

JSC “Technobank”

Financial statements
for the year ended 31 December 2017

JSC “Technobank”
44 Kropotkina str.
Minsk, 220002, Republic of Belarus
Tel.: +375 17 283 15 10
License to conduct banking activities # 11,
issued by the National Bank of the Republic of Belarus on 31 December 2013

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

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Translation from the original in Russian

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, the Board of Directors
the Management of JSC "Technobank"
To the National Bank of the Republic of Belarus
Ref. number: 04-05/43/1
Date: 25.05.2018

Opinion

Information about the Auditee:

Bank: Joint Stock Company "Technobank" (JSC "Technobank")

Location: 44 Kropotkina str., Minsk, 220002, Republic of Belarus

Information on the state registration: Joint Stock Company "Technobank" is registered upon the decision on the Board of the National Bank of the Republic of Belarus dated 05 August 1994, registration number No. 47

Payer's identification number: 100706562

We have audited the financial statements of JSC "Technobank" (hereinafter - the Bank), which comprise:

- ▶ The statement of financial position as at 31 December 2017;
- ▶ The statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended;
- ▶ Notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of JSC "Technobank" in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of Matter

Without qualifying our opinion we draw your attention to Section 4 (a) of the Notes to the financial statements:

- ▶ The Management of the Bank decided not to apply requirements of IAS 39 “Financial instruments: recognition and measurement” in relation to the recognition of debt impairment of EuroStepGroup incurred on 28.12.2016 measured at amortized cost due to the individual nature of the transaction not typical for the transactions performed in the course of the Bank’s normal activity;
- ▶ In accordance with p. 2.3. of the Interbank Lending Agreement, the financing Bank is entitled unilaterally and without judicial procedures to demand from JSC “Technobank” early repayment of a loan under the Agreement in case of failure of the Bank to fulfill (improperly fulfillment of) any of the obligations (liabilities) under the Agreements, and in other cases, established by the law.

In case of occurrence of events in 2018, described in p. 2.3 of the Agreement, the management of the Bank believes that JSC “Technobank” possesses sufficient amount of highly liquid assets which will at any time ensure the repayment of the debt to the financing Bank.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were the most significance in our audit of the financial statements of the current period. These matters were considered in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Our description of how each matter has been addressed during the audit is presented in the given context.

We have performed obligations, described in section Auditor’s Responsibility for the Audit of the Financial Statements of our report, including those related to the matters. Consequently, our audit included procedures developed in response to our assessment of the risk of significant misstatements of the financial statements. The results of our audit procedures, including the ones performed during the review of key audit matters, provide a basis for our audit opinion on the reliability of the accompanying financial statements.

Key Audit Matters

Auditor’s Response

1

Allowance for impairment of loans to customers

Determination of the adequacy of allowance for impairment of loans to customers is the key area of judgment of the Bank’s management. Identification of signs of impairment and measurement of recoverable value involve a significant use of professional judgment, assumptions, as well as analysis of various factors, including the financial state of the borrower, expected future cash flows, distribution cost of collateral.

Use of difference models and assumptions influences the level of allowance for impairment of loans to customers.

Our audit procedures included assessment of the calculation methods of allowance for impairment of loans to customers, testing of data carried forward, analysis of assumptions used by the Bank when calculating allowance for impairment. Apart from that, as for provisioning of significant individually assessed loans we analyzed expected future cash flows, including cost of collateral to be sold on the basis of analyzing assumptions used by the Bank’s management when measuring collateral value and information on the market value from open sources of information.

| Key Audit Matters | Auditor's Response |
|---|---|
| <p>1 Allowance for impairment of loans to customers (ending)</p> <p>Due to the materiality of amounts of loans to customers, which make up 49% of the total amount of assets, and the high level of subjectivity of judgments, measuring allowance for impairment of loans to customers is one of the key audit matters.</p> <hr/> <p>We have performed procedures in relation to the information disclosed in Notes 8, 4(a) to the financial statements to determine the completeness and compliance of the disclosures to the IFRSs.</p> | <p>As for provisioning of collectively assessed loans our audit procedures included analysis of the allowance calculation models, and testing of data carried forward, used in these models. As part of our audit procedures, we have analyzed consistency and reliability of the management's judgments, used when assessing economic factors and statistics on the losses incurred and amounts recovered.</p> |

