

# **"Priorbank" JSC**

## **Consolidated financial statements**

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

## Contents

### Audit report of the independent audit firm

### Consolidated financial statements

Consolidated statement of financial position .....	1
Consolidated income statement .....	2
Consolidated statement of comprehensive income .....	3
Consolidated statement of changes in equity .....	4
Consolidated statement of cash flows .....	5

### Notes to the consolidated financial statements

1. Principal activities .....	6
2. Basis of preparation .....	6
3. Summary of accounting policies .....	7
4. Significant accounting judgments and estimates .....	25
5. Segment information .....	25
6. Cash and cash equivalents .....	27
7. Amounts due from credit institutions .....	28
8. Loans to customers .....	28
9. Held-to-maturity investment securities .....	30
10. Investment property .....	31
11. Property and equipment .....	32
12. Intangible assets .....	33
13. Taxation .....	33
14. Other assets and liabilities .....	35
15. Amounts due to credit institutions .....	36
16. Amounts due to customers .....	36
17. Amounts due to international credit institutions .....	37
18. Debt securities issued .....	37
19. Equity .....	37
20. Commitments and contingencies .....	39
21. Net fee and commission income .....	41
22. Other income .....	41
23. Personnel and other operating expenses .....	41
24. Post-employment benefits .....	42
25. Risk management .....	44
26. Fair value of financial instruments .....	53
27. Maturity analysis of assets and financial liabilities .....	57
28. Related party transactions .....	57
29. Changes in liabilities arising from financing activities .....	59
30. Capital adequacy .....	59

## **Audit report of an independent audit firm on the consolidated financial statements of "Priorbank" Joint-Stock Company for the period from 1 January 2017 to 31 December 2017**

To the Chairman of the Management Board  
of "Priorbank" Joint-Stock Company  
Mr. S.A. Kostyuchenko

To the shareholders, Supervisory Board, Audit Committee and Executive Committee  
of "Priorbank" Joint-Stock Company

### **Opinion**

We have audited the consolidated financial statements of "Priorbank" Joint-Stock Company and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### **Basis for opinion**

We conducted our audit in accordance with Law No. 56-Z of the Republic of Belarus "On Auditing Activity" dated 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and with International Standards on Auditing (ISA). Our responsibilities under those rules and standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group 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 consolidated 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 consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

### **Allowance for impairment of loans to customers**

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

Due to the significance of loans to customers, which account for 61% of total assets, and the significant use of judgment, the assessment of the allowance for impairment represents a key audit matter.

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

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

We reviewed information disclosed in Notes 4, 8 and 25 to the consolidated financial statements with regard to allowance for impairment.



Совершенствуя бизнес,  
улучшаем мир

### ***Responsibility of management and the Supervisory Board of "Priorbank" JSC for the consolidated financial statements***

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

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

The Supervisory Board of "Priorbank" JSC is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, 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 consolidated financial statements.

As part of our audit performed in accordance with Law No. 56-Z of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;



Совершенство бизнеса,  
улучшаем мир

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion

We communicate with the Supervisory Board and the Audit Committee of "Priorbank" JSC 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 the Supervisory Board and the Audit Committee of "Priorbank" JSC with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Audit partner in charge of the engagement resulting in this independent auditor's report is Y. S. Studynska.



I.V. Stankevich  
Deputy General Director -  
Director on Audit, FCCA  
Ernst & Young LLC

O.M. Yarmakovich  
Head of Audit Department  
Ernst & Young LLC

27 April 2018

#### Details of the audited entity

Name: "Priorbank" Joint-Stock Company  
"Priorbank" Joint-Stock Company was registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.  
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A.

#### Details of the audit firm

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

**Consolidated statement of financial position****As at 31 December 2017***(thousands of Belarusian rubles)*

	<i>Notes</i>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
Cash and cash equivalents	6	858,102	799,436
Amounts due from credit institutions	7	53,428	40,822
Loans to customers	8	2,241,797	1,939,278
Held-to-maturity investment securities	9	244,982	172,625
Investment property	10	16,929	-
Property and equipment	11	150,514	132,167
Intangible assets	12	32,622	27,313
Current income tax assets		224	3,567
Other assets	14	65,647	77,838
<b>Total assets</b>		<b><u>3,664,245</u></b>	<b><u>3,193,046</u></b>
<b>Liabilities</b>			
Amounts due to credit institutions	15	385,007	404,765
Amounts due to customers	16	2,293,720	1,860,559
Amounts due to international financial institutions	17	6,826	11,771
Debt securities issued	18	51,732	2,676
Current income tax liabilities		13,958	761
Deferred income tax liabilities	13	47,303	70,938
Other liabilities	14	105,500	77,915
<b>Total liabilities</b>		<b><u>2,904,046</u></b>	<b><u>2,429,385</u></b>
<b>Equity</b>			
Share capital	19	341,828	341,828
Additional paid-in capital		193	193
Foreign currency translation reserve		2,994	1,693
Retained earnings		399,535	403,226
Revaluation reserve for the net pension liability		(10,002)	(4,482)
<b>Total equity attributable to shareholders of the Bank</b>		<b><u>734,548</u></b>	<b><u>742,458</u></b>
Non-controlling interests		25,651	21,203
<b>Total equity</b>		<b><u>760,199</u></b>	<b><u>763,661</u></b>
<b>Total equity and liabilities</b>		<b><u>3,664,245</u></b>	<b><u>3,193,046</u></b>

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

Sergey A. Kostyuchenko



Zoya P. Yarmosh

27 April 2018

Chairman of the Management Board

Executive Director

**Consolidated income statement****For the year ended 31 December 2017***(thousands of Belarusian rubles)*

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Interest income</b>			
Loans to customers		253,246	333,556
Held-to-maturity investment securities		23,754	10,373
Cash and cash equivalents		5,925	9,674
Amounts due from credit institutions		827	1,180
		<b>283,752</b>	<b>354,783</b>
Securities designated at fair value through profit or loss		–	14,962
		<b>283,752</b>	<b>369,745</b>
<b>Interest expense</b>			
Amounts due to customers		(25,246)	(52,302)
Amounts due to credit institutions		(16,124)	(22,508)
Debt securities issued		(928)	(724)
Amounts due to international financial institutions		(299)	(144)
		<b>(42,597)</b>	<b>(75,678)</b>
<b>Net interest income</b>		<b>241,155</b>	<b>294,067</b>
Charge of allowance for loan impairment	8	(8,988)	(46,145)
<b>Net interest income after allowance for loan impairment</b>		<b>232,167</b>	<b>247,922</b>
Fee and commission income		143,223	128,152
Fee and commission expense		(68,946)	(59,525)
<b>Net fee and commission income</b>	21	<b>74,277</b>	<b>68,627</b>
Net gains from foreign currencies:			
- dealing		19,959	12,348
- translation differences		34,068	36,598
Other income	22	26,285	8,511
<b>Non-interest income</b>		<b>80,312</b>	<b>57,457</b>
Personnel expenses	23	(90,894)	(83,323)
Depreciation and amortization	10, 11,		
	12	(21,838)	(19,268)
Other operating expenses	23	(62,673)	(66,224)
<b>Non-interest expense</b>		<b>(175,405)</b>	<b>(168,815)</b>
<b>Income before income tax expense</b>		<b>211,351</b>	<b>205,191</b>
Income tax expense	13	(51,377)	(49,088)
<b>Profit for the year</b>		<b>159,974</b>	<b>156,103</b>
Attributable to:			
- shareholders of the Bank		156,289	152,772
- non-controlling interests		3,685	3,331
		<b>159,974</b>	<b>156,103</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.



**Consolidated statement of comprehensive income****For the year ended 31 December 2017***(thousands of Belarusian rubles)*

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Profit for the year</b>		<b>159,974</b>	<b>156,103</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be subsequently reclassified to profit or loss subject to certain conditions:</i>			
Exchange differences on translation of the financial statements of a foreign subsidiary	19	2,064	(102)
<b>Net other comprehensive income/(loss) to be subsequently reclassified to profit or loss subject to certain conditions</b>		<b>2,064</b>	<b>(102)</b>
<i>Other comprehensive income not to be subsequently reclassified to profit or loss subject to certain conditions</i>			
Actuarial (loss)/gain on defined pension plan	19	(7,360)	3,065
Income tax effect	19	1,840	(766)
<b>Net other comprehensive income/(loss) to be subsequently reclassified to profit or loss when specific conditions are met</b>		<b>(5,520)</b>	<b>2,299</b>
<b>Other comprehensive loss for the year, net of tax</b>		<b>(3,456)</b>	<b>2,197</b>
<b>Total comprehensive income for the year</b>		<b>156,518</b>	<b>158,300</b>
Attributable to:			
- shareholders of the Bank		152,070	155,006
- non-controlling interests		4,448	3,294
		<b>156,518</b>	<b>158,300</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

**Consolidated statement of changes in equity****For the year ended 31 December 2017***(thousands of Belarusian rubles)*

	<i>Attributable to shareholders of the Bank</i>					<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Revaluation reserve for the net pension liability</i>			
<b>At 31 December 2015</b>	<b>296,908</b>	<b>193</b>	<b>1,758</b>	<b>343,368</b>	<b>(6,781)</b>	<b>635,446</b>	<b>17,909</b>	<b>653,355</b>
Profit for the year	-	-	-	152,772	-	152,772	3,331	156,103
Other comprehensive income/(loss) for the year	-	-	(65)	-	2,299	2,234	(37)	2,197
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(65)</b>	<b>152,772</b>	<b>2,299</b>	<b>155,006</b>	<b>3,294</b>	<b>158,300</b>
Dividends declared and paid to shareholders of the Bank (Note 19)	-	-	-	(47,994)	-	(47,994)	-	(47,994)
Increase in share capital	44,920	-	-	(44,920)	-	-	-	-
<b>At 31 December 2016</b>	<b>341,828</b>	<b>193</b>	<b>1,693</b>	<b>403,226</b>	<b>(4,482)</b>	<b>742,458</b>	<b>21,203</b>	<b>763,661</b>
Profit for the year	-	-	-	156,289	-	156,289	3,685	159,974
Other comprehensive income/(loss) for the year	-	-	1,301	-	(5,520)	(4,219)	763	(3,456)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>1,301</b>	<b>156,289</b>	<b>(5,520)</b>	<b>152,070</b>	<b>4,448</b>	<b>156,518</b>
Dividends declared and paid to shareholders of the Bank (Note 19)	-	-	-	(159,980)	-	(159,980)	-	(159,980)
<b>At 31 December 2017</b>	<b>341,828</b>	<b>193</b>	<b>2,994</b>	<b>399,535</b>	<b>(10,002)</b>	<b>734,548</b>	<b>25,651</b>	<b>760,199</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows****For the year ended 31 December 2017***(thousands of Belarusian rubles)*

