully fulfilled obligations on subordinated debt.

(in thousands of Belarusian Roubles)

21. Equity

As of 31 December 2017 and 31 December 2016, the authorized, issued and fully paid-in share capital of the Bank was 141 448 ordinary shares with a nominal value as at 31 December 2017 of BYN 87, as at 31 December 2016 of BYN 87. All shares have the same nominal value and carry one vote.

In 2017 and 2016 there were no movements in shares outstanding, issued and fully paid, capital structure is presented below::

	Number of ordinary shares	*Nominal amount of ordinary shares*	*Adjustment for inflation*	*Total*
At 31 December 2017	141 448	12 306	44 828	**57 134**
At 31 December 2016	141 448	12 306	44 828	**57 134**

At the shareholders' meeting held on 20 April 2016, the Bank declared dividends totaling BYN 10 114 thousand for ordinary shares (BYN 71.5 per share). The shareholders' meeting held on 27 July 2016, the Bank declared dividends totaling amount of BYN 12 447 thousand for ordinary shares (BYN 88 per share). Thus, the total amount of dividends declared in 2016 amounted to BYN 22 561 thousand.

At the shareholders' meeting held on April 20, 2017, the Bank declared dividends totaling BYN 6 309 thousand for ordinary shares (BYN 44.6 per share). The shareholders' meeting held on 7 July 2017, the Bank declared dividends totaling BYN 693 thousand for ordinary shares (BYN 4.9 per share). At the shareholders meeting held on 18 December 2017, the Bank declared dividends totaling BYN 1 817 thousand for ordinary shares (BYN 12.8 per share). Thus, the total amount of dividends declared in 2017 amounted to BYN 8 819 thousand.

In accordance with Belarusian legislation, accumulated retained and unreserved earnings only may be distributed between the shareholders of the Bank as dividends according to the Bank’s financial statements prepared in accordance with the legislation of the Republic of Belarus. The Bank had retained and unreserved earnings amounted to BYN 56 011 thousand as at 31 December 2017 in accordance with the legislation of the Republic of Belarus (2016: BYN 42 967 thousand).

There were no changes in the authorized capital in 2017.

In 2016 the authorized capital increased by BYN 120 thousand based on decision of the General Meeting of Shareholders dated 20 April 2016 and the letter of the National Bank of the Republic of Belarus No. 29-12/303 dated 14 June 2016due to retained earnings for the previous years.

As at 1 January 2018, the Bank did not comply with Tier 1 ratio calculated based on conservation buffer. In accordance with p. 1.2.1. Resolution of the Board of the National Bank of the Republic of Belarus No. 641 dated 1 December 2012 *On additional requirements to the procedure of application of Supervisory response measures by the National Bank of the Republic of Belarus and criteria for making a decision on their application* this violation results in the adoption by the National Bank of a decision on the application of Supervisory response measures in the form of a ban on the distribution of profit between the shareholders of the Bank by declaring and (or) paying dividends by resolution No. 180 of the Board of The National Bank of the Republic of Belarus dated 18 may 2017, the tier 1 capital adequacy ratio, taking into account the conservation buffer for banks, was abolished from 01 January 2018, in accordance with the established procedure.

The Board of the National Bank of the Republic of Belarus considered the petition of CJSC MTBank dated 4 January 2018 No. 118-20/00558 and made a decision (resolution dated 24 January 2018 No. 30) on the non-application of Supervisory response measures to the Bank for the violation of the Tier 1 ratio on 1 January 2018, taking into account the conservation buffer.

(in thousands of Belarusian Roubles)

22. Commitments and contingencies

Operating environment

During the year 2017 the National Bank of the Republic of Belarus (“NBRB” or “National Bank”) maintained a policy of stabilization of the financial market. During the year, the refinancing rate was reduced from 18% to 11%.

Since 4 July 4 2017 in the Republic of Belarus the transfer to structure of IBANs (international Bank account number) and new Bank identification codes of BIC banks (Bank identification code) has been carried out.

All accounts in all banks of the Republic of Belarus are replaced with accounts in a new format. At the same time, the change in the format of the account number did not have an impact on the mode of operation, maintenance and use by customers of their accounts.

Legal issues

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

Taxation

Belarusian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management’s interpretation of such legislation regarding the Bank transactions and activity may be challenged by the relevant authorities.

As a result, significant additional taxes, penalties and interest may be charged. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period.

The management believes that its interpretation of the relevant legislation is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Commitments and contingencies

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

	31 December 2017	*31 December 2016*
Credit related commitments		
Loan commitments	583 645	504 900
Guarantees	42 738	33 390
Letters of credit	4 551	1 375
	630 934	**539 665**
Less − cash held as security against letters of credit (Note 17)	(1 817)	(1 481)
Commitments and contingencies	**629 117**	**538 184**

Under the terms of the loan agreements, the Bank reserves the right to withdraw from the loan commitments unilaterally.

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

The Bank had no significant capital expenditure commitments as of 31 December 2017 and 2016.

(in thousands of Belarusian Roubles)

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Currently public liability insurance is not available in the Republic of Belarus.

23. Net gain from foreign currency transactions

	2017	*2016*
Trading transactions	13 032	17 672
Costs of derivative financial instruments transactions	(50)	(190)
Revaluation of currency accounts	2 627	(587)
Net gain from foreign currency transactions	**15 609**	**16 895**

24. Net fee and commission income

	2017	*2016*
Commissions on transactions with payment cards	40 087	22 099
Cash desk services	15 107	12 387
Documentary transactions	1 158	997
Securities	279	337
Foreign exchange transactions	258	817
Other	1 616	37
Fee and commission income	**58 505**	**36 674**
Commissions on transactions with payment cards	(14 967)	(11 367)
Transactions with banks	(5 006)	(4 760)
Foreign exchange transactions	(250)	(205)
Documentary transactions	(220)	(253)
Securities	(148)	(187)
Other	(615)	(487)
Fee and commission expense	**(21 206)**	**(17 259)**
Net fee and commission income	**37 299**	**19 415**

25. Other income

	2017	*2016*
Proceeds from debts previously written off	13 117	8 407
Fines and penalties received	1 311	1 449
Rental income	248	455
Royalty	187	–
Net income/(loss) from sale of property, intangible assets and investment property	41	(38)
Other	401	491
Total other income	**15 305**	**10 764**

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2017	*2016*
Salaries and bonuses	(27 018)	(24 590)
Social security contributions	(8 423)	(6 805)
Remuneration to members of Supervisory Board	(1 203)	(333)
Other personnel expenses	(523)	(540)
Personnel expenses	**(37 167)**	**(32 268)**

(in thousands of Belarusian Roubles)

Marketing and advertising	(16 323)	(9 258)
Rental payments	(7 399)	(7 367)
Expenses on maintenance of banking software	(2 862)	(2 163)
Communication services	(2 621)	(2 237)
Utilities	(2 071)	(2 149)
Payments to the Deposit Insurance Agency	(1 664)	(1 279)
Repair and maintenance of property and equipment	(1 697)	(1 537)
Postal and courier services	(1 139)	(1 113)
Expenses on Bank plastic cards	(909)	(1 470)
Professional services	(788)	(769)
Taxes, other than income tax	(783)	(330)
Stationery and other office expenses	(729)	(579)
Entertainment expenses	(631)	(473)
Repair and maintenance of vehicles and fuel expenses	(592)	(597)
Security expenses	(538)	(505)
Other expenses	(2 184)	(2 287)
Other operating expenses	**(42 930)**	**(34 113)**

27. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, assessment and monitoring and setting risk limits and other internal controls. This risk management process is critical to the Bank's continuing profitability and each Bank employee is responsible for the risk exposures related to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter in its turn is divided into trading and non-trading risks. is the Bank is also exposed to operating risk. The independent risk control process is not included in business risks such as changes in the environment, technology or industry. Such risks are monitored within the Bank's strategic planning process.