| Key Audit Matters | Auditor's Response |
|--|---|
| <p>2 Fair value measurement of buildings</p> <p>The methods for measuring fair value of buildings may be subjective in nature and may base on various assumptions about pricing factors. Different evaluation methods and use of assumptions may have a significant impact on the results of fair value measurement. Due to the materiality of the value of real estate, which as at 31 December 2017 is 15 576 thousand BYN, as well as a high degree of subjective judgment and potential impact on the Bank's financial statements, we consider the fair value of buildings as one of the key audit matters.</p> <hr/> <p>We have performed procedures in relation to information disclosed in Note 13 to the financial statements to determine the completeness and compliance of the disclosures to the IFRSs.</p> | <p>To determine the market value of buildings at the reporting date, the Bank's management engaged an independent appraiser. Our audit procedures related to real estate valuation included analysis of the competence and objectivity of an independent appraiser, engaged by the Bank's management, examination of significant assumptions, and comparison of the initial data used in the valuation, with available market information on the value of items and other data observed in the market. In addition, we checked the recognition of the revaluation results and related deferred taxes in the financial statements.</p> |

Responsibilities of the Management for the Financial Statements

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

In preparing the financial statements, the management of the auditee is responsible for assessing the ability of the auditee to continue as a going concern and the appropriateness of the going concern principle, as well as for proper disclosure in the financial statements, as appropriate, of information relating to the entity's going concern, liquidate an audited entity, terminate its activities or when it lacks any other real alternative, except for the liquidation or termination of activities.

Responsibilities of the Management for the Financial Statements (ending)

Those charged with governance are responsible for overseeing the process of preparing the financial statements of the auditee.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

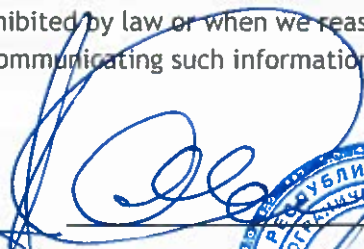
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures in accordance with the assessed risks, aimed at reducing these risks; 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 the internal control system that relevant to the audit in order to design the audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Evaluate 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ We communicate with those, who have the leadership authority, bringing to their attention the information about the planned scope and timing of the audit, as well as on significant matters arising during the audit, including significant deficiencies in the internal control system.
- ▶ We provide the persons who have the leadership authority the statement that we have met all the ethical requirements for the observance of the principle of independence and have informed them of these relationships and all other issues that could reasonably be considered threats to the violation of the principle of independence and all precautions taken, if it necessary.

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

- Among the questions brought to the attention of persons with leadership authority, we select key audit issues and disclose these issues in the audit report (unless disclosure of information about these issues is prohibited by law or when we reasonably come to the conclusion that the negative consequences of communicating such information will exceed the benefits of disclosure).

Director
Managing Partner
BDO in Belarus



Alexander Shkodin

Auditor-in-Charge
BDO in Belarus



Natalya Kondratyeva



Minsk, Republic of Belarus
25.05.2018

INFORMATION ABOUT THE AUDITEE AND THE AUDITOR:

| | |
|--|---|
| | Auditor |
| Company: | BDO, LLC |
| Location: | 103 Pobediteley ave., office 807, Minsk, 220020, Republic of Belarus |
| Information on the state registration: | Certificate on the state registration was issued by Minsk City Executive Committee dated 15.11.2013 |
| Payer's Identification number: | 190241132 |

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

Statement of Management Responsibility

The Management of JSC "Technobank" is responsible for preparing the financial statements of the Bank. The financial statements on pages 9 to 74 represent fairly the financial position of the Bank as of 31 December 2017, the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

The financial statements are consistent with IFRS in terms of its fair presentation, except for deviation from the requirements of IAS 39 Financial Instruments: Recognition and Measurement, with respect to the impairment of a financial asset at amortized cost (Note 4 (a)).