	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
Interest received		284,873	349,281
Interest paid		(42,857)	(76,361)
Fees and commissions received		143,817	127,904
Fees and commissions paid		(68,868)	(60,886)
Gains less losses from foreign currencies		21,954	11,313
Other income received		26,242	8,497
Personnel expenses paid		(88,633)	(80,347)
Other operating expenses paid		(62,362)	(62,263)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>214,166</b>	<b>217,138</b>
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(10,334)	(16,887)
Loans to customers		(212,788)	(131,665)
Other assets		13,788	(29,814)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(55,084)	(127,811)
Amounts due to international financial institutions		(6,184)	(6,457)
Amounts due to customers		370,284	157,766
Other liabilities		18,628	12,561
<b>Net cash from operating activities before income tax</b>		<b>332,476</b>	<b>74,831</b>
Income tax paid		(56,632)	(50,044)
<b>Net cash from operating activities</b>		<b>275,844</b>	<b>24,787</b>
<b>Cash flows from investing activities</b>			
Purchase of held-to-maturity investment securities		(3,687,420)	(79,486)
Proceeds from redemption of held-to-maturity investment securities		3,613,482	144,645
Purchase of securities at fair value through profit or loss		-	(3,727,243)
Proceeds from disposal of securities at fair value through profit or loss		-	3,727,243
Proceeds from sale of property and equipment and intangible assets		2,993	2,436
Purchase of property and equipment and intangible assets	11, 12	(50,498)	(31,707)
<b>Net cash (used in)/from investing activities</b>		<b>(121,443)</b>	<b>35,888</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of bonds		52,394	442
Redemption of debt securities issued		(3,718)	(4,695)
Dividends to shareholders of the Bank		(159,980)	(47,994)
<b>Net cash used in financing activities</b>	29	<b>(111,304)</b>	<b>(52,247)</b>
Effect of exchange rates changes on cash and cash equivalents		15,569	21,014
<b>Net increase in cash and cash equivalents</b>		<b>58,666</b>	<b>29,442</b>
<b>Cash and cash equivalents, beginning</b>		<b>799,436</b>	<b>769,994</b>
<b>Cash and cash equivalents, ending</b>	6	<b>858,102</b>	<b>799,436</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

(thousands of Belarusian rubles)

## 1. Principal activities

"Priorbank" Joint Stock Company (hereinafter, "Priorbank" or the "Bank") was founded in 1989 as a public joint-stock company under the laws of the Republic of Belarus. The Bank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in August 2008 and extended in May 2013. The Bank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2011.

The Bank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its head office is in Minsk, and it has 87 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise the Bank and its subsidiaries (jointly referred to as the "Group"). The list of consolidated subsidiaries is disclosed in Note 2. The Bank's legal address is 31-A, ul. V. Khoruzhey, Minsk, 220002, Republic of Belarus.

As at 31 December 2017 and 2016, Priorbank had the following shareholding structure:

<b>Shareholders</b>	<b>2017</b> %	<b>2016</b> %
Raiffeisen CIS Region Holding GmbH	87.74	87.74
Other	12.26	12.26
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Raiffeisen Bank International AG is the ultimate parent company of the Group, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

## 2. Basis of preparation

### General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements in accordance with Belarusian accounting and reporting legislation and related instructions. These consolidated financial statements are based on the statutory financial statements and accounting records of the Bank and its subsidiaries, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies. For example, derivative financial instruments have been measured at fair value.

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

(thousands of Belarusian rubles)

## 2. Basis of preparation (continued)

### Subsidiaries

The consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Ownership, %</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2017</i>	<i>2016</i>				
Unitary Enterprise "PriortransAgro"	100	100	Belarus	June 1991	Agriculture	June 1991
Unitary Enterprise "Dom Office 2000"	100	100	Belarus	February 2001	Construction	February 2001
Unitary Insurance Enterprise "Priorlife"	100	100	Belarus	April 2001	Insurance	April 2001
Raiffeisen Leasing JLLC	70	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-Leasing Lithuania UAB	90	90	Lithuania	January 2011	Leasing	January 2011
Insurance broker Studiya Strakhovaniya LLC	100	100	Belarus	September 2014	Insurance	September 2014
Extrusion Technologies LLC	100	-	Belarus	November 2017	Manufacturing	November 2017

## 3. Summary of accounting policies

### Changes in accounting policies

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment are described below:

#### *Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative*

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 29.

#### *Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Application of the amendments has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

#### *Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the Scope of Disclosure Requirements*

The amendments clarify that certain disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified as held for sale or included in a disposal group. The amendments did not have any impact on the Group's financial position and performance.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- ▶ Power over the investee (i.e. rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying value of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

#### Fair value measurement

The Group measures financial derivative instruments at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 26.

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

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Fair value measurement (continued)

The principal or the most advantageous market must be accessible by the Group. 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 best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in the best and most effective way or by selling it to another market participant that would use the asset in the best and most effective way.

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in 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, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

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

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group 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 profit or loss when the investments are impaired, as well as through the amortization process.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets (continued)

##### *Loans and receivables*

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

##### *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 Group 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 the loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

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

#### Cash and cash equivalents

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

#### Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within net gains from foreign currencies, translation differences position.

#### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, amounts due to international financial institutions, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying value of the liability and the consideration paid is recognized in the consolidated income statement.



(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Leases

##### *i. Finance – Group as lessor*

The Group recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Group presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct cost are included in the initial measurement of the lease receivables.

##### *ii. Operating – Group as lessee*

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

##### *iii. Operating – Group as lessor*

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

#### Measurement of financial instruments at initial recognition

Upon initial recognition, financial instruments are measured at fair value adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

At initial recognition, the fair value of a financial instrument is best evidenced by the transaction price. If the Group 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 Group 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 Group recognizes that 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 consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- ▶ The normal course of business
- ▶ The event of default, and
- ▶ The event of insolvency or bankruptcy of an entity or any of its counterparties

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Impairment of financial assets

The Group 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.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Amounts due from credit institutions and loans to customers*

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Such assessment involves consideration of both quantitative and qualitative characteristics of a financial asset, resulting in the assignment of proper rating to each financial asset of the Group based on the established internal credit rating system. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Impairment of financial assets (continued)

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 Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### *Held-to-maturity financial investments*

For held-to-maturity investments, the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows. The carrying value of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

##### *Renegotiated loans*

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

The accounting treatment of such restructuring is as follows:

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

Once the terms have been renegotiated, the loan is no longer considered past due. Management of the Group continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Such loans continue to be subject to an individual or collective impairment assessment and their recoverable amount is calculated 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 part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Derecognition of financial assets and liabilities (continued)

Where the Group 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 Group'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 value of the asset and the maximum amount of consideration that the Group 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 Group's continuing involvement is the amount of the transferred asset that the Group 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 Group'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 obligation under the liability is discharged or canceled or expires.

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

#### **Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the consolidated statement of financial position at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

#### **Taxation**

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus applicable to the Group companies operating in the Republic of Belarus, including the representative office of Raiffeisen-leasing Lithuania UAB. Current income tax of the subsidiary Raiffeisen-leasing Lithuania UAB is calculated and paid in accordance with the applicable legislation of Lithuania.

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are recognized on the level of each of the Group's companies. Assets of one company of the Group may not be offset against the liabilities of the other Group company.

Belarus also has various operating taxes, which are assessed on the Group's activities. These taxes are recognized in the consolidated income statement within other operating expenses.

#### Property and equipment

Property and equipment are initially carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the equipment 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 value 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:

	<u>Years</u>
Buildings	25-50
Furniture, fixtures and other	5-10

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

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

#### Investment property

Investment property is a building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business.

Investment property is recognized at cost, including transaction costs.

Earned rental income is recorded in the consolidated income statement within other income.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Intangible assets

Intangible assets include computer software and other intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, as adjusted for hyperinflation.

The useful lives of intangible assets are finite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 6 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

#### Inventory

Inventory includes property transferred to the Group as a repayment of loans, as well as blocks of apartments and construction-in-progress owned by the Group. Inventory is recorded at the lower of cost and net realizable value.

Impairment, reversal and realization of inventories are recognized in other income or other expenses of the Group.

#### Other provisions

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

#### Retirement and other employee benefit obligations

The Group participates in the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Group operates a defined benefit plan through its wholly owned subsidiary Unitary Insurance Enterprise "Priorlife" which provides eligible employees with retirement benefits upon reaching the retirement age of 60 for men and 55 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in the consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the statement of comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

Past services costs are recognized in profit or loss on the earlier of:

- ▶ The date of the plan amendment or curtailment, and
- ▶ The date that the Group recognizes restructuring-related costs.

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities.

The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated income statement as personnel expenses:

- ▶ Service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan
- ▶ Net interest gains or losses

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Share capital

##### *Share capital*

Ordinary shares and preferred shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are recognized at cost adjusted for hyperinflation.

##### *Dividends*

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

#### Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not owned by the Group.

#### Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

#### Contingencies

Contingent liabilities are not recognized in the consolidated 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 consolidated 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 Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as 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 value 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 value of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying value is calculated based on the original effective interest rate and the change in carrying value 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 value.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Recognition of income and expenses (continued)

##### *Fee and commission income*

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

▶ *Fee income earned from services that are provided over a certain period of time*

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

▶ *Fee income from providing transaction services*

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

#### Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates as at 31 December 2017 and 2016 were 1.9727 Belarusian rubles and 1.9585 Belarusian rubles to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Belarusian rubles at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss.

#### Future changes in accounting policies

##### *Standards issued but not yet effective*

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

##### *IFRS 9 Financial Instruments*

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



(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

The Group plans to adopt the new standard by recognizing the cumulative transition effect in opening retained earnings on 1 January 2018 and will not restate comparative information. Based on the data as at 31 December 2017 and current implementation status, the Group estimates that the adoption of IFRS 9 will not result in a significant increase in shareholders' equity as at 1 January 2018. The Group is in the process of obtaining more accurate estimates of the effect of adoption of the standard on the financial statements.

##### (a) Classification and measurement

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

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

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

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

The Group does not expect significant changes in classification and measurement of financial instruments recorded in the Group's statement of financial position.

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

##### (b) Impairment

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

Major changes in the approach to assessing allowance for ECL in IFRS 9:

- ▶ Assessment of expected credit losses on all financial instruments, including assets without indicators of impairment and/or deterioration of credit quality, necessity to create allowances since the first day of purchase of a financial instrument exposed to credit risk and, consequently, increase in the amount of allowances
- ▶ More complex methodology for creating allowances: requirement to develop provisioning model based on the following parameters: probability of default (PD) within 12 months and during the lifetime of a financial instrument, loss given default (LGD), and macroeconomic forecasts.

Assessment of impairment losses was changed from the incurred loss model in accordance with IAS 39 to the expected loss model in accordance with IFRS 9. Based on this model, an allowance should be created at initial recognition of the financial instrument (or at the date of the Group's acceptance of loan commitments or financial guarantees) based on the expected credit losses.

In accordance with IFRS 9, the Group will recognize an allowance for impairment of originated or acquired financial instruments in the amount equal to expected credit losses for 12 months provided that the credit risk increased insignificantly at the reporting date compared with the date of initial recognition (Stage 1).

This amount represents expected credit losses resulting from default that is possible within the next 12 months. Interest income is calculated based on the gross carrying amount of financial instruments during Stage 1.

IFRS 9 requires that losses on loans should be recognized over the remaining useful lives of financial instruments ("expected losses during the useful life"), in relation to which the credit risk has supposedly increased significantly (Stage 2), and on financial instruments impaired as at the reporting date (Stage 3).

Expected losses on financial instruments comprise all possible events of default during the expected life of a financial instrument. The Group uses existing risk management indicators and changes in credit ratings identified on the basis of updated information to determine whether the credit risk of financial instruments increased significantly. This process involves the review of perspective information, including macroeconomic data. In addition, financial instruments will be transferred to Stage 2 if they are overdue for 30 days. Interest income is calculated based on the gross carrying amount of financial instruments during Stage 2.