Risk management structure

The risk management system has a three level organizational structure, which includes collegial level, analytical divisions and business units.

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

Supervisory Board

The Supervisory Board of the Bank ensures the organization of the risk management system, excludes conflicts of interest and conditions of its occurrence in the process of risk management, approves local regulatory legal acts defining the risk management strategy of the Bank, as well as determines the tolerance to the Bank's inherent risks.

Management Board

The management Board is responsible for monitoring the risk management process in the Bank, for developing the risk management structure, approves the local regulatory legal acts of the Bank, developed in pursuance of the risk management strategy and regulatory policies, methods and procedures for risk management. Responsibilities of the Management Board include preparation of budget plan for the year, analysis and review of the Bank's strategy and consideration of key risks.

Risk Committee

The Risk Committee performs the following functions:

- preliminary (before consideration by the Supervisory Board) consideration of issues within the competence of the Committee;
- preparation and submission of recommendations to the Supervisory Board for decision-making on issues within the competence of the Committee;
- internal monitoring of implementation of the Supervisory Board strategy and decisions on the risk profile and risk tolerance of the Bank;
- regular reporting to the Supervisory Board of the status of the risk management system and the level of risks of the Bank, reflecting its risk profile and compliance with the established risk tolerance requirements;
- decision-making regarding risks within the authority defined by the Supervisory Board.

  The competence of the Committee includes issues related to: organization of the risk management system in the Bank, approval of local regulatory legal acts defining the risk management strategy; consideration of reports of the official responsible for risk management in the Bank;
- assessment of the Bank activities risk in strategic areas of its development;
- evaluation of effectiveness of the Bank's risk management system;
- risk management, including in relation to:

– credit policy;

– organizational structure of the risk management system, taking into account the requirements for exclusion of conflict of interest;

– delegation of authority in the areas of risk management;

– sufficiency of staffing and provision of necessary information systems and software and hardware;

- analysis and evaluation of the riskiness of the implemented and existing Bank products;
- analysis of loan portfolio quality, trends and reasons for changes;
- determination of the composition and structure of the required risk reporting for the Supervisory Board.

Credit Committee

The Credit Committee is responsible for making decisions related to those active transactions of the Bank, which are exposed to credit risk, except for those under the authority of business units. The Credit Committee makes decisions on the possibility of these transactions and on the basic terms of the transactions specified above.

Risk Management

The Risk Management Unit is responsible for implementation and performance of risk related procedures to ensure an independent control process. The Risk Management Unit participates in development of the overall risk assesses the risks of major banking transactions, monitors risks and informs management of changes in major business areas.

Financial and economic department ("FED")

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

Audit Committee

The functions of the Audit Committee include overall management and maintenance of the internal control system, the internal audit service of the Bank, as well as the selection and organization of interaction with audit organizations, auditors - Individual entrepreneurs.

(in thousands of Belarusian Roubles)

Internal Audit Department

Risk management processes of the Bank are audited by the management of internal audit function that examines both the adequacy of the procedures and the Bank’s compliance with these procedures. Internal Audit discusses the results of all reviews with management, and reports its findings and recommendations of the Audit Committee.

Other business units

The Bank carries out risk management based on systematic approach, based on common standards for identification, assessment and minimization of risks, established according to recommendations of the National Bank of the Republic of Belarus and the Basel Committee on Banking Supervision. In accordance with these standards, the Bank has developed and successfully implemented risk management procedures for the main risks inherent in the Bank's operations.

The Bank's management considers risk management and control as an important aspect of the management and operation process. For this purpose CJSC MTBank developed system of regulations and procedures for managing all Bank risks, which are identified by Bank, the system of decision-making and differentiation of authorities designed to provide the proper functioning of the banking risk management system. Risk management is carried out at all levels of management: the Supervisory Board, the Risk Committee, the Management Board, the Bank's collegial bodies: committees, Risk Management, Internal Control Department, the heads of the Bank's units. In order to ensure effective control over the risk management processes, the Supervisory Board of CJSC MTBank has set limits on the main (relevant) types of risks of the Bank's activities (risk-appetite and risk tolerance).

The following types of main (actual) risks threatening the implementation of the strategic plan are determined by the Bank as the most significant for it at this stage of development and in modern economic conditions:

1. Strategic risk;
2. The risk of financial stability deterioration;
3. Credit risk;
4. Liquidity risk;
5. Operational risk;
6. Risk of loss of business reputation;
7. Interest rate risk;
8. Currency risk;
9. Commodity risk;
10. Concentration risk

These types of risks have a permanent nature of their manifestation, a significant weight in the risk profile of the Bank and represent a real threat to the implementation of the profit plan. Description of the Bank's policy in respect of managing these risks is presented below.

Strategic risk - the Bank's risk of losses, loss of planned revenues due to errors (weaknesses) made when making decisions that define the strategy of activities and development of the Bank (strategic management) and which coming to neglect or insufficient accounting of possible dangers that may threaten the Bank activities, incorrect or insufficiently reasonable definition of perspective directions of activities in which the Bank may achieve competitive advantages, absence or incomplete provision of the required resources (financial, material and technical, human) and organizational measures (management decisions), which should ensure the achievement of the objectives of the Bank.

The main rules of risk management are monitoring of implementation of main parameters and objectives specified by the Bank's development Strategy, factor analysis of the strategic plan, analysis of macroeconomic conditions of the Bank’s activities, the adjustment of the strategic plan, if necessary, or even change in the Bank strategic development goals and directions.

In order to manage this risk, the Bank performs the following measures:
- expanding and increasing the attraction of long-term foreign resources;
- limiting or complete refusal of non-strategic business lines development;
- development of competitive types of products, creation of new conditions and improvement of service for existing products;
- improving the Bank image, the degree of its recognition;
- Implementation of personnel policies aimed at ensuring the Bank's activities with a sufficient number of high-quality employees.

Measures to recover from the losses is the correction of the Bank's activities based on the results of the analysis of macroeconomic conditions of the Bank, factor analysis of the strategic plan.

The risk of decline in financial sustainability – the risk of a lack of adequacy of regulatory capital to cover the main types of risks assumed by the Bank.

The main and only rule for managing this type of risk is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals. In order to manage this type of risk, the Bank sets credit and market risk limits.

The measures to correct the adequacy of regulatory capital are determined based on the results of retrospective factor analysis of changes in its level. These measures may include changes in the size and/or structure of the loan portfolio, market risk exposure, bad debt collection, changes in the authorized or regulatory capital of the Bank.

Credit risk – the risk of the Bank's losses, non-receipt of planned income due to non-performance, delayed or incomplete performance of the debtor's financial and other property obligations to the Bank in accordance with the terms of the contract or the law.