The Management confirms that appropriate accounting policies have been used and applied consistently. Reasonable and prudent judgments and estimates have been made in the preparation of the Bank's financial statements. The Management also confirms that Bank's financial statements have been prepared on a going concern basis.

The Management of the Bank is responsible for keeping proper accounting records, taking necessary measures to safeguard the assets of the Bank and to detect and prevent fraud and other irregularities. It is also responsible for operating the Bank in compliance with the Laws of the Republic of Belarus, including the rules established by the National Bank of the Republic of Belarus (hereinafter - "NB RB").

The financial statements for the year ended 31 December 2017 were authorised for issue on 25 May 2018 and signed on behalf of the Management of the Bank.

On behalf of the management of the Bank:

Chairman of the Board of
Directors
D.L.Mikhalevich

Minsk,
25 May 2018



Chief Accountant
N.A.Kuzmitskaya

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

Statement of Financial Position

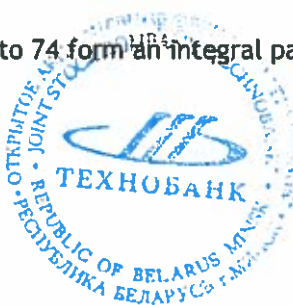
| | Notes | 31 December 2017 | 31 December 2016 |
|--|-------|---------------------|---------------------|
| ASSETS | | | |
| Cash and cash equivalents | 6 | 147,383 | 83,687 |
| Precious metals | | 539 | 597 |
| Balances due from financial institutions | 7 | 20,287 | 6,459 |
| Loans to customers | 8 | 272,459 | 239,279 |
| Financial assets available for sale | 9 | 77,721 | 104,843 |
| Financial assets held to maturity | 10 | 1,949 | 16,588 |
| Financial assets at fair value through profit or loss | 11 | - | 54 |
| Investment property | 12 | 6,871 | 10,001 |
| Property, plant and equipment and intangible assets | 13 | 21,950 | 15,110 |
| Assets held for sale | 14 | 1,972 | 2,115 |
| Deferred income tax asset | 31 | - | 1,090 |
| Other assets | 15 | 3,951 | 6,096 |
| TOTAL ASSETS | | 555,082 | 485,919 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Balances due to financial institutions | 16 | 109,880 | 111,800 |
| Customer accounts | 17 | 366,059 | 308,617 |
| Debt securities issued | 18 | 13,547 | 2,975 |
| Preference shares | 19 | 19 | 19 |
| Current income tax liabilities | | - | - |
| Deferred income tax liabilities | 31 | 2,149 | - |
| Other liabilities | 20 | 3,380 | 8,385 |
| Total liabilities | | 495,034 | 431,796 |
| Equity | | | |
| Share capital | 21 | 52,787 | 52,787 |
| Treasury shares | 21 | - | - |
| Revaluation reserve of property, plant and equipment | | 3,914 | - |
| Revaluation reserve of financial assets available for sale | 9 | (64) | 297 |
| Accumulated gain/(loss) | | 3,411 | 1,039 |
| Total equity | | 60,048 | 54,123 |
| TOTAL LIABILITIES AND EQUITY | | 555,082 | 485,919 |

The accompanying notes on pages 15 to 74 form an integral part of these financial statements.

Chairman of the Board of Directors
D.L. Mikhalevich

Minsk,
25 May 2018

Chief Accountant
N.A. Kuzmitskaya



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JSC "Technobank"