IFRS 9 does not contain requirements to identify individually significant financial instruments/ borrowers in the process of assessing expected credit losses and to apply a separate approach to such instruments/borrowers. Interest income is calculated only based on the net carrying amount of financial instruments during Stage 3.

The Group decided to estimate allowances for credit losses on an individual basis during Stage 3. The Group analyzes a number of criteria when transferring financial instruments between Stages 1, 2 and 3. The Group also performs an individual analysis of all factors that may indicate changes in the level of credit risk or the existence of impairment.

The Group uses the following three major components for assessing expected credit losses: probability of default (PD) within 12 months and during the lifetime of a financial instrument, loss given default (LGD), and macroeconomic forecasts.

For the purposes of IFRS 9, allowances for credit losses are affected by various key characteristics, such as exposure at default (EAD), expected life of a financial asset, etc. As a result, an allowance for credit losses for Stage 2 financial instruments will be increasing depending on the expected life of the financial instrument.

According to estimates, IFRS 9 is expected to result in the increase in the total amount of allowances for credit losses (as mentioned above). The increase is due to the requirement to set the allowance in the amount of 12-month expected credit losses on instruments whose credit risk has not significantly increased from the date of initial recognition, and a larger number of financial instruments to which the expected losses should be applied during the life of the asset.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group does not expect a material effect from the application of these amendments.

##### *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*

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

##### *IFRS 16 Leases*

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

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

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

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

#### *IFRS 17 Insurance Contracts*

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

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

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

#### *Transfers of Investment Property – Amendments to IAS 40*

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

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

These improvements include:

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

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

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

The amendments clarify:

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

The amendments should be applied retrospectively and are effective from 1 January 2018. The Group does not expect an effect from application of these amendments, as does not have any investments in associates and joint ventures.

*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4*

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

*IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Future changes in accounting policies (continued)

##### *IFRIC 23 – Uncertainty Over Income Tax Treatments*

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

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

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

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

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

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

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

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

The Group does not expect any effect on its consolidated financial statements.

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

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

##### *IAS 23 Borrowing Costs – borrowing costs eligible for capitalization*

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

(thousands of Belarusian rubles)

#### 4. Significant accounting judgments and estimates

##### Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant judgments and estimates are as follows:

###### *Allowance for impairment of loans and receivables*

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of actual data relating to similar borrowers.

Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in the Group, or national or local economic conditions that correlate with defaults on assets in the Group. 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 Group uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

The allowance for loan impairment recognized in the consolidated statement of financial position as at 31 December 2017 was BYN 124,942 thousand (2016: BYN 130,045 thousand). More details are provided in Note 8.

###### *Assessment of payment liabilities under the pension plan of Unitary Insurance Enterprise "Priorlife"*

A defined benefit obligation is assessed on actuarial basis using projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ. Sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 24.

###### *Deferred tax assets*

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Group. Further details regarding taxation issues are provided in Note 13.

#### 5. Segment information

For management purposes, the Group identifies three operating segments based on its products and service, as follows:

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services.

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers, except for banking financial institutions.

Other – Treasury and International Department (transactions with banks) and other central functions that are not directly allocated

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements. Income taxes are accounted for on a group basis and are not allocated to operating segments.

(thousands of Belarusian rubles)

**5. Segment information (continued)**

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the total revenue of a segment in 2017 and 2016.

Non-current assets and deferred tax assets are related to the Republic of Belarus. Generally revenue is earned from sources in the Republic of Belarus.

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments:

<b>2017</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Other/ unallocated</b>	<b>Total</b>
<b>External revenue</b>				
Interest income	80,210	175,268	28,274	<b>283,752</b>
Interest expense	(18,006)	(5,926)	(18,665)	<b>(42,597)</b>
<b>Net interest income</b>	<b>62,204</b>	<b>169,342</b>	<b>9,609</b>	<b>241,155</b>
Charge of allowance for loan impairment	1,353	(10,341)	–	<b>(8,988)</b>
<b>Net interest income after allowance for loan impairment</b>	<b>63,557</b>	<b>159,001</b>	<b>9,609</b>	<b>232,167</b>
Net fee and commission income	25,540	51,977	(3,240)	<b>74,277</b>
Net gains from foreign currencies	13,289	31,905	8,833	<b>54,027</b>
Other non-interest income	1,909	38	24,338	<b>26,285</b>
Non-interest expense	(76,380)	(97,521)	(1,504)	<b>(175,405)</b>
<b>Segment financial results</b>	<b>27,915</b>	<b>145,400</b>	<b>38,036</b>	<b>211,351</b>
Income tax expense				<b>(51,377)</b>
<b>Profit for the year</b>				<b>159,974</b>
<b>Assets and liabilities</b>				
Segment assets	434,300	1,807,497	1,422,448	<b>3,664,245</b>
<b>Total assets</b>				<b>3,664,245</b>
Segment liabilities	1,101,895	1,243,557	558,594	<b>2,904,046</b>
<b>Total liabilities</b>				<b>2,904,046</b>
<b>Other segment information</b>				
Capital expenditure	4,422	3,907	30,256	<b>38,585</b>
Depreciation and amortization	(3,412)	(2,989)	(15,437)	<b>(21,838)</b>



(thousands of Belarusian rubles)

**5. Segment information (continued)**

<b>2016</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Other/ unallocated</b>	<b>Total</b>
<b>External revenue</b>				
Interest income	100,355	234,410	34,980	<b>369,745</b>
Interest expense	(33,500)	(19,210)	(22,968)	<b>(75,678)</b>
<b>Net interest income</b>	<b>66,855</b>	<b>215,200</b>	<b>12,012</b>	<b>294,067</b>
Charge of allowance for loan impairment	(3,728)	(42,417)	–	<b>(46,145)</b>
<b>Net interest income after allowance for loan impairment</b>	<b>63,127</b>	<b>172,783</b>	<b>12,012</b>	<b>247,922</b>
Net fee and commission income	24,680	46,316	(2,369)	<b>68,627</b>
Net gains from foreign currencies	15,269	30,121	3,556	<b>48,946</b>
Other non-interest income	1,221	114	7,176	<b>8,511</b>
Non-interest expense	(81,457)	(79,317)	(8,041)	<b>(168,815)</b>
<b>Segment financial results</b>	<b>22,840</b>	<b>170,017</b>	<b>12,334</b>	<b>205,191</b>
Income tax expense				<b>(49,088)</b>
<b>Profit for the year</b>				<b>156,103</b>
<b>Assets and liabilities</b>				
Segment assets	309,246	1,630,032	1,253,768	<b>3,193,046</b>
<b>Total assets</b>				<b>3,193,046</b>
Segment liabilities	979,275	883,960	566,150	<b>2,429,385</b>
<b>Total liabilities</b>				<b>2,429,385</b>
<b>Other segment information</b>				
Capital expenditure	5,152	457	26,098	<b>31,707</b>
Depreciation and amortization	(3,002)	(2,181)	(14,085)	<b>(19,268)</b>

**6. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<b>2017</b>	<b>2016</b>
Cash on hand	117,944	133,467
Current accounts with credit institutions	224,249	80,027
Current accounts with the NBRB	270,989	207,196
Time deposits with credit institutions up to 90 days	244,920	378,746
<b>Cash and cash equivalents</b>	<b>858,102</b>	<b>799,436</b>

As at 31 December 2017 liquid funds were represented by short-term deposits with two Belarusian banks and two foreign banks (2016: five Belarusian banks and three foreign banks).

(thousands of Belarusian rubles)

**7. Amounts due from credit institutions**

Amounts due from credit institutions comprise:

	<b>2017</b>	<b>2016</b>
Obligatory reserves with the NBRB	24,197	12,685
Time deposits for more than 90 days	29,231	28,137
<b>Amounts due from credit institutions</b>	<b>53,428</b>	<b>40,822</b>

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the NBRB, 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 at 31 December 2017, the Bank had time deposits with four Belarusian banks (2016: four Belarusian banks).

**8. Loans to customers**

Loans to customers comprise:

	<b>2017</b>	<b>2016</b>
Corporate lending	1,600,395	1,520,272
Consumer lending	397,054	275,874
Small business lending	332,044	239,805
Residential mortgages	37,246	33,372
<b>Gross loans to customers</b>	<b>2,366,739</b>	<b>2,069,323</b>
Less – allowance for loan impairment	(124,942)	(130,045)
<b>Loans to customers</b>	<b>2,241,797</b>	<b>1,939,278</b>

As at 31 December 2017, the Bank had a concentration of loans represented by BYN 643,408 thousand due from the ten largest third party borrowers (27% of gross loan portfolio) (2016: BYN 655,679 thousand, or 32%). An allowance of BYN 3,044 thousand (2016: BYN 20,079 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	<b>2017</b>	<b>2016</b>
Private companies	1,511,920	1,243,611
Individuals	434,300	309,246
State companies	420,519	516,466
<b>Loans to customers</b>	<b>2,366,739</b>	<b>2,069,323</b>

Loans are made principally in Belarus in the following industry sectors:

	<b>2017</b>	<b>2016</b>
Manufacturing, including:	758,168	811,814
Coking coal, oil products	203,163	153,674
Chemicals, rubber, plastics	145,900	174,911
Food, beverages, tobacco products	108,039	125,898
Machinery, equipment	38,232	63,445
Wood processing	26,944	17,010
Textile industry	23,898	24,132
Metals and metalware production	15,662	17,244
Electric equipment	10,756	26,099
Pulp and paper industry	7,796	4,919
Transport facilities	5,814	26,593
Pharmaceutical industry	1,228	564
Other manufacturing	170,736	177,325
Wholesale trade	498,357	329,129
Individuals	434,300	309,246
Retail trade	202,034	217,671
Mineral development and extraction	112,247	109,729
Transport	109,046	73,679
Construction	88,984	83,419
Real estate	57,123	76,858
Electrical energy, gas, water supply	35,644	16,627
Other	70,836	41,151
<b>Loans to customers</b>	<b>2,366,739</b>	<b>2,069,323</b>

(thousands of Belarusian rubles)

**8. Loans to customers (continued)**

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

	<i>Corporate lending</i>	<i>Small business lending</i>	<i>Consumer lending</i>	<i>Residential mortgages</i>	<i>Total</i>
<b>At 31 December 2016</b>	<b>95,726</b>	<b>18,834</b>	<b>12,359</b>	<b>3,126</b>	<b>130,045</b>
Charge for the year	7,526	2,815	(655)	(698)	8,988
Amounts written off	(8,169)	(2,497)	(3,425)	–	(14,091)
<b>At 31 December 2017</b>	<b>95,083</b>	<b>19,152</b>	<b>8,279</b>	<b>2,428</b>	<b>124,942</b>
Individual impairment	83,345	14,381	6,977	2,376	107,079
Collective impairment	11,738	4,771	1,302	52	17,863
	<b>95,038</b>	<b>19,152</b>	<b>8,279</b>	<b>2,428</b>	<b>124,942</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>113,456</b>	<b>16,750</b>	<b>6,977</b>	<b>2,376</b>	<b>139,559</b>
	<i>Corporate lending</i>	<i>Small business lending</i>	<i>Consumer lending</i>	<i>Residential mortgages</i>	<i>Total</i>
<b>At 31 December 2015</b>	<b>68,294</b>	<b>13,863</b>	<b>14,077</b>	<b>3,419</b>	<b>99,653</b>
Charge for the year	33,653	8,764	4,021	(293)	46,145
Amounts written off	(6,221)	(3,793)	(5,739)	–	(15,753)
<b>At 31 December 2016</b>	<b>95,726</b>	<b>18,834</b>	<b>12,359</b>	<b>3,126</b>	<b>130,045</b>
Individual impairment	84,668	15,481	9,045	2,523	111,717
Collective impairment	11,058	3,353	3,314	603	18,328
	<b>95,726</b>	<b>18,834</b>	<b>12,359</b>	<b>3,126</b>	<b>130,045</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>162,122</b>	<b>20,040</b>	<b>9,045</b>	<b>2,523</b>	<b>193,730</b>

**Individually impaired loans**

As at 31 December 2017, interest income accrued on individually impaired loans comprised BYN 5,507 thousand (2016: BYN 5,557 thousand).