In order to manage this risk, the Bank performs the following measures:
- in case of secured lending, the financial reliability of the client is assessed by the degree of his / her creditworthiness;
- in unsecured lending, the financial reliability of the client is assessed by the degree of its solvency;
- the larger the loan, the stricter the requirements for the financial reliability of the borrower;
- the reliability of investment in large loan transactions is evaluated on an individual basis according to the conclusion of underwriter on the financial reliability of the client, massive and small types of loan transactions are assessed based on the results of scoring of the creditworthiness of the borrower or in accordance with a fully formalized rules of borrower's creditworthiness analysis and making decisions on financing (product delivery) within the certain private banking products;
- the project on issue of foreign currency loan to a corporate client in is obligatory subject to stress testing of currency risk.

In order to recover losses, the Bank performs the following measures:
- debt restructuring;
- definition of standard requirements to fulfilment of obligations on loan transactions and, if necessary, tightening them;
- pre-trial and judicial debt repayment;
- sale of debt.

The limits for active transactions of the Bank with counterparty banks are calculated and approved on a monthly basis by the Financial Committee and the Management Board of the Bank in the form of loans and deposits in the interbank market. Monthly changes in the financial position of all counterparty banks are analyzed and monitored. As at 31.12.2017, limits for active transactions with 49 counterparty banks have been opened. For 2017 limits on active transactions with 5 counterparty banks were closed (previous year 15 limit lines were closed))), 4 new limit lines to the banks were opened (previous year 5 limit lines).

Liquidity risk – the probability of loss of the Bank's ability to fund the growth of assets without incurring losses and/or timely fulfill its obligations to depositors and creditors.

(in thousands of Belarusian Roubles)

Key risk management rules:

- performance of liquidity accumulation strategy;
- division of liquid assets into liquid assets of the first and the second stages.

Determination of necessary sufficiency of liquid assets at the Bank's operation routinely (liquidity of the first stage) and emergently (liquidity of the first and the second stage);

- division of the Bank's liquidity management into operational and strategic.

Operational management is a combination of rules and regulations that ensure sufficient liquidity within the Bank's operating day. Strategic management is a combination of rules and regulations that ensure sufficient liquidity in the long term;

- organizational separation of operational and strategic liquidity management;
- Implementation of a system of limits aimed at ensuring strategic liquidity, which determine the "point of no return", when in violation of these limits, the Bank's liquidity recovery on its own is likely to be impossible.

In order to manage this risk, the Bank performs the following measures:

- accumulation and maintenance of liquid assets at the required level;
- management of the risk of loss of business reputation (formation of the Bank image with high financial reliability, capable of providing quality services, generate exclusive and marketable products);
- ensuring an adequate structure and diversification of funding sources.

Measures to recover the necessary liquidity sufficiency in case of its loss are determined in accordance with the existing action plan to recover liquidity and exit from the crisis.

Interest rate risk – the probability of the Bank's losses, non-receipt of planned income from changes in the balance and off-balance sheet positions, due to changes in market interest rates.

The main rule of risk management is to optimize the ratio of assets and liabilities by term and amount. The consequence of this rule is the possibility of increasing the interest rate risk in order to reduce the liquidity risk and vice versa, reducing the excess liquidity (increasing the liquidity risk) in order to reduce the interest rate risk.

In order to manage this risk, the Bank performs the following measures:

- stimulation of desired changes in the asset portfolio, resource base through the transfer pricing system;
- formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk to counterparties and clients;
- forecasting changes in interest rates on the market and that allow the Bank to adapt with the least loss to changing conditions of its activities.

Control measures (recovering measures) of the risk at an acceptable level is the correction of the limit policy for its management, correction of price policy, improvement of analysis models.

Operational risk – the risk of losses and (or) additional costs incurred by the Bank as a result of non-compliance of the Bank's established procedures and procedures for banking transactions and other transactions with the legislation or violation by the Bank's employees, incompetence or mistakes of the Bank's employees, non-compliance or failure of the systems used by the Bank, including informational systems, as well as as a result of external factors.

The main rules of risk management are ensuring the effective operation of the system of identification and recognition of operational incidents.

In order to manage this risk, the Bank performs the following measures:

- the sufficiency of financing to update the software, purchase of information and technical equipment, employment of highly qualified specialists;
- time sufficiency for testing of the systems during the introduction of new products of the Bank;
- creation of backup communication lines;
- sufficient provision of self-contained power supply sources;

- implementation of adequate personnel policies (recruitment, adaptation and training of personnel, motivation for effective work, formation of personnel reserve, retention of key personnel);
- improvement of the fraud-scoring system.

Measures to recover losses from realization of operational risks are determined individually in each case depending on features of sources and objects of operational risk.

Risk of loss of business reputation – the risk of the Bank's losses, non-receipt of planned income as a result of narrowing the customer base, reducing of other development indicators due to the formation of a negative image in the company of the financial reliability of the Bank, the quality of services provided or the nature of activities in general.

Key risk management rules are to ensure the financial reliability of the Bank, the quality of services at a level not less than the main competitors' level, systematic work to improve it.

In order to manage this risk, the Bank performs the following measures:
- absolute ensuring the financial reliability of the Bank;
- ensuring the proper quality of services provided;
- ensuring transparency of the Bank's activities;
- ensuring information security of the Bank;
- countering of money laundering from crime to Finance terrorist activities;
- advertising, charitable, social actions, campaigns, programs;
- building of positive news in the media about the Bank activities.

Measures to recover losses are actions aimed at recovering of financial stability and reliability of the Bank, correct errors and deficiencies in customer service, publication of retractions in cases of "black" PR and appeal to the court.

Commodity risk – the probability of the Bank's losses incurring due to non-receipt of the planned income from changes in cost of goods.

Key risk management rules are:
- avoiding risk as much as possible;
- monitoring and forecasting of market conditions in the context of commodity items in the Bank's portfolio.

In order to manage this risk, the Bank performs the following measures:
- virtual modeling and role-playing of situations;
- risk limits management;
- requirements toughening to the financial reliability of the borrowers, the quality of the security of loan transaction.

Control measures (recovering measures) are determined in accordance with the strategy of immediate sale or retention until the realization of a certain event adopted in relation to particular commodity item.

Concentration risk – the risk losses incurring due to non-receipt of the planned income as a result of concentration of certain types of risks.

The main and only rule of this type of risk management is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals.

In order to manage this risk, the Bank performs the following measures:
- risk limits management;
- formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk to counterparties and clients;
- requirements toughening for the financial reliability of borrowers, the degree of security of the credit transaction, requirements toughening for deposit contracts of large depositors;
- improvement of system to prevent fraudulent transactions.

In order to recover losses, the Bank performs the following measures:
- debt restructuring;
- implementation of security on loan transactions;
- pre-judicial and judicial debt repayment..

In 2016-2017, the Bank mainly operated on the territory of the Republic of Belarus. Foreign economic activity of the Bank relates to banking operations with non-resident banks.

Credit risk

In 2017, the Bank continued to pursue a weighted and balanced credit policy, which was presented by the following strategic guidelines: maintenance of sufficient reserve of liquid assets and priority development of lending of population and small business entities.