Financial statements for the year ended 31 December 2017

Statement of Comprehensive Income

| | Notes | 2017 | 2016 |
|---|-------|---------------|---------------|
| Interest income | 22 | 39,688 | 28,478 |
| Interest expense | 23 | (17,256) | (15,848) |
| Net interest income | | 22,432 | 12,630 |
| Commission and fee income | 24 | 14,209 | 12,189 |
| Commission and fee expense | 25 | (3,610) | (3,394) |
| Net commission and fee income | | 10,599 | 8,795 |
| Net gain on financial instruments | 26 | (44) | 143 |
| Net foreign exchange gain | 27 | 12,354 | 11,322 |
| Other operating income, net | 29 | 2,561 | 14,288 |
| Operating income | | 47,902 | 47,178 |
| Net change in provisions on financial assets | 7,8 | (15,362) | (10,993) |
| Net change in provisions for impairment of other assets | 15 | (4,681) | (332) |
| Net change in provisions for loan commitments | 33 | 5,144 | (5,181) |
| Personnel expenses | 28 | (15,566) | (13,709) |
| Depreciation and amortization, impairment | 13 | (1,317) | (1,399) |
| Administrative expenses | 30 | (11,740) | (12,045) |
| Profit before income tax and loss on net monetary position | | 4,380 | 3,519 |
| Income tax expense | 31 | (2,008) | (63) |
| Profit for the year | | 2,372 | 3,456 |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| (Expense)/income from property, plant and equipment revaluation | 13 | 5,219 | - |
| Income tax relating to property, plant and equipment revaluation | | (1,305) | - |
| Other comprehensive income that will not be reclassified to profit or loss less income tax | | 3,914 | - |
| Items that are or may be reclassified to profit or loss: | | | |
| Gains/(losses) from revaluation of securities available for sale | | 32 | 430 |
| Realised losses on securities available for sale reclassified to other comprehensive income | | (468) | (200) |

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

| | Notes | 2017 | 2016 |
|---|-------|-------|-------|
| Income tax relating to securities available for sale | | 75 | (58) |
| Other comprehensive income that may be reclassified to profit or loss less income tax | | (361) | 172 |
| Total comprehensive income / (loss) less income tax | | 3,553 | 172 |
| Total comprehensive income / (loss) for the reporting year | | 5,925 | 3,628 |

The accompanying notes on pages 15 to 74 form an integral part of these financial statements.

Chairman of the Board of Directors
D.L. Mikhalevich

Minsk,
25 May 2018




Chief Accountant
N.A. Kuzmitskaya



Statement of Changes in Equity

| | Share capital | Treasury shares | Property, plant and equipment revaluation reserve | Revaluation reserve of available-for-sale financial assets | Accumulated loss | Total equity |
|--|---------------|-----------------|---|--|------------------|--------------|
| Balance as at 31 December 2015 | 52,524 | (1) | - | 125 | (2,154) | 50,494 |
| Profit for the reporting period | - | - | - | - | 3,456 | 3,456 |
| Other comprehensive (loss)/income for the reporting period | - | - | - | 172 | - | 172 |
| Total comprehensive income for the reporting period | - | - | - | 172 | 3,456 | 3,628 |
| Increase in the par value of shares | 263 | - | - | - | (263) | - |
| Treasury shares sale | - | 1 | - | - | - | 1 |
| Balance as at 31 December 2016 | 52,787 | - | - | 297 | 1,039 | 54,123 |
| Profit for the reporting period | - | - | - | - | 2,372 | 2,372 |
| Other comprehensive (loss)/income for the reporting period | - | - | 3,914 | (361) | - | 3,553 |
| Total comprehensive income for the year | - | - | 3,914 | (361) | 2,372 | 5,925 |
| Balance as at 31 December 2017 | 52,787 | - | 3,914 | (64) | 3,411 | 60,048 |

The accompanying notes on pages 15 to 74 form an integral part of these financial statements.