**Collateral and other credit risk enhancements**

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

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables,
- ▶ For retail lending, mortgages over residential properties, cars, sureties

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

(thousands of Belarusian rubles)

**8. Loans to customers (continued)****Collateral and other credit risk enhancements (continued)**

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.

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2017 are analyzed as follows:

	<i>Not later than 1 year</i>	<i>From 1 year to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Investment in finance leases	106,746	162,948	16,632	<b>286,326</b>
Unearned future finance income on finance leases	(20,115)	(26,289)	(2,278)	<b>(48,682)</b>
<b>Net investment in finance leases</b>	<b>86,631</b>	<b>136,659</b>	<b>14,354</b>	<b>237,644</b>

Finance lease receivables as at 31 December 2016 are analyzed as follows:

	<i>Not later than 1 year</i>	<i>From 1 year to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Investment in finance leases	93,372	144,715	25,149	<b>263,236</b>
Unearned future finance income on finance leases	(19,903)	(27,210)	(1,126)	<b>(48,239)</b>
<b>Net investment in finance leases</b>	<b>73,469</b>	<b>117,505</b>	<b>24,023</b>	<b>214,997</b>

**9. Held-to-maturity investment securities**

The held-to-maturity investment securities portfolio was as follows:

**At 31 December 2017**

<i>Issuer</i>	<i>Maturity</i>	<i>Currency</i>	<i>Rate</i>	<i>Amortized cost</i>
Belarusian Ministry of Finance	May 2018	USD	5.70%	33,442
Belarusian Ministry of Finance	February 2022	EUR	5.00%	9,721
Belarusian Ministry of Finance	May 2022	USD	6.50%	8,132
Belarusian Ministry of Finance	November 2022	USD	5.50%	9,459
National Bank of the Republic of Belarus	January 2018	BYN	9.68%	40,189
National Bank of the Republic of Belarus	October 2018	USD	3.31%	12,018
National Bank of the Republic of Belarus	June 2018	USD	4.50%	1,616
National Bank of the Republic of Belarus	November 2018	USD	3.17%	5,113
National Bank of the Republic of Belarus	November 2018	USD	2.90%	49,469
National Bank of the Republic of Belarus	December 2018	USD	2.63%	49,380
National Bank of the Republic of Belarus	December 2018	USD	2.94%	11,877
National Bank of the Republic of Belarus	March 2018	USD	5.84%	9,515
National Bank of the Republic of Belarus	June 2018	USD	4.50%	1,927
National Bank of the Republic of Belarus	July 2018	USD	4.25%	418
National Bank of the Republic of Belarus	January 2018	USD	4.20%	986
National Bank of the Republic of Belarus	August 2018	USD	4.00%	789
National Bank of the Republic of Belarus	April 2018	USD	4.50%	571
BPS Sberbank	September 2019	BYN	7.50%	260
BPS Sberbank	October 2020	BYN	7.50%	100
				<b>244,982</b>

(thousands of Belarusian rubles)

**9. Held-to-maturity investment securities (continued)****At 31 December 2016**

<i>Issuer</i>	<i>Maturity</i>	<i>Currency</i>	<i>Rate</i>	<i>Amortized cost</i>
Belarusian Ministry of Finance	October 2017	USD	7.15%	93,200
Belarusian Ministry of Finance	November 2017	USD	5.50%	22,123
Belarusian Ministry of Finance	May 2018	USD	5.70%	33,195
National Bank of the Republic of Belarus	February 2017	USD	8.36%	11,021
National Bank of the Republic of Belarus	May 2017	USD	7.77%	11,054
National Bank of the Republic of Belarus	September 2017	EUR	4.92%	1,022
National Bank of the Republic of Belarus	December 2017	USD	6.14%	1,010
				<b>172,625</b>

All these securities were repaid when due.

**10. Investment property**

Investment property represents buildings transferred to several counterparties, one of which is a related party, under operating leases. An increase in investment property in 2017 was due to the transfer in operating lease of two major leased assets, which were repossessed from the customer as a repayment of debt under finance leases.

The movements in investment property are as follows:

	<b>2017</b>
<b>Cost</b>	
<b>At 1 January</b>	–
Additions	14,889
Transfer from property and equipment	2,958
<b>As at 31 December</b>	<b>17,847</b>
<b>Accumulated depreciation</b>	
<b>At 1 January</b>	–
Depreciation charge	(413)
Transfer from property and equipment	(505)
<b>At 31 December</b>	<b>(918)</b>
<b>Net book value</b>	
<b>At 1 January</b>	–
<b>At 31 December</b>	<b>16,929</b>

Investment property is measured at cost.

	<b>2017</b>
Rental income from investment property	4,053
Direct operating expenses on investment property that generates rental income	(776)
	<b>3,277</b>

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to either purchase, construct or develop investment properties or to repair, maintain or enhance them.

(thousands of Belarusian rubles)

**11. Property and equipment**

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Total</i>
<b>Cost</b>			
<b>At 31 December 2016</b>	<b>103,391</b>	<b>119,415</b>	<b>222,806</b>
Additions	13,516	23,705	37,221
Disposals	(495)	(9,797)	(10,292)
Transfer to investment property	(2,958)	–	(2,958)
<b>At 31 December 2017</b>	<b>113,454</b>	<b>133,323</b>	<b>246,777</b>
<b>Accumulated depreciation</b>			
<b>At 31 December 2016</b>	<b>(23,923)</b>	<b>(66,716)</b>	<b>(90,639)</b>
Depreciation charge	(2,125)	(10,643)	(12,768)
Disposals	40	6,599	6,639
Transfer to investment property	505	–	505
<b>At 31 December 2017</b>	<b>(25,503)</b>	<b>(70,760)</b>	<b>(96,263)</b>
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>79,468</b>	<b>52,699</b>	<b>132,167</b>
<b>At 31 December 2017</b>	<b>87,951</b>	<b>62,563</b>	<b>150,514</b>
	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Total</i>
<b>Cost</b>			
<b>At 31 December 2015</b>	<b>100,411</b>	<b>109,457</b>	<b>209,868</b>
Additions	3,194	18,398	21,592
Disposals	(214)	(8,440)	(8,654)
<b>At 31 December 2016</b>	<b>103,391</b>	<b>119,415</b>	<b>222,806</b>
<b>Accumulated depreciation</b>			
<b>At 31 December 2015</b>	<b>(21,605)</b>	<b>(62,160)</b>	<b>(83,765)</b>
Depreciation charge	(2,349)	(9,675)	(12,024)
Disposals	31	5,119	5,150
<b>At 31 December 2016</b>	<b>(23,923)</b>	<b>(66,716)</b>	<b>(90,639)</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>78,806</b>	<b>47,297</b>	<b>126,103</b>
<b>At 31 December 2016</b>	<b>79,468</b>	<b>52,699</b>	<b>132,167</b>

As at 31 December 2017, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYN 33,480 thousand (2016: BYN 28,715 thousand).

(thousands of Belarusian rubles)

**12. Intangible assets**

The movements in intangible assets were as follows:

	<b>Computer software</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>			
<b>At 31 December 2016</b>	<b>60,564</b>	<b>455</b>	<b>61,019</b>
Additions	14,128	153	14,281
Disposals	(388)	(3)	(391)
<b>At 31 December 2017</b>	<b>74,304</b>	<b>605</b>	<b>74,909</b>
<b>Accumulated amortization</b>			
<b>At 31 December 2016</b>	<b>(33,641)</b>	<b>(65)</b>	<b>(33,706)</b>
Amortization charge	(8,626)	(31)	(8,657)
Disposals	75	1	76
<b>At 31 December 2017</b>	<b>(42,192)</b>	<b>(95)</b>	<b>(42,287)</b>
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>26,923</b>	<b>390</b>	<b>27,313</b>
<b>At 31 December 2017</b>	<b>32,112</b>	<b>510</b>	<b>32,622</b>

	<b>Computer software</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>			
<b>At 31 December 2015</b>	<b>50,656</b>	<b>363</b>	<b>51,019</b>
Additions	10,023	92	10,115
Disposals	(115)	–	(115)
<b>At 31 December 2016</b>	<b>60,564</b>	<b>455</b>	<b>61,019</b>
<b>Accumulated amortization</b>			
<b>At 31 December 2015</b>	<b>(26,414)</b>	<b>(58)</b>	<b>(26,472)</b>
Amortization charge	(7,237)	(7)	(7,244)
Disposals	10	–	10
<b>At 31 December 2016</b>	<b>(33,641)</b>	<b>(65)</b>	<b>(33,706)</b>
<b>Net book value</b>			
<b>At 31 December 2015</b>	<b>24,242</b>	<b>305</b>	<b>24,547</b>
<b>At 31 December 2016</b>	<b>26,923</b>	<b>390</b>	<b>27,313</b>

**13. Taxation**

The corporate income tax expense comprises:

	<b>2017</b>	<b>2016</b>
Current tax charge	73,172	41,665
Deferred tax charge – origination and reversal of temporary differences	(23,635)	8,189
Including: deferred tax recognized in other comprehensive income	1,840	(766)
<b>Income tax expense</b>	<b>51,377</b>	<b>49,088</b>

Belarusian legal entities must file individual tax returns. In 2017 and 2016, the income tax rate for banks was 25%. In 2017 and 2016, the income tax rate for the Bank's subsidiaries in the Republic of Belarus was 18%. In 2017 and 2016, the income tax rate for the foreign subsidiary in the Republic of Lithuania was 15%.