The Bank has developed a credit quality review process to ensure that possible changes in the creditworthiness of counterparties are identified early, including periodic review of collateral.

The credit risk management process includes the following: analyzing the borrower's financial reliability based its financial statements, information available in mass media; borrower's credit history, quality and level of loan collateral; monitoring of credit risk with a breakdown by borrowers and debt service, availability and integrity of the collateral; estimation and making required allowances for covering of potential losses.

Results of credit worthiness assessment are regularly reviewed by the Credit Committee when making decision on the possibility of loan issue.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited by derivatives with positive fair values, as recorded in the statement of financial position.

Credit-related commitments risks

The Bank provides guarantees its customers which may result in making payments by the Bank on behalf of customers. Such payments are collected from customers in accordance with guarantee contracts.. The Bank is exposed to similar risks on loans and which are mitigated by the same risk control procedures and policies. The probability of credit losses on credit-related commitments is considered to be lower as compared with that on financial instruments recognized in the statement of financial position, since the Bank may terminate its undrawn loan commitments.

The maximum exposure to credit risk under the statement of financial position, including derivatives, without consideration of risk mitigation due to use of offsetting general agreements on and collateral agreements, is best represented in their carrying amounts.

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

For more details on the maximum credit risk exposure for each class of financial instrument, please, see the specific notes. The effect of collateral and other risk mitigation techniques is presented in Note 8.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank according to the classification of financial assets established by instructions of the National Bank. This credit rating system is based on 5 groups of credit risk. The criteria for assigning financial assets into particular risk groups include financial performance, debt service and the value and sufficiency of collateral.
The table below provides the credit quality analysis by classes of asset on credit-related balance sheet items, based on the Bank's credit rating system.

In the table below loans to banks and customers of standard rating (the first risk group according to regulations of the National Bank) include loans with a minimal level of credit risk and they are well collateralized. Other loans not individually impaired which are issued to the borrowers with less good financial position and less good debt service, but are included in the sub-standard rating.

(in thousands of Belarusian Roubles)

	Notes	*Neither past due nor individually impaired* *Standard grade 2017*	*Sub-standard grade 2017*	*Past due but not individually impaired 2017*	*Individually impaired 2017*	*Total 2017*
Cash and cash equivalents, except for cash on hand	5	103 181	–	–		**103 181**
Amounts due from credit institutions	6	26 963	–	–		**26 963**
Loans to customers	8					
Loans to legal entities		130 701	192 717	4 778	25 724	**353 920**
Loans to individuals		340 864	–	19 123	–	**359 987**
		471 565	**192 717**	**23 901**	**25 724**	**713 907**
Investment securities available for sale	9	45 563	–	–		**45 563**
Other financial assets	15	5 906	–	–	2 982	**8 888**
Total		**653 178**	**192 717**	**23 901**	**28 706**	**898 502**

	Notes	*Neither past due nor individually impaired* *Standard grade 2017*	*Sub-standard grade 2017*	*Past due but not individually impaired 2016*	*Individually impaired 2016*	*Total 2016*
Cash and cash equivalents, except for cash on hand	5	77 618	–	–	–	**77 618**
Amounts due from credit institutions	6	8 871	–	–	–	**8 871**
Loans to customers	8					
Loans to legal entities		188 941	61 113	10 697	21 433	**282 184**
Loans to individuals		223 862	275	23 395	–	**247 532**
		412 803	**61 388**	**34 092**	**21 433**	**529 716**
Investment securities available for sale	9	93 094	–	–	–	**93 094**
Other financial assets	15	6 095	-	-	-	**6 095**
Total		**598 481**	**61 388**	**34 092**	**21 433**	**715 394**

An analysis of past due but not individually impaired loans by age is provided below.

In accordance with the Bank's policy, it is obliged to perform accurate and consistent risk ratings according to the National Bank's classification within the loan portfolio. This facilitates ensures focused management of the applicable risks and the comparison of credit exposures on various lines of business, geographic regions and products. The rating system is supported by a variety of financial analytical methods, combined with processed market information to provide the main inputs for the measurement of counterparty risk. The attributable risk ratings are assessed and reviewed on a regular basis.

Ageing analysis of past due but not individually impaired loans per class of financial assets

(in thousands of Belarusian Roubles)

	Less than 30 days 2017	*31 to 60 days 2017*	*61 to 90 days 2017*	*Over 90 days 2017*	*Total 2017*
Loans to customers					
Loans to legal entities	1 176	826	640	2 136	**4 778**
Loans to individuals	9 173	2 729	1 598	5 623	**19 123**
Total	**10 349**	**3 555**	**2 238**	**7 759**	**23 901**

	Less than 30 days 2016	*31 to 60 days 2016*	*61 to 90 days 2016*	*Over 90 days 2017*	*Total 2016*
Loans to customers					
Loans to legal entities	2 278	2 348	2 841	3 230	**10 697**
Loans to individuals	9 192	3 394	2 167	8 642	**23 395**
Total	**11 470**	**5 742**	**5 008**	**11 872**	**34 092**

The above loans are impaired collectively. The Bank has no exposure past due and not impaired neither on an individual nor on a collective basis loans.

Impairment assessment

The main factors for the loan impairment assessment are the following: whether any payments of principal or interest are overdue by more than 90 days; there are any known difficulties of counterparties, credit rating downgrades, or infringement of the initial terms of the contract. The Bank performs impairment assessment at two levels: allowances individually assessed and allowances collectively assessed.

Individually assessed allowances

The Bank determines the allowances required for each individually significant loan on an individual basis. When determining allowance amounts, the following circumstances are considered: availability of business plan and sustainability of the counterparty's business; its ability to improve performance when financial difficulties arising; projected amounts receivable and the expected dividend payments in case of bankruptcy;, possibility of financial support; realizable value of collateral; and the timing of the expected cash flows. The impairment losses are measured at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including loans to individuals) and for individually significant loans in relation to which there is no objective evidence of individual impairment. Allowances are assessed on each reporting date with each portfolio receiving a separate review.

When collectively assessing, portfolio impairment is assessed that is likely to be present even though there is no yet objective individual impairment indicators. Impairment losses are measured on the basis of the following information: historical losses on the portfolio, current economic conditions, the approximate period since the moment of probable loss incurring to the moment of determination that it is required an individually assessed allowance for impairment, and and expected receipts and cost recovery after impairment of asset. Then impairment allowance is reviewed by credit management for compliance with the Bank's general policy.

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

Offsetting of financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to a legally enforceable general netting agreement or similar agreements that relate to the same financial instruments, whatever they are offset or not in the balance sheet.

Similar financial instruments include "repo" transactions, agreements on borrowing and provision of securities to the loan.

(in thousands of Belarusian Roubles)

The tables below present the financial liabilities that are the subject to legally enforceable general netting agreements and similar agreements as at 31 December 2016 and 2017.