Chairman of the Board of Directors

D.L. Mikhalevich

Chief Accountant
N.A. Kuzmitskaya

Minsk,
25 May 2018

Statement of Cash Flows

| | Notes | 2017 | 2016 |
|---|--------|---------------|-----------------|
| Operating activities | | | |
| Profit before income tax | | 4,380 | 3,519 |
| (Profit) /loss on disposal of investment property, items of property, plant and equipment and intangible assets | | (889) | 3,416 |
| Net change in income and expenses accrued | | (8,505) | (4,479) |
| Provision for impairment of assets | 7,8,15 | 14,899 | 11,325 |
| Depreciation and amortization, impairment | 12,13 | 1,317 | 1,180 |
| Impairment of office buildings | | (846) | |
| Changes in accruals for unused vacation | | 161 | 115 |
| Foreign exchange differences | 27 | (1,386) | 949 |
| Provision for loan commitments | 33 | (5,959) | 5,181 |
| Property received as debt repayment | | - | (295) |
| Financial result from recognition of financial instruments at fair value | | (205) | (252) |
| Increase in cash and cash equivalents from operating activities before changes in operating assets and liabilities | | 2,967 | 20,659 |
| <i>(Increase)/decrease in operating assets:</i> | | | |
| Precious metals | | 209 | 100 |
| Balances due from financial institutions | | (10,719) | (4,265) |
| Loans to customers | | (23,773) | (106,022) |
| Financial assets available for sale | | 28,023 | (61,647) |
| Financial assets at fair value through profit or loss | | - | - |
| Other assets | | 5,048 | (653) |
| <i>Increase/(decrease) in operating liabilities:</i> | | | |
| Balances due to financial institutions | | (14,902) | 67,731 |
| Customer accounts | | 49,171 | 95,162 |
| Other liabilities | | 1,879 | 75 |
| Net cash and cash equivalents from / (used in) operating activities before income tax | | 37,903 | 11,140 |
| Income tax paid | | - | - |
| Net cash and cash equivalents from / (used in) operating activities | | 37,903 | 11,140 |
| Investing activities | | | |
| Financial assets held to maturity | | 14,958 | (16,426) |
| Proceeds from sale of property and equipment | | 2,022 | - |
| Purchase of property and equipment and intangible assets | | (3,564) | (7,074) |
| Net cash and cash equivalents used in investing activities | | 13,416 | (23,500) |

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JSC "Technobank"

Financial statements for the year ended 31 December 2017

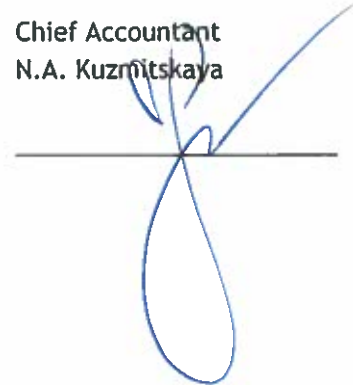
| | Notes | 2017 | 2016 |
|---|-------|---------|----------|
| Financing activities | | | |
| Debt securities (settled) issued | | 10,436 | 2,071 |
| Debt securities settled | | - | - |
| Treasury shares (repurchased) / realized | | - | 1 |
| Net cash and cash equivalents (used in) / from financing activities | | 10,436 | 2,072 |
| Net increase / (decrease) in cash and cash equivalents | | 61,755 | (10,288) |
| Effect of exchange differences on cash and cash equivalents | | 1,941 | 961 |
| Cash and cash equivalents at the beginning of the year | | 83,687 | 93,014 |
| Cash and cash equivalents at the end of the year | 6 | 147,383 | 83,687 |

The accompanying notes on pages 15 to 74 form an integral part of these financial statements.

Chairman of the Board of Directors
D.L. Mikhalevich




Chief Accountant
N.A. Kuzmitskaya



Minsk,
25 May 2018

Notes to the financial statements

1. GENERAL INFORMATION

Joint Stock Company "Technobank" (hereafter - Bank) was established according to the legislation of the Republic of Belarus and was registered on the territory of the Republic of Belarus by the National Bank of the Republic of Belarus on 5 August 1994. The registered address of the Bank is 44 Kropotkina Street, Minsk 220002, Republic of Belarus.

In the audited period the Bank performed its activities based on the following licenses:

License for banking operations № 11 issued by the National Bank of the Republic of Belarus on 31 December 2013. Resolution of the Board of the National Bank of the Republic of Belarus on 31 December 2013 a special permit (license) to conduct banking activities of "Technobank" add the following banking operations: collection cash, payment instructions, precious metals and precious stones and other valuables.

Special permit (license) № 02200/0385568 to carry out professional and exchange activities with securities was issued (maintained) by the Ministry of Finance of the Republic of Belarus by the decision № 155 dated 29 May 2009 and it is valid to 22 June 2014. It is registered in the register of licenses of the Ministry of Finance of the Republic of Belarus № 5200-1246-839. Validity of the special permit (license) to carry out professional and exchange activities with securities was maintained by the decision of the Ministry of Finance of the Republic of Belarus № 129 dated 07 April 2014 for ten years. Special permit (license) to carry out professional and exchange activities with securities № 02200 / 5200-1246-1155 dated 04 June 2014 was issued by the Ministry of Finance of the Republic of Belarus and is valid before 22 June 2024.