(thousands of Belarusian rubles)

**13. Taxation (continued)**

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

	<b>2017</b>	<b>2016</b>
<b>Profit before tax</b>	<b>211,351</b>	<b>205,191</b>
Statutory tax rate	25%	25%
<b>Theoretical income tax expense at the statutory rate</b>	<b>52,838</b>	<b>51,298</b>
Tax exemption for operations with securities	(5,628)	(6,384)
Other tax exemptions	(5,502)	(2,965)
Income of subsidiaries taxed at different rates	(1,545)	(1,620)
Non-deductible expenses:		
- salaries and related expenses	5,358	5,280
- insurance	3,002	2,433
- disposal of property and equipment	475	535
- charity	419	456
- maintenance and repairs	169	235
- depreciation and amortization	145	124
- consulting, advertising and representative expenses	139	133
- translation differences	96	(226)
- taxes other than income tax	28	31
- other	3,624	3,532
Reversal of statutory revaluation of property and equipment	(2,241)	(3,774)
<b>Income tax expense</b>	<b>51,377</b>	<b>49,088</b>

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

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	2015	<i>In other comprehensive income</i>		2016	<i>In other comprehensive income</i>		2017
		<i>In the income statement</i>			<i>In the income statement</i>		
<b>Tax effect of deductible temporary differences</b>							
Property and equipment	221	2,769	-	2,990	2,962	-	5,952
Amounts due to credit institutions	-	2	-	2	(2)	-	-
Loans to customers	235	2,400	-	2,635	2,193	-	4,828
Derivative financial assets	-	-	-	-	-	-	-
Amounts due to customers	1	-	-	1	7	-	8
Other provisions	122	23	-	145	(42)	-	103
Other assets	1,310	381	-	1,691	(947)	-	744
Other liabilities	2,707	396	(766)	2,337	918	1,840	5,095
<b>Deferred tax assets</b>	<b>4,596</b>	<b>5,971</b>	<b>(766)</b>	<b>9,801</b>	<b>5,089</b>	<b>1,840</b>	<b>16,730</b>
<b>Tax effect of taxable temporary differences</b>							
Allowance for loan impairment	(44,667)	(13,569)	-	(58,236)	15,250	-	(42,986)
Amounts due to credit institutions	(23)	12	-	(11)	(43)	-	(54)
Other provisions	(4,290)	(2,569)	-	(6,859)	307	-	(6,552)
Derivative financial assets	-	-	-	-	-	-	-
Loans to customers	(3,973)	2,083	-	(1,890)	(1,312)	-	(3,202)
Investments in subsidiaries	(1,913)	-	-	(1,913)	-	-	(1,913)
Other assets	(1,431)	(369)	-	(1,800)	198	-	(1,602)
Other liabilities	(8,957)	(1,073)	-	(10,030)	2,306	-	(7,724)
Property and equipment	(2,091)	2,091	-	-	-	-	-
<b>Deferred tax liability</b>	<b>(67,345)</b>	<b>(13,394)</b>	<b>-</b>	<b>(80,739)</b>	<b>16,706</b>	<b>-</b>	<b>(64,033)</b>
<b>Deferred tax liabilities, net</b>	<b>(62,749)</b>	<b>(7,423)</b>	<b>(766)</b>	<b>(70,938)</b>	<b>21,795</b>	<b>1,840</b>	<b>(47,303)</b>



(thousands of Belarusian rubles)

**14. Other assets and liabilities**

Other assets comprise:

	<b>2017</b>	<b>2016</b>
<b>Other financial assets</b>		
Accrued fines and fees and commissions receivable	3,888	3,902
Derivative financial assets	419	681
Settlements on currency conversion operations	–	5,385
	<b>4,307</b>	<b>9,968</b>
<b>Other non-financial assets</b>		
VAT and other prepaid taxes other than income tax	15,161	10,957
Prepayments	11,014	19,129
Property transferred to the Group as a repayment of loans	9,876	8,376
Blocks of apartments owned by the Group	7,088	20,256
Assets before leasing out under finance lease agreements	5,089	4,671
Precious metals	–	297
Other non-financial assets	13,112	4,184
	<b>61,340</b>	<b>67,870</b>
<b>Total other assets</b>	<b>65,647</b>	<b>77,838</b>

The Group is involved in the construction of blocks of apartments, and these are intended to be sold in the ordinary course of business. The blocks of apartments owned by the Group comprise both finished apartments and construction-in-progress. The carrying value of apartments and construction-in-progress is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Group.

Other liabilities comprise:

	<b>2017</b>	<b>2016</b>
<b>Other financial liabilities</b>		
Defined benefit plan: pension liabilities (Note 24)	34,687	20,562
Life insurance liabilities payable by a subsidiary	35,420	17,417
Salaries and bonuses payable	9,546	7,285
Pension liabilities payable by a subsidiary to third parties	4,965	2,821
Trade and other payables	2,214	1,301
Derivative financial liabilities	143	464
Other financial liabilities	14,345	12,663
	<b>101,320</b>	<b>62,513</b>
<b>Other non-financial liabilities</b>		
Tax liabilities (taxes other than income tax)	1,322	2,345
Prepayments for construction of blocks of apartments	880	11,976
Other provisions	416	518
Other non-financial liabilities	1,562	563
	<b>4,180</b>	<b>15,402</b>
<b>Total other liabilities</b>	<b>105,500</b>	<b>77,915</b>

(thousands of Belarusian rubles)

**15. Amounts due to credit institutions**

Amounts due to credit institutions comprise:

	<u>2017</u>	<u>2016</u>
Current accounts	15,449	21,632
Time deposits and loans	369,558	383,133
<b>Amounts due to credit institutions</b>	<b><u>385,007</u></b>	<b><u>404,765</u></b>

As at 31 December 2017, time deposits and loans included amounts payable to the bank from Raiffeisen Group comprising BYN 256,092 thousand (2016: BYN 364,892 thousand). EUR-denominated contracts and USD-denominated contracts bore interest rates of 3.30%-4.71% and 3.61%-6.80%, respectively (2016: EUR-denominated and USD-denominated contracts bore interest rates of 3.76%-4.69% and 3.26%-4.54%, respectively).

**16. Amounts due to customers**

Amounts due to customers include the following:

	<u>2017</u>	<u>2016</u>
Time deposits	921,882	933,613
Current accounts	1,371,838	926,946
<b>Amounts due to customers</b>	<b><u>2,293,720</u></b>	<b><u>1,860,559</u></b>
Held as collateral against letters of credit	7,608	6,251
Held as collateral against guarantees	2,902	4,897

As at 31 December 2017, amounts due to customers of BYN 266,432 thousand, or 12% of the total amounts due to customers, were due to the five largest third-party customers (2016: BYN 223,846 thousand, or 12%).

Included in time deposits are deposits of individuals of BYN 545,112 thousand (31 December 2016: BYN 633,879 thousand).

In accordance with the laws of the Republic of Belarus, time and conditional deposit agreements are classified as follows:

- ▶ Irrevocable agreements - agreements that do not provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement
- ▶ Revocable agreements - agreements that provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement upon demand of a depositor

The depositor has right to claim the repayment of the deposit under the time revocable or conditional revocable deposit agreement prior to its maturity or prior to circumstances (event) or absence of circumstances (event) determined in the agreement. The Bank must repay the deposit within the timeframe and in accordance with the procedure stipulated by the time revocable or conditional revocable deposit agreement. The depositor has no right to claim early repayment of deposit under the time irrevocable and conditional irrevocable deposit agreements. Deposits under such agreements can be early repaid only with the Bank's consent.

As at 31 December 2017, irrevocable deposits of individuals amounted to BYN 80,208 thousand, or 15% of the time deposits of individuals (31 December 2016: BYN 78,118, or 12%).

Amounts due to customers include accounts with the following types of customers:

	<u>2017</u>	<u>2016</u>
Individuals	1,101,895	979,275
Private companies	1,175,961	861,017
State companies and budgetary organizations	15,864	20,267
<b>Amounts due to customers</b>	<b><u>2,293,720</u></b>	<b><u>1,860,559</u></b>

(thousands of Belarusian rubles)

**16. Amounts due to customers (continued)**

An analysis of customer accounts by economic sector is as follows:

	<b>2017</b>	<b>2016</b>
Individuals	1,101,895	979,275
Retail trade	323,820	231,521
Manufacturing:	221,269	130,737
Coking coal, oil products	35,828	26,519
Machinery, equipment	27,496	15,978
Chemicals, rubber, plastics	23,813	9,290
Food, beverages, tobacco products	22,961	13,598
Wood processing	22,400	10,122
Electric equipment	17,180	12,773
Textile industry	9,689	7,937
Pharmaceutical industry	5,442	2,999
Base metals production	3,572	932
Transport facilities	2,323	2,586
Pulp and paper industry	1,456	795
Other manufacturing	49,109	27,208
Wholesale trade	169,758	137,553
Construction	67,820	57,350
Transport	43,743	46,343
Mineral development and extraction	22,394	3,013
Real estate	21,778	7,805
Electrical energy, gas, water supply	2,217	773
Other	319,026	266,189
<b>Amounts due to customers</b>	<b>2,293,720</b>	<b>1,860,559</b>

**17. Amounts due to international credit institutions**

As at 31 December 2017 and 2016, amounts due to international credit institutions consisted of the loan issued by the European Bank for Reconstruction and Development of BYN 6,826 thousand (2016: BYN 11,771 thousand).

**18. Debt securities issued**

	<b>2017</b>	<b>2016</b>
Non-documentary bonds	51,732	2,676
<b>Debt securities issued</b>	<b>51,732</b>	<b>2,676</b>

Non-documentary bonds denominated in Belarusian rubles in the amount of BYN 51,732 thousand mature in 2019 (the Group had no non-documentary bonds denominated in Belarusian rubles in 2016). The bonds bear a floating interest rate, linked to the NBRB refinancing rate.

As at 31 December 2017, the Group had no non-documentary bonds denominated in foreign currency (2016: BYN 2,676 thousand).

**19. Equity**

The information on shares issued, fully paid and outstanding is as follows:

	<b>Number of shares</b>		<b>Nominal value</b>		<b>Inflation adjustment</b>	<b>Total</b>
	<b>Preferred</b>	<b>Ordinary</b>	<b>Preferred</b>	<b>Ordinary</b>		
<b>31 December 2015</b>	10,000	123,058,441	3	41,225	255,680	<b>296,908</b>
Increase in share capital	–	–	4	44,916	–	<b>44,920</b>
<b>31 December 2016 and 2017</b>	<b>10,000</b>	<b>123,058,441</b>	<b>7</b>	<b>86,141</b>	<b>255,680</b>	<b>341,828</b>

(thousands of Belarusian rubles)

**19. Equity (continued)**

The par value of ordinary and preferred shares is BYN 0.70 per share. All authorized shares have been issued and fully paid.

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors or its cost. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank's Charter. In the event of the Bank's liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

At the shareholders' meeting in March 2017, the Bank declared dividends in respect of the year ended 31 December 2016 as follows: BYN 0.40 (2016: BYR 0.39) per ordinary share and BYN 0.35 (2016: BYN 0.17) per preferred share. The dividends were paid.

As a result, dividends on ordinary shares amounted to BYN 49,226 thousand (2016: BYN 47,993 thousand) and dividends on preferred shares amounted to BYN 3.5 thousand (2016: BYN 1.7 thousand).

At the shareholders' meeting in September 2017, the Bank declared dividends based on the interim financial statements for the six months ended 30 June 2017 in the amount of BYN 0.90 per ordinary share. The dividends were paid.

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Bank's shareholders based on the Bank's financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2017, the Bank's non-distributable reserves totaled BYN 218,223 thousand (2016: BYN 211,048 thousand). As at 31 December 2017, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYN 2,897 thousand (2016: BYN 2,303 thousand).

**Movements in other capital items**

Movements in other capital items were as follows:

	<i>Foreign currency translation reserve</i>	<i>Actuarial loss on defined pension plans</i>	<i>Total</i>
<b>At 1 January 2016</b>	<b>1,758</b>	<b>(6,781)</b>	<b>(5,023)</b>
Exchange differences on translation of the financial statements of a foreign subsidiary	(65)	–	<b>(65)</b>
Revaluation of defined pension plans	–	3,065	<b>3,065</b>
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	(766)	<b>(766)</b>
<b>At 31 December 2016</b>	<b>1,693</b>	<b>(4,482)</b>	<b>(2,789)</b>
Exchange differences on translation of the financial statements of a foreign subsidiary	1,301	–	<b>1,301</b>
Revaluation of defined pension plans	–	(7,360)	<b>(7,360)</b>
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	1,840	<b>1,840</b>
<b>At 31 December 2017</b>	<b>2,994</b>	<b>(10,002)</b>	<b>(7,008)</b>

(thousands of Belarusian rubles)

## 19. Equity (continued)

### Movements in other capital items (continued)

#### *Foreign currency translation reserve*

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### *Actuarial loss on defined pension plans*

This reserve reflects changes in actuarial calculations for the reporting period.