	31 December 2017				**31 December 2016**			
		Amounts that have not been offset in the statement of financial position				**Amounts that have not been offset in the statement of financial position**		
Types of financial assets/financial liabilities	**The full amounts of recognized financial of assets/ (liabilities)**	**Financial instru-ments**	**Cash collateral received**	**Net amount**	**The full amounts of recognized financial of assets/ (liabilities)**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans to customers	36 413	-	(36 413)	-	48 513	-	(48 513)	-
Total financial assets	**36 413**	**-**	**(36 413)**	**-**	**48 513**	**-**	**(48 513)**	**-**
The transactions "repo", agreements on issue of of securities to a loan or similar agreements	(14 616)	13 475	-	(1 141)	(6 876)	6 876	-	-
Customer accounts	(36 413)	36 413	-	-	(48 513)	48 513	-	-
Total financial liabilities	**(51 029)**	**49 888**	**-**	**(1 141)**	**(55 389)**	**55 389**	**-**	**-**

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

	2017				***2016***			
	Belarus	***OECD***	***CIS and other countries***	***Total***	***Belarus***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	124 933	16 373	6 599	**147 905**	98 531	11 953	2 830	**113 314**
Amounts due from credit institutions	20 105	4 997	1 827	**26 929**	3 754	5 087	–	**8 841**
Derivative financial assets	25	–	7	**32**	–	–	–	**–**
Loans to customers	703 832	–	–	**703 832**	514 725	–	–	**514 725**
Investment securities available for sale	46 079	–	–	**46 079**	93 610	–	–	**93 610**
Other financial assets	5 906	–	–	**5 906**	4 214	–	–	**4 214**
	900 880	**21 370**	**8 433**	**930 683**	**714 834**	**17 040**	**2 830**	**734 704**
Liabilities								
Amounts due to credit institutions	(41 175)	(664)	(1)	**(41 840)**	(19 781)	(513)	(2)	**(20 296)**
Derivative financial liabilities	(6)	–	–	**(6)**	(47)	–	–	**(47)**
Amounts due to customers	(643 863)	(1 400)	(8 789)	**(654 052)**	(511 571)	(4 778)	(14 060)	**(530 409)**
Debt securities issued	(24 712)	–	–	**(24 712)**	(15 609)	–	–	**(15 609)**
Other borrowings	–	(11 257)	–	**(11 257)**	–	(33 235)	–	**(33 235)**
Other financial liabilities	(3 927)	–	–	**(3 927)**	(2 746)	–	–	**(2 746)**
Subordinated debt	(11 947)	–	(23 050)	**(34 997)**	(11 947)	–	(22 794)	**(34 741)**
	(725 630)	**(13 321)**	**(31 840)**	**(770 791)**	**(561 701)**	**(38 526)**	**(36 856)**	**(637 083)**
Net assets/(liabilities)	**175 250**	**8 049**	**(23 407)**	**159 892**	**153 133**	**(21 486)**	**(34 026)**	**97 621**

The Bank's liquidity management strategy provides for classifying liquid assets as assets of first and second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, may be quickly transformed to cash to ensure additional Bank liquidity. Effectively, they are allowance for liquid assets.

(in thousands of Belarusian Roubles)

The Bank also owns investment securities available for sale which may be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has open credit lines funds of which may be used to meet cash requirements. In addition, the Bank placed an obligatory deposit in the National Bank the amount of which depends on the level of customer funds attracted.

The Bank's liquidity position is also assessed in terms of fulfilment of liquidity ratios established by the National Bank of the Republic of Belarus. As of 31 December, these ratios, calculated on the basis of the financial statements of the Bank, prepared in accordance with the requirements of the legislation of the Republic of Belarus, were as follows:

	Ratio	*2017*	*2016*
"Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand and overdue	Min. 20%	135%	199%
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	Min. 70%	146%	167%
"Short-Term Liquidity Ratio" (assets receivable or realizable within one year/liabilities repayable within one year)	Min. 1	1.2	2.9

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December based on contractual undiscounted repayment obligations, except for derivative financial instruments repaid by delivery of a basic asset, which are presented by contractual maturity. Repayments, which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank is obliged to make appropriate payment, and consequently, the table does not present the expected cash flows calculated by the Bank based on historical information on deposit redemption.

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
At 31 December 2017					
Amounts due to credit institutions	28 538	1 172	16 609	–	**46 319**
Customer accounts	465 090	179 584	12 494	3 171	**660 339**
Debt securities issued	1 160	27 438	–	–	**28 598**
Other borrowings	7 498	4 172	–	-	**11 670**
Other liabilities	3 927	–	–	–	**3 927**
Subordinated debt	512	1 476	7 871	37 618	**47 477**
Total undiscounted financial liabilities	**506 725**	**213 842**	**36 974**	**40 789**	**798 330**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	2 865	–	–	–	**2 865**
- Amounts receivable under contracts	(2 859)	–	–	–	**(2 859)**
Total cash flows from derivative financial liabilities	**6**	**–**	**–**	**–**	**6**

(in thousands of Belarusian Roubles)

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
At 31 December 2016					
Amounts due to credit institutions	10 238	2 483	12 223	–	**24 944**
Customer accounts	385 469	146 827	10 465	3 869	**546 630**
Debt securities issued	6 201	11 392	–	–	**17 593**
Other borrowings	8 866	9 182	17 794	–	**35 842**
Other liabilities	2 746	–	–	–	**2 746**
Subordinated debt	488	1 465	7 814	39 301	**49 068**
Total undiscounted financial liabilities	**414 008**	**171 349**	**48 296**	**43 170**	**676 823**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	3 917	–	–	–	**3 917**
- Amounts receivable under contracts	(3 902)	–	–	–	**(3 902)**
Total cash flows from derivative financial liabilities	**15**	–	–	–	**15**

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the period containing the earliest date it can be drawn down. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
At 31 December 2017	630 934	–	–	–	**630 934**
At 31 December 2016	539 665	–	–	–	**539 665**

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

The Bank's ability to fulfil its liabilities depends on its ability to realize an equivalent amount of assets within the same period of time.

The analysis of differences in maturity does not reflect the historical stability of current accounts. Their demand by the clients has been historically performed during a longer period than indicated in the tables above. These balances are included in amounts payable during less than "three months" in the tables above. Customer accounts include term deposits of individuals.

Interest rate risk

The sensitivity of net interest income is is an effect of the assumed changes in interest rates on the net interest income for one year, calculated based on financial assets and financial liabilities with a floating rate held as at 31 December. The sensitivity of equity to acceptable changes in interest rates as at 31 December is calculated based on income tax.

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
BYN	1 500	890	667
EUR	25	(6)	(4)
USD	50	24	18

(in thousands of Belarusian Roubles)

Currency	*Increase in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
BYN	1 500	(1 366)	(1 024)
EUR	25	(31)	(23)
USD	50	(106)	(79)

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*	*Sensitivity of equity 2017*
BYN	500	(297)	(222)
EUR	25	6	4
USD	12	(6)	(4)

Currency	*Decrease in basis points 2016*	*Sensitivity of net interest income 2016*	*Sensitivity of equity 2016*
BYN	500	455	321
EUR	25	31	23
USD	12	25	19

The following table presents a sensitivity analysis of the risk of changes in fair value carried out on the basis of changes which were reasonably possible in respect of financial instruments available-for-sale with fixed interest rate. The extent of these changes is determined by management. The sensitivity analysis represents the effect of a 5% increase, a 5% decrease in interest rates effective at the reporting date, on the Bank's capital, assuming that the changes occur at the beginning of the financial year, after which the rates remain unchanged throughout the reporting period, all other factors being considered unchanged.