Special permit (license) № 02010/13740 to carry out activities to ensure the safety of entities and individuals was issued by the Ministry of Internal Affairs of the Republic of Belarus on the basis of the decision № 20 km dated 16 December 2015 and it is valid before 23 December 2025.

Special permit (license) № 01019/94 to carry out activities of technical protection of information, including cryptographic techniques, among other the use of digital signature was issued by Operational and Analytical Centre under the President of the Republic of Belarus on the basis of the order of 8 November 2011 (validity period is perpetual). It is registered in the register of licenses of Operational and Analytical Centre under the President of the Republic of Belarus under № 94.

The Ministry of Architecture and Construction of the Republic of Belarus issued to JSC "Technobank" a certificate of compliance of the second category No0000909-IN for the right to perform: the functions of the customer, developer, engineering services in the implementation of construction of items of the first to fourth grade of complexity: the functions of the customer, developer, rendering of certain types of engineering services in construction (valid from 05.06.2015 to 05.06.2020).

Since 31 March 2016, JSC "Technobank" is included in the register of banks, non-bank credit and financial organizations recognized by customs authorities as guarantors of payment of customs payments for a period of 5 years.

The Bank is a universal bank that provides a wide range of banking services to both legal entities and individuals, the main of which are: attraction of funds of legal entities and individuals into deposits; granting loans to large corporate clients, small and medium-sized businesses and individuals; opening and maintenance of bank accounts of customers; execution of settlement and cash services for individuals and legal entities; issuance of bank guarantees; financing under the assignment of a monetary claim (factoring); currency exchange operations; operations with securities.

2. ECONOMIC ENVIRONMENT

The Bank operates primarily within the Republic of Belarus.

Inflation in the Republic of Belarus slowed significantly in 2017. The annual increase in consumer prices declined from 10.6% in December 2016 to 4.6% in December 2017. Reduction in the intensity of price growth was observed both due to a more moderate dynamics of core inflation relative to the previous year, and due to a restrained policy of administrative price regulation.

Under the conditions of slowing inflation and maintaining macroeconomic stability, the National Bank took measures to reduce the level of interest rates in the economy in 2017. At the same time, necessary control over the dynamics of the money supply was provided.

The refinancing rate was phased out from 18% to 11% per annum, the rate for constantly available support and liquidation operations was from 23% to 12% and from 11% to 8% per annum, respectively in 2017.

The average monthly rate of a one-day interbank market in December 2017 was 9.7% per annum (10.5% per annum in December 2016). As a result, rates on the credit and deposit market decreased. The maintenance of positive interest rates in real terms facilitated the linking of the population's money.

Against the background of sustained recovery in household incomes, the term ruble deposits of individuals increased by 13.2% in 2017. Against the background of increased availability of credit resources, lending to the economy (primarily long-term) has increased, thereby contributing to an increase in economic activity in the country.

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

There was an increase in the growth of the credit indebtedness of individuals (for the year by 26.7%), in particular consumer lending (by 75.1%), which leads to an increase in domestic demand and consumer imports.

Despite the decline in interest rates in the economy, monetary conditions remain moderately rigid. In general, the developing rates of growth of the average broad money supply correspond to the effective demand for money from the economy. The average broad money supply for 2017 grew by 15.3%. At the same time, under the influence of measures to dedollarize the economy, the ruble part of the economy showed a more rapid dynamics. In annual terms, the increase in the average ruble money supply in December 2017 was 23.2%.

In general, there is a positive change in the structure of the money supply. The share of the currency component in the structure of the average broad money supply in December 2017 decreased by 2.2 percentage points compared to the same period of the previous year and amounted to 66.2%. During 2017, the exchange rate of the national currency was quite stable. In general, the impact of the exchange rate factor on the dynamics of inflation in the reporting year was insignificant.