## 20. Commitments and contingencies

### Operating environment

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

In 2017, the Belarusian government and the NBRB continued to be focused on the stabilization of the financial market. To increase the effectiveness of the use of the refinancing rate as an instrument of fiscal and monetary policy, the NBRB gradually reduced the rate from 18% in January 2017 to 11% at the year-end. In October 2017, the Management Board of the NBRB decided to reduce the rate for the mandatory sale of foreign currency proceeds from 20% to 10%. These measures had a positive impact on the Belarusian ruble, as GDP increased by 2.4% in 2017 after falling by 2.6% in the previous year. Inflation also significantly slowed down.

As a result, the inflation rate in 2017 was 4.6% (2016: 10.6%). In 2017, a growth in banks' problem assets came to a halt.

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

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

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

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

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

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

(thousands of Belarusian rubles)

**20. Commitments and contingencies (continued)****Operating environment (continued)**

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

*Legal*

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

*Taxation*

Belarusian tax legislation and regulations as well as other operational matters, including currency and customs regulations, continue to evolve.

Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. In addition, since management's interpretation of this legislation may differ from possible official interpretations, and the compliance with this legislation may be challenged by regulatory authorities, additional taxes and penalties may be assessed and other preventive measures may be taken. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

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

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

*Financial commitments and contingencies*

As at 31 December 2017, the Group's financial commitments and contingencies comprised the following:

	<u>2017</u>	<u>2016</u>
<b>Credit-related commitments</b>		
Undrawn loan commitments	285,992	202,793
Letters of credit	76,981	79,407
Guarantees	138,146	227,450
	<u>501,119</u>	<u>509,650</u>
<b>Lease commitments</b>		
Not later than 1 year	2,753	2,841
From 1 to 5 years	2,496	2,919
Later than 5 years	639	428
	<u>5,888</u>	<u>6,188</u>
Less: provisions	(416)	(518)
<b>Financial commitments and contingencies (before deducting collateral)</b>	<u>506,591</u>	<u>515,320</u>
Less: cash held as collateral against letters of credit and guarantees (Note 16)	(10,510)	(11,148)
<b>Financial commitments and contingencies</b>	<u>496,081</u>	<u>504,172</u>

(thousands of Belarusian rubles)

**21. Net fee and commission income**

Net fee and commission income comprises:

	<b>2017</b>	<b>2016</b>
Settlement transactions	130,920	114,404
Guarantees and letters of credit	7,071	8,565
Currency conversion operations	2,501	3,323
Agency services	1,929	848
Other	802	1,012
<b>Fee and commission income</b>	<b>143,223</b>	<b>128,152</b>
Settlement transactions	(60,512)	(50,280)
Guarantees	(6,198)	(6,194)
Currency conversion operations	(761)	(896)
Operations with securities	(67)	–
Other	(1,408)	(2,155)
<b>Fee and commission expense</b>	<b>(68,946)</b>	<b>(59,525)</b>
<b>Net fee and commission income</b>	<b>74,277</b>	<b>68,627</b>

**22. Other income**

Other income comprises:

	<b>2017</b>	<b>2016</b>
Income from sale of constructed housing	10,871	3,674
Income from debt previously written off	1,947	1,335
Income from operating lease	4,746	1,316
Income from agriculture services	6,292	765
Income from early redemption and sale of leased assets	58	71
Income from sale of property and equipment	43	14
Income from additional services for finance lease agreements	92	–
Other	2,236	1,336
<b>Total other income</b>	<b>26,285</b>	<b>8,511</b>

**23. Personnel and other operating expenses**

Personnel and other operating expenses comprise:

	<b>2017</b>	<b>2016</b>
Salaries and bonuses	56,960	55,186
Social security costs	24,979	21,678
Retirement benefits (Note 24)	7,027	4,480
Other employment taxes	1,928	1,979
<b>Personnel expenses</b>	<b>90,894</b>	<b>83,323</b>

(thousands of Belarusian rubles)

**23. Personnel and other operating expenses (continued)**

	<u>2017</u>	<u>2016</u>
Occupancy and rent	13,427	13,867
Data processing	12,734	12,057
Deposit insurance fees	6,006	5,805
Marketing and advertising	4,051	4,576
Legal and consultancy	4,306	4,543
Plastic cards operations	3,877	3,630
Taxes other than income tax	3,625	3,403
Office supplies	2,376	2,384
Transportation expenses	2,015	2,032
Communications	1,709	1,540
Business travel and related expenses	1,069	902
Loss on disposal of property and equipment and intangible assets	1,018	1,187
Repair and maintenance of equipment	1,017	1,066
Representative expenses	911	557
Personnel training	770	794
Security	208	349
Overdue penalties written off	-	4,231
Impairment of inventories	-	1,262
Expenses from additional leasing services	-	56
Other	3,554	1,983
<b>Other operating expenses</b>	<b><u>62,673</u></b>	<b><u>66,224</u></b>

**24. Post-employment benefits****Defined benefit plan**

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

Liability according to a defined benefit plan is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

*Net benefit expense (recognized within personnel expenses)*

	<u>2017</u>	<u>2016</u>
Current service cost	1,543	1,534
Interest cost on benefit obligation	3,116	2,946
Past service cost	2,368	-
<b>Net benefit expense (Note 23)</b>	<b><u>7,027</u></b>	<b><u>4,480</u></b>

*Retirement benefit liability*

	<u>2017</u>	<u>2016</u>
Retirement benefit liability (Note 14)	(34,687)	(20,562)



(thousands of Belarusian rubles)

**24. Post-employment benefits (continued)****Defined benefit plan (continued)***Changes in value of the defined benefit obligation*

	<u>2017</u>	<u>2016</u>
<b>Opening defined benefit plan obligation</b>	<b>20,562</b>	<b>19,317</b>
Current service cost	1,543	1,534
Interest expense	3,116	2,946
Increase in obligations due to changes in pension plan terms	2,368	–
Actuarial (gains)/losses arising from changes in demographic assumptions	(392)	1,270
Actuarial (gains)/losses arising from changes in finance assumptions	4,130	(2,763)
Current regulating amendments	3,622	(1,572)
Benefits paid	(262)	(170)
<b>Closing defined benefit obligation</b>	<b><u>34,687</u></b>	<b><u>20,562</u></b>

*Changes in plan obligations*

	<u>2017</u>	<u>2016</u>
<b>Opening plan obligation</b>	<b>(20,562)</b>	<b>(19,317)</b>
Net benefit expense	(7,027)	(4,480)
Revaluation of defined benefit plans recognized in other comprehensive income	(7,360)	3,065
Benefits paid	262	170
<b>Closing plan obligation</b>	<b><u>(34,687)</u></b>	<b><u>(20,562)</u></b>

The principal assumptions used in determining pension obligations for the Bank's plan are shown below:

	<u>2017</u>	<u>2016</u>
Discount rate	4.45%	6.30%
Future inflation rate	8.00%	9.13%

In 2016 and 2017, all settlements (excluding settlements on periodic lifelong benefits to retired personnel) were made in euro using the basic amounts denominated in euro and the respective parameters (discount rate, salary growth rate, yield on accounts) related to the amounts denominated in euro.

The average term of defined benefit plan obligations at the end of the reporting period was 14.4 years (2016: 12.4 years).

The best estimate of the amounts of the employer's contributions to be paid in the annual period, after the estimation date amounted to BYN 627 thousand (2016: BYN 627 thousand).

*Sensitivity analysis*

	<u>Changes in assumptions</u>	<u>Effect on the benefit obligation</u>
Discount rate	+ / -1 pp	4,831
Future inflation rate	+ / -1 pp	1,597
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / -0.5 pp	243

(thousands of Belarusian rubles)

## 25. Risk management

### Introduction

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

#### *Risk management structure*

The Supervisory Board and the Executive Committee are ultimately responsible for identifying and controlling risks and are responsible for the overall risk management approach and for approving the risk strategies and principles.

#### *Supervisory Board*

The Supervisory Board is required under the Belarusian legislation and is comprised of representatives of the Government, major shareholder and major counterparties.

#### *Management Board*

The Management Board is responsible for monitoring the overall risk process within the Group.

#### *Risk Committee, Credit Committee, Financial Committee, Problem Loans Committee and Audit Committee*

The committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions.

#### *Risk management*

The risk management units are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.

#### *Bank's Treasury*

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

#### *Audit Committee*

Audit Committee is responsible for overall management and effective functioning of internal control system and internal audit function of the Group.

#### *Internal Audit*

The risk management processes throughout the Group are audited annually by the Audit Function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Audit Function discusses the results of all assessments with management, and reports its findings and recommendations to the Management Board.

#### *Risk measurement and reporting systems*

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from past experience, adjusted to reflect the economic environment. The Group also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

(thousands of Belarusian rubles)

## 25. Risk management (continued)

### Introduction (continued)

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Supervisory Board and Executive committee. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loans Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Risk Committee and the Executive Committee receive a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As requested by all relevant subdivision throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular meetings are held with Risk Committee, Credit Committee, Financial Committee and Problem Loans Committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

#### *Risk mitigation*

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

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

#### *Excessive risk concentration*

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

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

Where appropriate and in the case of most loans, the Group obtains collateral. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

(thousands of Belarusian rubles)

## 25. Risk management (continued)

### Credit risk (continued)

#### *Credit-related commitments risks*

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

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

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

More details on the maximum exposure to credit risk for each class of financial instrument are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is described in Note 8.

#### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Group internal credit ratings.

High grade: customers with credit rating 1C-4C (corporate customers and average customers with the limit over EUR 1.5 million) and 4B-6A (medium customers) - good profitability, sufficient equity, the probability of the debt repayment is very high in the long run.

Standard grade: customers with credit rating 5A-5C (corporate customers and average customers with the limit over EUR 1.5 million) and 6B-7A (average customers) – stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in the medium term.

Sub-standard grade: customers with credit rating 6A-9C (corporate customers and average customers with the limit over EUR 1.5 million) and 7B-9B (average customers) – low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations.

Individually impaired loans: customers with credit rating 10A-10C (Default. Financial obligations cannot be promptly and fully fulfilled).