	31 December 2017		**31 December 2016**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Investments in available-for-sale securities	(289)	27	(73)	28
The net effect on equity	**(289)**	**27**	**(73)**	**28**

Currency risk

The Management Board has set limits on foreign currency items based on the regulations of the National Bank of the Republic of Belarus. Items are monitored on a daily basis.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYN	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Financial assets as at 31 December 2017						
Cash and cash equivalents	73 978	52 406	11 354	9 299	868	**147 905**
Amounts due from credit institutions	11 382	15 205	342	–	–	**26 929**
Loans to customers	511 880	120 371	60 701	10 880	–	**703 832**
Investment securities available for sale	516	45 563	–	–	–	**46 079**
Other financial assets	4 077	1 760	59	10	-	**5 906**
Total financial assets	**601 833**	**235 305**	**72 456**	**20 189**	**868**	**930 651**

(in thousands of Belarusian Roubles)

Financial liabilities as at 31 December 2017						
Amounts due to credit institutions	(28 229)	(12 919)	(535)	(157)	–	**(41 840)**
Amounts due to customers	(395 154)	(201 035)	(46 168)	(11 144)	(551)	**(654 052)**
Debt securities issued	(23 602)	(918)	(192)	–	–	**(24 712)**
Other borrowings	–	(4 009)	(7 248)	–	–	**(11 257)**
Other financial liabilities	(2 453)	(340)	(1 108)	(26)	–	**(3 927)**
Subordinated debt	(524)	(34 473)	–	–	–	**(34 997)**
Total financial liabilities	**(449 962)**	**(253 694)**	**(55 251)**	**(11 327)**	**(551)**	**(770 785)**
Claims on derivative financial instruments	–	28 722	2 355	1 877	–	**32 954**
Obligations on derivative financial instruments	–	(4 235)	(19 721)	(8 991)	–	**(32 947)**
Total currency position as at 31 December 2017	**151 871**	**6 098**	**(161)**	**1 748**	**317**	**159 873**

	BYN	***USD***	***EUR***	***RUB***	***Other currencies***	***Total***
Financial assets as at 31 December 2016						
Cash and cash equivalents	60 789	29 032	13 862	8 780	851	**113 314**
Amounts due from credit institutions	3 562	5 092	187	-	-	**8 841**
Loans to customers	317 638	136 412	54 414	5 784	477	**514 725**
Investment securities available for sale	55 922	37 688	-	-	-	**93 610**
Other financial assets	3 855	119	211	29	-	**4 214**
Total financial assets	**441 766**	**208 343**	**68 674**	**14 593**	**1 328**	**734 704**
Financial liabilities as at 31 December 2016						
Amounts due to credit institutions	(17 338)	(2 469)	-	-	(489)	**(20 296)**
Amounts due to customers	(316 390)	(159 725)	(37 134)	(16 572)	(588)	**(530 409)**
Debt securities issued	(12 635)	(2 807)	(167)	-	-	**(15 609)**
Other borrowings	(2 211)	(10 136)	(20 888)	-	-	**(33 235)**
Other financial liabilities	(2 524)	(169)	(18)	(35)	-	**(2 746)**
Subordinated debt	(516)	(34 225)	-	-	-	**(34 741)**
Total financial liabilities	**(351 614)**	**(209 531)**	**(58 207)**	**(16 607)**	**(1 077)**	**(637 036)**
Claims on derivative financial instruments	3 902	10 152	2 127	3 535	-	**19 716**
Obligations on derivative financial instruments	-	(6 052)	(12 168)	(1 469)	-	**(19 689)**
Total currency position as at 31 December 2016	**94 054**	**2 912**	**426**	**52**	**251**	**97 695**

The tables below present the currencies of which the Bank had significant exposure at 31 December on its financial assets and liabilities and its forecast cash flows. The analysis performed includes calculation of the effect of a reasonably possible change in currency rates against the Belarusian rouble before tax (due to the fair value of currency sensitive financial monetary assets and liabilities). All other values are constant. The effect on equity does not differ from the effect on the statement of profit or loss. Negative amounts in the table present a potential net reduction in the statement of profit or loss or equity, while positive amounts present a net potential increase.

(in thousands of Belarusian Roubles)

Currency	***Reasonable higher possible change in currency rate 2017***	***Effect on profit before tax 2017***	***Effect on profit after tax 2017***
USD	40%	2 439	1 829
EUR	40%	(64)	(48)
RUB	40%	699	524

Currency	***Reasonable lower possible change in currency rate 2017***	***Effect on profit before tax 2017***	***Effect on profit after tax 2017***
USD	20%	(1 220)	(915)
EUR	20%	32	24
RUB	20%	(350)	(263)

Currency	***Reasonable higher possible change in currency rate 2016***	***Effect on profit before tax 2016***	***Effect on profit after tax 2016***
USD	40%	1 165	874
EUR	40%	170	128
RUB	40%	21	16

Currency	***Reasonable lower possible change in currency rate 2016***	***Effect on profit before tax 2016***	***Effect on profit after tax 2016***
USD	20%	(582)	(437)
EUR	20%	(85)	(64)
RUB	20%	(10)	(8)

Prepayment risk

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

The Bank assesses prepayment risk to be insignificant as at 31 December 2017 and 2016 and does not project significant fall in interest rates in the following 12 months.

28. Fair value determination

Fair value measurement procedures

The Bank's Management determines the policies and procedures for both periodic fair value measurement of unquoted securities available-for-sale and unquoted derivatives, investment property and for non-recurring measurement, such as assets held for sale.

(in thousands of Belarusian Roubles)

External appraisers are involved for appraisal of such assets, as investment property. Involvement of external appraisersis decided upon annually by the Bank's Management. Selection criteria include market knowledge, reputation, independence and compliance with professional standards. Evaluators are generally changed every three years. After discussions with the Bank's external appraisers of the Bank, the Bank's management decides, which valuation techniques and inputs to use for each case.

At each reporting date, the Management analyzes the movements in the values of assets which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management reviews the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, together with the Bank's external appraisers, also compares each change in the fair value of each asset with relevant external sources to determine whether the change is reasonable. On a periodic basis, the Management and the Bank's external appraisers present the results to the Audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in appraisal.

Fair value hierarchy

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

	Fair value measurement using			
At 31 December 2017	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value	–	–	–	–
Derivative financial assetsInvestment securities available for sale	–	32	–	32
Investment securities available for sale Investment property	–	46 079	–	46 079
Investment property	–	-	3 628	3 628
	–	**46 111**	**3 628**	**49 739**
Assets for which fair values are disclosed				
Cash and cash equivalents	147 905	–	–	147 905
Amounts due from credit institutions	–	–	26 929	26 929
Loans to customers	–	–	703 315	703 315
Other financial assets	–	–	5 906	5 906
	147 905	**–**	**736 150**	**884 055**
Liabilities measured at fair value				
Derivative financial instruments	–	6	–	6
	–	**6**	**–**	**6**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	41 840	41 840
Amounts due from customers	–	–	655 798	655 798
Debt securities issued	–	27 106	–	27 106
Other borrowings	–	–	11 257	11 257
Other financial liabilities	–	–	3 927	3 927
Subordinated debt	–	–	36 438	36 438
	–	**27 106**	**749 260**	**776 366**