The positive dynamics of GDP in 2017 was mainly provided by an increase in domestic demand. Along with this, the restoration of economic activity in the countries-major trading partners throughout the year contributed to the expansion of external demand. The intensification of economic growth is noted in the second half of 2017, which is primarily due to the increase in final consumption expenditures of households against the backdrop of rising wages and consumer lending. In addition, since the third quarter of 2017, for the first time in two years, there has been a positive contribution of gross accumulation to the overall GDP growth.

In 2017, the Republic of Belarus continued to increase its public debt. The state debt of the Republic of Belarus as of January 1, 2018 amounted to 42.2 billion rubles, and increased compared to the beginning of 2017 by 5.2 billion rubles, or by 14.1%.

In October 2017, the rating agency Standard & Poor's (S & P) for the first time since 2011 raised the long-term sovereign credit rating of Belarus for foreign currency obligations. The rating is upgraded from "B-" to "B", the forecast is "stable".

S & P notes that such factors as the expected GDP growth of Belarus in the amount of about 2%, annually during 2017-2020, as well as providing the Republic of Belarus with reserves to fulfill foreign debt obligations in 2018 contributed to the rating upgrade.

These financial statements reflect the Bank's management's assessment of the impact that the economic situation has on the operations and financial position of the Bank. The future development of the economy in the Republic of Belarus depends mostly on the effectiveness of measures taken by the government and other factors, including legislative and political events not controlled by the Bank. The Management of the Bank is unable to predict the impact that these factors may have on the financial position of the Bank. The accompanying financial statements did not include adjustments related to this risk.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (hereinafter - "IFRS").

In accordance with the legislation and government regulations of the Republic of Belarus on accounting and banking (hereinafter - "BAS"), the Bank is to maintain accounting records and prepare financial statements in Belarusian rubles. The financial statements are based on the accounting data of the Bank, formed by BAS, in compliance with the adjustments and reclassifications, necessary for transformation of these statements in accordance with IFRS.

The financial statements have been prepared in accordance with the principle of historical cost convention except as disclosed in the "Significant Accounting Policies". For example, investment securities available-for-sale and derivative financial instruments are measured at fair value.

(b) Functional and presentation currency

The Belarusian ruble is the functional currency of the Bank. The financial statements are presented in thousands of Belarusian rubles (hereinafter - "thousands BYN") unless otherwise stated.

(c) Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities of the Bank, disclosure of contingent assets and liabilities at the reporting date and reported income and expenses for the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable in case of absence of more reliable sources of information. The actual results may be different from such estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

(d) Changes in accounting policy

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

Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Bank disclosed relevant information for both the current period and the comparative period in Note 18.

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

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

Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. These amendments had no effect on the Bank's financial position and performance, since the Bank has no deductible temporary differences or assets that are in the scope of the amendments.

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

The amendments clarify that the disclosure requirements in IFRS 12 are applicable to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal Bank that is classified) as held for sale. These amendments had no impact on the Bank's financial position or performance. The standards and interpretations issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

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

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

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

(a) Classification and measurement

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

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

Equity financial assets are to be classified at initial recognition as at FVPL, except when the entity decided to irrevocably designate such assets as at FVOCI. For equity financial instruments classified as at FVOCI, all realized and unrealized gains or losses (except for dividend income) are recognized in other comprehensive income, with no subsequent reclassification to profit or loss.

The classification and measurement of financial liabilities remain almost unchanged from the existing requirements of IAS 39. Derivative financial instruments continue to be measured at FVPL.

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

(b) Impairment

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

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

► Expected credit losses are assessed for all financial instruments, including assets without any indications of impairment and/or deterioration of credit quality; provision is required from the date of acquisition of a financial instruments exposed to credit risk, which result in higher provisions.

► A more complex provisioning methodology was introduced. A provisioning model is to be developed using the following parameters: probability of default (PD) within 12 months and for the whole term of the financial instrument, loss given default (LGD), macroeconomic indicators.

The assessment of impairment losses is based on expected losses (IFRS 9) rather than on incurred losses (IAS 39). According to the new assessment model, an allowance should be created at initial recognition of a financial instrument (or at the date when the Bank becomes a party to a loan agreement or a financial guarantee) based on expected potential credit losses.