(thousands of Belarusian rubles)

**25. Risk management (continued)****Credit risk (continued)**

The table below shows the credit quality by class of asset for respective lines of the consolidated statement of financial position based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

	Notes	<i>Neither past due nor individually impaired</i>				<i>Past due but not individually impaired</i>		Total 2017
		<i>High grade 2017</i>	<i>Standard grade 2017</i>	<i>Sub-standard grade 2017</i>	<i>Not rated</i>	<i>2017</i>	<i>Individually impaired 2017</i>	
Cash and cash equivalents (net of cash on hand)	6	343,263	396,895	–	–	–	–	740,158
Amounts due from credit institutions	7	24,197	29,231	–	–	–	–	53,428
Held-to-maturity investment securities	9	–	244,982	–	–	–	–	244,982
Loans to customers:	8							
Corporate lending		211,089	158,789	1,117,061	–	–	113,456	1,600,395
Small business lending		104,300	74,799	52,013	78,644	5,538	16,750	332,044
Consumer lending		–	–	–	382,609	7,468	6,977	397,054
Residential mortgages		–	–	–	34,099	771	2,376	37,246
		<b>315,389</b>	<b>233,588</b>	<b>1,169,074</b>	<b>495,352</b>	<b>13,777</b>	<b>139,559</b>	<b>2,366,739</b>
Other financial assets	14	–	419	–	3,888	–	–	4,307
<b>Total</b>		<b>682,849</b>	<b>905,115</b>	<b>1,169,074</b>	<b>499,240</b>	<b>13,777</b>	<b>139,559</b>	<b>3,409,614</b>

	Notes	<i>Neither past due nor individually impaired</i>				<i>Past due but not individually impaired</i>		Total 2016
		<i>High grade 2016</i>	<i>Standard grade 2016</i>	<i>Sub-standard grade 2016</i>	<i>Not rated</i>	<i>2016</i>	<i>Individually impaired 2016</i>	
Cash and cash equivalents (net of cash on hand)	6	288,116	377,853	–	–	–	–	665,969
Amounts due from credit institutions	7	12,685	28,137	–	–	–	–	40,822
Held-to-maturity investment securities	9	–	172,625	–	–	–	–	172,625
Loans to customers:	8							
Corporate lending		177,512	166,913	1,013,152	–	573	162,122	1,520,272
Small business lending		67,547	59,396	32,685	53,722	6,415	20,040	239,805
Consumer lending		–	–	–	253,911	12,918	9,045	275,874
Residential mortgages		–	–	–	28,054	2,795	2,523	33,372
		<b>245,059</b>	<b>226,309</b>	<b>1,045,837</b>	<b>335,687</b>	<b>22,701</b>	<b>193,730</b>	<b>2,069,323</b>
Other financial assets	14	–	681	–	9,287	–	–	9,968
<b>Total</b>		<b>545,860</b>	<b>805,605</b>	<b>1,045,837</b>	<b>344,974</b>	<b>22,701</b>	<b>193,730</b>	<b>2,958,707</b>

(thousands of Belarusian rubles)

**25. Risk management (continued)****Credit risk (continued)**

It is the Group's internal policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed statistics information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

An analysis of past due loans, by age, is provided below.

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

	<b>Less than 30 days 2017</b>	<b>31 to 90 days 2017</b>	<b>More than 90 days 2017</b>	<b>Total 2017</b>
<b>Loans to customers</b>				
Corporate lending				
Small business lending	2,274	2,917	347	5,538
Consumer lending	3,980	2,139	1,349	7,468
Residential mortgages	618	153	–	771
<b>Total</b>	<b>6,872</b>	<b>5,209</b>	<b>1,696</b>	<b>13,777</b>
	<b>Less than 30 days 2016</b>	<b>31 to 90 days 2016</b>	<b>More than 90 days 2016</b>	<b>Total 2016</b>
<b>Loans to customers</b>				
Corporate lending	409	164	–	573
Small business lending	2,475	3,252	688	6,415
Consumer lending	6,159	2,865	3,894	12,918
Residential mortgages	586	1,659	550	2,795
<b>Total</b>	<b>9,629</b>	<b>7,940</b>	<b>5,132</b>	<b>22,701</b>

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

*Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of the borrower, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

*Individually assessed allowances*

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention.

*Collectively assessed allowances*

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by customer.

(thousands of Belarusian rubles)

**25. Risk management (continued)****Credit risk (continued)**

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

**Geographical risk concentration**

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

	2017				2016			
	Belarus	OECD	CIS and other foreign banks	Total	Belarus	OECD	CIS and other foreign banks	Total
<b>Assets</b>								
Cash and cash equivalents	517,880	315,533	24,689	<b>858,102</b>	514,250	232,336	52,850	<b>799,436</b>
Amounts due from credit institutions	53,428	–	–	<b>53,428</b>	40,822	–	–	<b>40,822</b>
Loans to customers	2,241,797	–	–	<b>2,241,797</b>	1,939,278	–	–	<b>1,939,278</b>
Held-to-maturity investment securities	244,982	–	–	<b>244,982</b>	172,625	–	–	<b>172,625</b>
Other assets	4,209	51	47	<b>4,307</b>	9,387	363	218	<b>9,968</b>
	<b>3,062,296</b>	<b>315,584</b>	<b>24,736</b>	<b>3,402,616</b>	<b>2,676,362</b>	<b>232,699</b>	<b>53,068</b>	<b>2,962,129</b>
<b>Liabilities</b>								
Amounts due to credit institutions	64,049	314,937	6,021	<b>385,007</b>	18,648	374,802	11,315	<b>404,765</b>
Amounts due to customers	2,149,212	61,198	83,310	<b>2,293,720</b>	1,726,989	42,892	90,678	<b>1,860,559</b>
Amounts due to international credit institutions	–	6,826	–	<b>6,826</b>	–	11,771	–	<b>11,771</b>
Debt securities issued	51,732	–	–	<b>51,732</b>	2,676	–	–	<b>2,676</b>
Other liabilities	101,206	77	37	<b>101,320</b>	62,090	75	348	<b>62,513</b>
	<b>2,366,199</b>	<b>383,038</b>	<b>89,368</b>	<b>2,838,605</b>	<b>1,810,403</b>	<b>429,540</b>	<b>102,341</b>	<b>2,342,284</b>
<b>Net assets and liabilities</b>	<b>696,097</b>	<b>(67,454)</b>	<b>(64,632)</b>	<b>564,011</b>	<b>865,959</b>	<b>(196,841)</b>	<b>(49,273)</b>	<b>619,845</b>

**Liquidity risk and funding management**

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

(thousands of Belarusian rubles)

**25. Risk management (continued)****Liquidity risk and funding management (continued)**

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on net liquidity assets and liabilities established by the NBRB. As at 31 December, these ratios were as follows:

	<i>NBRB required minimum ratio value</i>	<b>2017</b>	<b>2016</b>
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	185.6%	158.7%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity and liabilities repayable within one year)	1.0	1.4	1.7
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	174.3%	226.3%
The Bank's liquidity and total assets ratio	20.0%	34.0%	35.6%

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

<i>Financial liabilities As at 31 December 2017</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to credit institutions	15,444	82,763	40,175	287,667	287	<b>426,336</b>
Derivative financial instruments (Note 14):						
- Contractual amounts payable	-	338,497	462	-	-	<b>338,959</b>
- Contractual amounts receivable	-	(338,904)	(473)	-	-	<b>(339,377)</b>
Amounts due to customers	1,353,132	358,220	493,159	99,442	94	<b>2,304,047</b>
Amounts due to international financial institutions	83	3,375	3,376	-	-	<b>6,834</b>
Debt securities issued	-	1,294	3,955	56,924	-	<b>62,173</b>
Other liabilities	1,209	-	24,784	75,184	-	<b>101,177</b>
<b>Total undiscounted financial liabilities</b>	<b>1,369,868</b>	<b>445,245</b>	<b>565,438</b>	<b>519,217</b>	<b>381</b>	<b>2,900,149</b>

<i>Financial liabilities As at 31 December 2016</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to credit institutions	21,628	131,406	53,338	251,186	59	<b>457,617</b>
Derivative financial instruments (Note 14):						
- Contractual amounts payable	-	386,293	227	-	-	<b>386,520</b>
- Contractual amounts receivable	-	(386,576)	(246)	-	-	<b>(386,822)</b>
Amounts due to customers	947,367	522,198	293,498	111,718	477	<b>1,875,258</b>
Amounts due to international financial institutions	62	2,962	2,952	5,874	-	<b>11,850</b>
Debt securities issued	-	24	2,746	-	-	<b>2,770</b>
Other liabilities	492	-	20,684	40,873	-	<b>62,049</b>
<b>Total undiscounted financial liabilities</b>	<b>969,549</b>	<b>656,307</b>	<b>373,199</b>	<b>409,651</b>	<b>536</b>	<b>2,409,242</b>



(thousands of Belarusian rubles)

**25. Risk management (continued)****Liquidity risk and funding management (continued)**

The table below shows the contractual expiry by maturity of the Bank's commitments and contingencies.

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 year to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2017	501,893	1,979	2,496	639	<b>507,007</b>
2016	510,384	2,107	2,919	428	<b>515,838</b>

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

**Market risk**

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

*Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

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

<i>Currency</i>	<i>Increase in basis points 2017</i>	<i>Sensitivity of net interest income 2017</i>
BYN	+50 b.p.	839
EUR	+50 b.p.	963
USD	+50 b.p.	481
<i>Currency</i>	<i>Decrease in basis points 2017</i>	<i>Sensitivity of net interest income 2017</i>
BYN	-50 b.p.	(839)
EUR	-50 b.p.	(963)
USD	-50 b.p.	(481)
<i>Currency</i>	<i>Increase in basis points 2016</i>	<i>Sensitivity of net interest income 2016</i>
BYN	+50 b.p.	95
EUR	+50 b.p.	1,011
USD	+50 b.p.	1,153
<i>Currency</i>	<i>Decrease in basis points 2016</i>	<i>Sensitivity of net interest income 2016</i>
BYN	-50 b.p.	(95)
EUR	-50 b.p.	(1,011)
USD	-50 b.p.	(1,153)

(thousands of Belarusian rubles)

**25. Risk management (continued)****Currency risk**

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

The table below indicates the currencies to which the Group had significant exposure at 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble, with all other variables held constant on the consolidated income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity; meanwhile the positive amounts reflect the potentially possible increase.

<b>Currency</b>	<b>Change in currency rate in %, 2017</b>	<b>Effect on profit before tax 2017</b>	<b>Change in currency rate in %, 2016</b>	<b>Effect on profit before tax 2016</b>
USD	10.00	2,165	18.00	10,266
USD	-10.00	(2,165)	-18.00	(10,266)
EUR	14.50	1,825	18.00	6,211
EUR	-10.00	(1,259)	-18.00	(6,211)

**Prepayment risk**

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgage loans when interest rates fall.

Due to the fact that the Group does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Group believes that the Group is not exposed to the prepayment risk.