(in thousands of Belarusian Roubles)

	Fair value measurement using			
At 31 December 2016	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value				
Investment securities available for sale	-	93 610	-	**93 610**
Investment property	-	-	3 914	**3 914**
	-	**97 524**	**3 914**	**97 524**
Assets for which fair values are disclosed				
Cash and cash equivalents	113 314	-	-	**113 314**
Amounts due from credit institutions	-	-	8 841	**8 841**
Loans to customers	-	-	546 673	**546 673**
Other financial assets	-	-	4 214	**4 214**
	113 314	**-**	**559 728**	**673 042**
Liabilities measured at fair value				
Derivative financial instruments	-	-	47	47
	-	**-**	**47**	**47**
Liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	-	20 296	**20 296**
Amounts due to customers	-	-	535 350	**535 350**
Debt securities issued	-	16 432	-	**16 432**
Other borrowings	-	-	33 235	**33 235**
Other financial liabilities	-	-	2 746	**2 746**
Subordinated debt	-	-	36 213	**36 213**
	-	**16 432**	**627 840**	**644 272**

Movements in Level 3 financial instruments measured at fair value

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

	At 1 January 2016	***Gains recognized in the statement of profit or loss***	***Repayments***	***At 31 December 2016***
Financial assets				
Derivative financial instruments	346	(532)	186	-
Financial liabilities				
Derivative financial instruments	(88)	(15)	150	47
Total Level 3 financial assets/liabilities, net	**258**	**(547)**	**336**	**47**

As at the reporting date 2017, there were no financial assets and liabilities measured at fair value and related to level 3 of the hierarchy.

Gains on Level 3 financial instruments included in the statement of profit or loss are recognized in Net gains from foreign currency transactions. Gains and losses on financial instruments for the reporting periods are disclosed in Note 23.

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions

The following table presents the impact of possible alternative assumptions on the fair value of Level 3 instrument:

(in thousands of Belarusian Roubles)

	2017		***2016***	
	Carrying value	***Effect of possible alternative assumptions***	***Carrying value***	***Effect of possible alternative assumptions***
Derivative financial instruments	–	–	(47)	(1)

In order to determine possible alternative assumptions, the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used for calculation of discounted cash flows in Belarusian roubles. The adjustment decreased the interest rate by 500 basis points.

As of 31 December 2017, in order to measure the fair value of derivative financial instruments, the Bank calculates BYN-denominated discounted cash flows using overnight rates as of 31 December 2017, equal to 8.00%. Discounted flows denominated in foreign currency are calculated by the Bank using Libor, Euribor, Mosprime rates.

The Bank uses discounted cash flow method ("DCF") which are presented by income from operating lease. Under the DCF method, fair value is measured using assumptions regarding rental rates taking into account adjustment ratios and risk-free rate of return adjusted for liquidity risk and financial risk. The market method is based on information about market prices for similar objects, adjusted for the differences. The cost is determined by the weighted average cost of these two methods in a ratio of 50% / 50%.

Key assumptions in relation to the discounted cash flow method:

– discount rate of cash flows from lease - ranging from 10.19% to 12.19% for cash flows in USD as at 31 December 2017;
– the income method is calculated on the basis of market rental rates effective in a certain region of Belarus. The rental rate ranges from 119 to 13.6 US dollars per 1 square meter.

The market method is based on data on the cost of 1 square meter of similar objects, which as at 31 December 2017 was in the range of 661 - 1 083 USD per 1 square meter.

Reconciliation of opening and closing balances of investment property is disclosed in Note 10.

Fair value of financial assets and liabilities not carried at fair value

The table below presents comparison by classes of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2017	***Fair value 2017***	***Unrecognized gain/ (loss) 2017***	***Carrying value 2016***	***Fair value 2016***	***Unrecognized gain/ (loss) 2016***
Financial assets						
Cash and cash equivalents	147 905	147 905	–	113 314	113 314	-
Amounts due from credit institutions	26 929	26 929	–	8 841	8 841	-
Loans to customers	703 832	703 315	(517)	514 725	546 673	31 948
Other financial assets	5 906	5 906	–	4 214	4 214	-
Financial liabilities						
Amounts due to credit institutions	41 840	41 840	–	20 296	20 296	-
Amounts due to customers	654 052	655 798	(1 746)	530 409	535 350	(4 941)
Debt securities issued	24 712	27 106	(2 394)	15 609	16 432	(823)
Other borrowings	11 257	11 257	–	33 235	33 235	-
Other financial liabilities	3 927	3 927	–	2 746	2 746	-
Subordinated debt	34 997	36 438	(1 441)	34 741	36 213	(1 472)
Total unrecognized change in unrealized fair value			**(6 098)**			**24 712**

(in thousands of Belarusian Roubles)

Measurement methodologies and assumptions

The methodologies and assumptions used to determine fair values for those financial instruments, which are not recorded at fair value in the financial statements, are described below.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial instruments with fixed and floating rate

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are measured by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

29. Maturity analysis of assets and liabilities

The table below presents an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 27 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2017			*2016*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	147 905	–	**147 905**	113 314	–	**113 314**
Amounts due from credit institutions	14 494	12 435	**26 929**	–	8 841	**8 841**
Derivative financial assets	32	-	**32**	–	–	**–**
Loans to customers	468 242	235 590	**703 832**	325 073	189 652	**514 725**
Investment securities available for sale	32 003	14 076	**46 079**	93 094	516	**93 610**
Investment property	–	3 628	**3 628**	–	3 914	**3 914**
Property and equipment	–	14 621	**14 621**	–	14 742	**14 742**
Intangible assets	–	19 353	**19 353**	–	15 887	**15 887**
Other assets	2 759	7 063	**9 822**	2 463	5 306	**7 769**
Total	**665 435**	**306 766**	**972 201**	**533 944**	**238 858**	**772 802**
Amounts due to credit institutions	(31 774)	(10 066)	**(41 840)**	(10 067)	(10 229)	**(20 296)**
Derivative financial liabilities	(6)	-	**(6)**	(47)	-	**(47)**
Amounts due to customers	(389 525)	(264 527)	**(654 052)**	(361 684)	(168 725)	**(530 409)**
Debt securities issued	(24 712)	-	**(24 712)**	(15 609)	-	**(15 609)**
Other borrowings	(11 257)	-	**(11 257)**	(16 644)	(16 591)	**(33 235)**
Current income tax liabilities	(2 622)	-	**(2 622)**	(899)	–	**(899)**
Deferred income tax liabilities	-	(18 786)	**(18 786)**	–	(11 581)	**(11 581)**
Other liabilities	(9 679)	(49)	**(9 728)**	(6 815)	(56)	**(6 871)**
Subordinated debt	(97)	(34 900)	**(34 997)**	(31)	(34 710)	**(34 741)**
Total	**(469 672)**	**(328 328)**	**(798 000)**	**(411 796)**	**(241 892)**	**(653 688)**
Net position	**195 763**	**(21 562)**	**174 201**	**122 148**	**(3 034)**	**119 114**

(in thousands of Belarusian Roubles)

The overdue amount of loan debt in the amount of BYN 4 712 thousand as at 31 December 2017 (31 December 2016: BYN 7 389 thousand) was included in the loans of customers with a maturity of more than 1 year.