**Operational risk**

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

(thousands of Belarusian rubles)

**26. Fair value of financial instruments**

Set out below is a comparison by class of the carrying values and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying value 2017</i>	<i>Fair value 2017</i>	<i>Unrecognized gain/ (loss) 2017</i>	<i>Carrying value 2016</i>	<i>Fair value 2016</i>	<i>Unrecognized gain/ (loss) 2016</i>
<b>Financial assets</b>						
Cash and cash equivalents	858,102	858,102	–	799,436	799,436	–
Amounts due from credit institutions	53,428	53,428	–	40,822	40,822	–
Loans to customers	2,241,797	2,242,270	473	1,939,278	1,942,084	2,806
Held-to-maturity investment securities	244,982	245,425	443	172,625	175,108	2,483
Other financial assets	3,888	3,888	–	9,287	9,287	–
<b>Financial liabilities</b>						
Amounts due to credit institutions	385,007	385,007	–	404,765	404,765	–
Amounts due to customers	2,293,720	2,293,346	374	1,860,559	1,861,377	(818)
Amounts due to international financial institutions	6,826	6,826	–	11,771	11,771	–
Debt securities issued	51,732	51,732	–	2,676	2,689	(13)
Other financial liabilities	101,177	101,177	–	62,049	62,049	–
<b>Total unrecognized change in unrealized fair value</b>			<b>1,290</b>			<b>4,458</b>

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

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	117,944	740,158	–	<b>858,102</b>
Amounts due from credit institutions	–	53,428	–	<b>53,428</b>
Loans to customers	–	–	2,242,270	<b>2,242,270</b>
Held-to-maturity investment securities	–	245,425	–	<b>245,425</b>
Other financial assets	–	–	3,888	<b>3,888</b>
	<b>117,944</b>	<b>1,039,011</b>	<b>2,246,158</b>	<b>3,403,113</b>
<b>Financial liabilities for which fair values are disclosed</b>				
Amounts due to credit institutions	–	–	385,007	<b>385,007</b>
Amounts due to customers	–	–	2,293,346	<b>2,293,346</b>
Amounts due to international financial institutions	–	–	6,826	<b>6,826</b>
Debt securities issued	–	51,732	–	<b>51,732</b>
Other financial liabilities	–	–	101,177	<b>101,177</b>
	–	<b>51,732</b>	<b>2,786,356</b>	<b>2,838,088</b>

(thousands of Belarusian rubles)

**26. Fair value of financial instruments (continued)**

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	133,467	665,969	–	<b>799,436</b>
Amounts due from credit institutions	–	40,822	–	<b>40,822</b>
Loans to customers	–	–	1,942,084	<b>1,942,084</b>
Held-to-maturity investment securities	–	175,108	–	<b>175,108</b>
Other financial assets	–	–	9,287	<b>9,287</b>
	<b>133,467</b>	<b>881,899</b>	<b>1,951,371</b>	<b>2,966,737</b>
<b>Financial liabilities for which fair values are disclosed</b>				
Amounts due to credit institutions	–	–	404,765	<b>404,765</b>
Amounts due to customers	–	–	1,861,377	<b>1,861,377</b>
Amounts due to international financial institutions	–	–	11,771	<b>11,771</b>
Debt securities issued	–	2,689	–	<b>2,689</b>
Other financial liabilities	–	–	62,049	<b>62,049</b>
	–	<b>2,689</b>	<b>2,339,962</b>	<b>2,342,651</b>

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

**Assets for which fair value approximates carrying value**

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

**Fixed rate financial instruments**

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

**Financial instruments recorded at fair value**

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

<b>31 December 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	–	113	306	<b>419</b>
	–	<b>113</b>	<b>306</b>	<b>419</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	–	82	61	<b>143</b>
	–	<b>82</b>	<b>61</b>	<b>143</b>

(thousands of Belarusian rubles)

**26. Fair value of financial instruments (continued)****Financial instruments recorded at fair value (continued)**

<b>31 December 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	–	631	50	<b>681</b>
	<b>–</b>	<b>631</b>	<b>50</b>	<b>681</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	–	446	18	<b>464</b>
	<b>–</b>	<b>446</b>	<b>18</b>	<b>464</b>

**Financial instruments carried at fair value**

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

**Derivatives**

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. Methods used by the Group to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

**Movements in Level 3 financial instruments measured at fair value**

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

	<b>At 1 January 2017</b>	<b>Gain/(loss) recorded in profit or loss on 'Translation differences' position</b>	<b>Settlements</b>	<b>At 31 December 2017</b>
<b>Financial assets</b>				
Derivative financial instruments	50	306	(50)	306
<b>Total Level 3 financial assets</b>	<b>50</b>	<b>306</b>	<b>(50)</b>	<b>306</b>
<b>Financial liabilities</b>				
Derivative financial instruments	(18)	(61)	18	(61)
<b>Total Level 3 financial liabilities</b>	<b>(18)</b>	<b>(61)</b>	<b>18</b>	<b>(61)</b>

(thousands of Belarusian rubles)

**26. Fair value of financial instruments (continued)****Movements in Level 3 financial instruments measured at fair value (continued)**

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	2017			2016		
	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>
Gains recorded in the income statement	(32)	245	213	(29)	32	3

**Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions**

The following table shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	31 December 2017		31 December 2016	
	<i>Carrying value</i>	<i>Effect of reasonably possible alternative assumptions</i>	<i>Carrying value</i>	<i>Effect of reasonably possible alternative assumptions</i>
<b>Financial assets</b>				
Derivative financial instruments	306	10	50	2
<b>Financial liabilities</b>				
Derivative financial instruments	(61)	51	(18)	1

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows: the Group adjusted the interest rate used to measure discounted cash flows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 100 b.p. (2016: 100 b.p.)

(thousands of Belarusian rubles)

**27. Maturity analysis of assets and financial liabilities**

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 25 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2017			2016		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	858,102	-	<b>858,102</b>	799,436	-	<b>799,436</b>
Amounts due from credit institutions	53,428	-	<b>53,428</b>	40,234	588	<b>40,822</b>
Loans to customers	1,469,604	772,193	<b>2,241,797</b>	1,244,158	695,120	<b>1,939,278</b>
Held-to-maturity investment securities	217,311	27,671	<b>244,982</b>	139,722	32,903	<b>172,625</b>
Investment property	-	16,929	<b>16,929</b>	-	-	-
Property and equipment	12,460	138,054	<b>150,514</b>	11,816	120,351	<b>132,167</b>
Intangible assets	9,400	23,222	<b>32,622</b>	7,878	19,435	<b>27,313</b>
Current income tax assets	224	-	<b>224</b>	3,567	-	<b>3,567</b>
Other assets	65,634	13	<b>65,647</b>	77,655	183	<b>77,838</b>
<b>Total assets</b>	<b>2,686,163</b>	<b>978,082</b>	<b>3,664,245</b>	<b>2,324,466</b>	<b>868,580</b>	<b>3,193,046</b>
Amounts due to credit institutions	107,897	277,110	<b>385,007</b>	168,298	236,467	<b>404,765</b>
Amounts due to customers	1,984,999	308,721	<b>2,293,720</b>	1,591,601	268,958	<b>1,860,559</b>
Amounts due to international financial institutions	6,826	-	<b>6,826</b>	5,928	5,843	<b>11,771</b>
Debt securities issued	105	51,627	<b>51,732</b>	2,676	-	<b>2,676</b>
Current income tax liabilities	13,958	-	<b>13,958</b>	761	-	<b>761</b>
Deferred income tax liabilities	-	47,303	<b>47,303</b>	-	70,938	<b>70,938</b>
Other liabilities	30,316	75,184	<b>105,500</b>	37,042	40,873	<b>77,915</b>
<b>Total liabilities</b>	<b>2,144,101</b>	<b>759,945</b>	<b>2,904,046</b>	<b>1,806,306</b>	<b>623,079</b>	<b>2,429,385</b>
<b>Net</b>	<b>542,062</b>	<b>218,137</b>	<b>760,199</b>	<b>518,160</b>	<b>245,501</b>	<b>763,661</b>

**28. Related party transactions**

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

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

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG (RBI), banks under common control), shareholders with more than 5% ownership in the share capital of the Bank and the key management personnel of the Group.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Group, owning 100% of shares of the Group's principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

(thousands of Belarusian rubles)

**28. Related party transactions (continued)**

	2017			2016		
	RBI	Banks under common control	Key management personnel	RBI	Banks under common control	Key management personnel
<b>Cash and cash equivalents at 31 December</b>	<b>18,225</b>	<b>3,013</b>	<b>–</b>	<b>6,163</b>	<b>2,220</b>	<b>–</b>
<b>Loans at 1 January</b>	<b>–</b>	<b>–</b>	<b>53</b>	<b>–</b>	<b>–</b>	<b>117</b>
Loans issued during the year	–	–	28	–	–	19
Loans repaid during the year	–	–	(62)	–	–	(83)
<b>Loans outstanding at 31 December</b>	<b>–</b>	<b>–</b>	<b>19</b>	<b>–</b>	<b>–</b>	<b>53</b>
<b>Deposits at 1 January</b>	<b>364,892</b>	<b>–</b>	<b>4,068</b>	<b>485,727</b>	<b>–</b>	<b>3,000</b>
Foreign exchange differences	43,373	–	(421)	8,768	–	80
Deposits received during the year	–	1,158	4,440	–	–	6,711
Deposits repaid during the year	(152,173)	–	(4,130)	(129,603)	–	(5,723)
<b>Deposits at 31 December</b>	<b>256,092</b>	<b>1,158</b>	<b>3,957</b>	<b>364,892</b>	<b>–</b>	<b>4,068</b>
Settlement and current accounts at 31 December	42	3,159	201	49	4,147	175
Commitments and guarantees issued	6,184	–	–	8,790	–	–
Commitments and guarantees received	1,124	–	–	1,077	–	–

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

	For the year ended 31 December					
	2017			2016		
	RBI	Banks under common control	Key management personnel	RBI	Banks under common control	Key management personnel
Interest income	–	1	7	–	5	13
Interest expense	(14,290)	–	(148)	(20,976)	–	(201)
Net gains/ (losses) from foreign currencies	3,209	(5,379)	–	850	(13,728)	–
Fee and commission income	50	135	4	–	70	7
Fee and commission expense	(1,247)	(74)	–	(761)	(88)	–
Personnel expenses	–	–	(2,902)	–	–	(2,743)
Other operating expenses	(3,903)	–	–	(4,109)	–	–

Compensation to key management personnel comprises the following:

	2017	2016
Salaries and other short-term benefits	2,375	2,330
Defined benefit plan	312	231
Social security costs	215	182
<b>Total key management compensation</b>	<b>2,902</b>	<b>2,743</b>



(thousands of Belarusian rubles)

**29. Changes in liabilities arising from financing activities**

	<b>Notes</b>	<b>Debt securities issued</b>	<b>Total liabilities arising from financing activities</b>
<b>Carrying value at 31 December 2015</b>		<b>6,889</b>	<b>6,889</b>
Proceeds from issue		442	442
Repaid		(4,695)	(4,695)
Foreign exchange differences		83	83
Other		(43)	(43)
<b>Carrying value at 31 December 2016</b>		<b>2,676</b>	<b>2,676</b>
Proceeds from issue		52,394	52,394
Repaid		(3,718)	(3,718)
Foreign exchange differences		301	301
Other		79	79
<b>Carrying value at 31 December 2017</b>	19	<b>51,732</b>	<b>51,732</b>

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

**30. Capital adequacy****Capital management**

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the level of risks taken. In order to maintain or adjust the capital structure, the Group 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 from the previous years.

**NBRB capital adequacy ratio**

The NBRB requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets in 2017, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2017 and 2016, the Bank managed to comply with NBRB capital adequacy ratio.

*(thousands of Belarusian rubles)***30. Capital adequacy (continued)****Capital adequacy ratio under 1988 Basel Capital Accord**

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

	<u>2017</u>	<u>2016</u>
Tier 1 capital	744,550	746,940
Tier 2 capital	–	–
<b>Total equity</b>	<b><u>744,550</u></b>	<b><u>746,940</u></b>
<b>Risk-weighted assets</b>	<b><u>3,108,829</u></b>	<b><u>2,636,693</u></b>
Tier 1 capital adequacy ratio (minimum value of 4%)	23.95%	28.33%
Total capital ratio (minimum value of 8%)	23.95%	28.33%