Customer accounts with a maturity more than one year include semi-constant balances in the amount of BYN 249 506 thousand (2016: BYN 157 327 thousand). Conditional permanent balance is determined by the Bank depending on the clients served and the real dynamics of the current customer accounts. The dynamics of daily balances of resources is examined in the period of prehistory with a length of at least 360 working days prior to the date of the analysis.

30. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, the Bank treats parties as related when the parties are able to control or significantly influence to the Bank's operating and financial decisions (shareholders, entities under common control, key management personnel). When making decision by the Bank whether the parties are related, the content of the relationship between the parties, and not only their legal form.

The Bank enters into banking transactions with related parties including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

The outstanding balances of related party transactions are as follows:

	2017			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers at 1 January	**30 079**	**3 182**	**80**	**104**
Issued during the year	61 599	5 296	363	113
Repaid during the year	(62 113)	(5 653)	(379)	(125)
Foreign exchange differences and other movements	1	(20)	(17)	(70)
Loans to customers at 31 December	**29 566**	**2 805**	**47**	**22**
Allowance for impairment	–	–	–	–
Loans to customers net of allowance for impairment	**29 566**	**2 805**	**47**	**22**
Term deposits at 1 January	**34 123**	**130**	**1 781**	**319**
Attracted during the year	831 290	4 088	4 176	467
Repaid during the year	(813 948)	(3 944)	(3 855)	(467)
Foreign exchange differences and other movements	(1)	(58)	(84)	40
Term deposits at 1 January	**51 464**	**216**	**2 018**	**359**
Current customer accounts as at 31 December	**1 231**	**1 602**	**893**	**637**

(in thousands of Belarusian Roubles)

	2016			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers at 1 January	**4**	**1 558**	**68**	**16**
Issued during the year	87 268	7 402	342	195
Repaid during the year	(57 158)	(5 698)	(315)	(194)
Foreign exchange differences and other movements	(35)	(63)	(15)	90
Loans to customers at 31 December	**30 079**	**3 199**	**80**	**107**
Allowance for impairment	-	(17)	-	(3)
Loans to customers net of allowance for impairment	**30 079**	**3 182**	**80**	**104**
Term deposits at 1 January	**498**	**1 284**	**1 212**	**239**
Attracted during the year	731 632	9 648	2 163	271
Repaid during the year	(698 290)	(9 610)	(1 650)	(221)
Foreign exchange differences and other movements	283	(1 192)	56	30
Term deposits at 1 January	**34 123**	**130**	**1 781**	**319**
Current accounts of customers at 31 December	**827**	**7**	**1 612**	**924**

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 1 January 2017	34 741	–	–	–
Attracted during the year	–	–	–	–
Repaid during the year	–	–	–	–
Foreign exchange differences and other movements	256	–	–	–
Subordinated debt as at 31 December 2017	**34 997**	–	–	–
Commitment to grant loan at 31 December	343	201	137	73
Guarantees at 31 December	18 588	–	–	–
Other liabilities - accrual of unused vacation liabilities	–	–	292	2

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 1 January 2016	23 912	–	–	–
Attracted during the year	9 976	–	–	–
Repaid during the year	–	–	–	–
Revaluation of currency items and other changes	853	–	–	–
Subordinated debt as at 31 December 2016	**34 741**	–	–	–

(in thousands of Belarusian Roubles)

Commitment to grant loan at 31 December	6 072	44	137	60
Guarantees at December 31	8 755	–	–	16
Other liabilities - accrual of unused vacation liabilities	–	–	272	13

The average weighted contract rate on loans in 2017 was 14.95% (in 2016 - 23.04%). In general, loans are represented by long-term revolving credit lines, mainly denominated in Belarusian rubles. The average weighted contract rate on deposits in 2017 was 3.04% (in 2016 - 6.29%). During the reporting period, the Bank mainly attracted short-term deposits, mainly denominated in foreign currency.

As at 31 December 2017 and 31 December 2016, the guarantees issued are represented by long-term guarantees in the national currency.

The income and expenses arising from related party transactions are as follows:

	2017			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	4 421	281	6	3
Interest expense on subordinated debt	(1 907)	–	–	–
Interest expense on amounts due to customers	(3 197)	(19)	(67)	(24)
Allowance for loan impairment	143	136	1	(2)
Commission income	251	29	7	4
Gain from foreign currency transactions	12	2	–	–
Staff costs	–	–	5 254	–

	2016			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	4 280	231	20	10
Interest expense on subordinated debt	(1 572)	-	-	-
Interest expense on amounts due to customers	(1 409)	(36)	(116)	(22)
Allowance for loan impairment	-	(17)	-	(3)
Commission income	113	49	8	9
Gain from foreign currency transactions	21	14	-	5
Staff costs	-	-	4 695	-

Key management personnel remuneration includes the following items:

	2017	***2016***
Salaries and other short-term payments to employees	4 521	4 127
Social insurance contributions	733	568
Total compensation to key management personnel	**5 254**	**4 695**

(in thousands of Belarusian Roubles)

31. Capital adequacy

The Bank actively manages the capital base to cover risks inherent in its business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the National Bank in supervising the Bank.

As at 31 December 2017 and 2016, the Bank fully complied with all external capital requirements, with the exception of the tier 1 capital adequacy ratio calculated on the basis of the conservation buffer, as at 31 December 2017 (Note 21).

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize the Bank's value.

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

Capital adequacy ratio established by the National Bank

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio at 10% of risk-weighted assets, calculated on the basis of BAS. As at 31 December 2017 and 2016, the Bank's capital adequacy ratio on this basis was as follows:

	2017	***2016***
Core capital	74 131	59 791
Additional capital	70 168	45 186
Total capital	**144 299**	**104 977**
Risk-weighted assets	**921 211**	**643 607**
Capital adequacy ratio	15.7%	16.3%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord 1988, with subsequent amendments, including the amendment to incorporate market risks, using a standardized approach, as at 31 December 2017 and 2016, comprised:

	2017	***2016***
Tier 1 capital	154 848	103 227
Including Share capital	*57 134*	*57 134*
Retained earnings	*117 067*	*61 980*
Intangible assets	*(19 353)*	*(15 887)*
Tier 2 capital	34 997	34 741
Including Subordinated debt, taken into account in the calculation of capital	*34 997*	*34 741*
Total capital	**189 845**	**137 968**
Risk-weighted assets	**968 491**	**713 468**
Tier 1 capital ratio	16.0%	14.5%
Total capital ratio	19.6%	19.3%

(in thousands of Belarusian Roubles)

Calculation of capital adequacy under the provisions of the Basel Capital Accord is based on the financial statements prepared in accordance with IFRS.

Difference in the amounts of risk-weighted assets, that are used in the calculation of capital adequacy under the requirements of the National Bank of the Republic of Belarus and provisions of the Basel Capital Accord, arises as a result of adjustments of financial statements due to the differences in the accounting policies.

32. Subsequent events

In February 2018, the National Bank of the Republic of Belarus announced another reduction of the refinancing rate from 11% to 10.5%, respectively, that is related to the slowdown of inflation processes.

At the date of approval of these financial statements for issue, the official exchange rates were as follows: USD/BYN – 1.9636, EUR/BYN – 2.4086, RUB/BYN – 0.034116.