Pursuant to IFRS 9, for financial instruments, either occurred or acquired, the Bank will recognize an allowance for impairment in the amount of expected credit losses for 12 months, if there has been no significant increase in credit risk since origination (phase 1).

This amount represents expected credit losses as a result of a default that may take place within the next 12 months. Interest income is calculated based on the gross carrying amount of a financial instrument at phase 1.

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

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

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

The Bank decided to assess the provision for credit losses on an individual basis at phase 3. There is a number of criteria the Bank analyses at transitions between phases 1, 2 and 3. At the same time, it analyses, on an individual basis, all factors that may provide evidences of changes in credit risk or impairment.

In order to assess expected credit losses, the Bank uses three basic components: the probability of default (PD) (point in time and lifetime), loss given default (LGD), macroeconomic indicators.

For the purpose of IFRS 9, provisions for credit losses are affected by such key characteristics as exposure at default (EAD), expected useful life of a financial asset, etc. As a result, the provision for credit losses for phase 2 financial instruments will be increased along with the expected useful life of a financial instrument.

According to estimates, IFRS 9 will result in higher provisions to cover credit losses, as mentioned above. This increase is a result of the requirement to fix a provision in the amount of expected credit losses for 12 months for instruments with no significant increase in credit risk since origination, and a larger number of financial instruments to which expected losses are applied over their useful lives.

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

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

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016. The new standard will supersede all existing revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application will be required for annual periods beginning on or after 1 January 2018. The Bank plans to adopt the new standard using the modified retrospective approach and recognize the cumulative effect of transition in retained earnings as at 1 January 2018. The comparative information will not be restated.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9 and IFRS 16 Leases). As a result, this standard will have no impact on a significant portion of the Bank's revenue.

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

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

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

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

The IASB issued amendments to IFRS 2 Share-based Payments, which cover the following three aspects: the effects of vesting conditions on the measurement of a cash-settled share-based payment; classification of share-based payments with settlement of the tax at source on a net basis; accounting for amended terms of share-based payments resulting in cease of classification as a cash-settled transaction and start of classification as equity-settled transaction.

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires that lessees account for all lease agreements using a single lessee accounting model, i.e. similarly to the accounting for finance leases in IAS 17. The standard provides for two types of disclosure exemptions for lessees: for leases of 'low-value' assets and 'short-term' leases (e.g. leases expiring in 12 months or less). At the inception of the lease, the lessee will recognize a liability to make lease payments (i.e. a lease liability) and an asset granting the right to use an underlying asset over the lease term (i.e. a right-of-use asset). The lessees will recognize the interest expense related to the lease liability separately from the amortization expense related to the right-of-use asset.

The lessees will also remeasure the lease liability on occurrence of a certain event (e.g. a change in lease terms or future lease payments resulting from a change in the index or rate used to determine those payments). In most cases, a lessee will account for the amount of the remeasured lease liability as an adjustment to the asset in the form of the right to use.

The accounting treatment for the lessor under IFRS 16 remains almost unchanged from the existing requirements of IAS 17. Lessors will continue to classify leases as operating or finance leases using the same classification principles as in IAS 17.

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before the date on which the entity begins to apply IFRS 15.

A lessee may apply this standard using either a full or modified retrospective approach. The transitional provisions of the standard contain certain exemptions. In 2018, the Bank will continue to assess the potential impact of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a new comprehensive financial reporting standard related to insurance contracts, which addresses the issues of recognition, measurement, information presentation and disclosures. When IFRS 17 is effective, it will replace IFRS 4 Insurance Contracts, which was issued in 2005. IFRS 17 applies to all insurance contracts (i.e., life insurance and insurance other than life insurance, direct insurance and reinsurance) regardless of the type of entity that issues them, as well as to certain guarantees and financial instruments with discretionary participation conditions.

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

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

Amendments to IAS 40 - Transfers of Investment Property

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

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

They include:

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

IAS 28 Investments in Associates and Joint Ventures - Clarification that the Decision to Measure Investees at Fair

Value through Profit or Loss Should Be Made Individually for Each Investment. The amendments clarify:

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

If the entity that is not an investment entity itself has an interest in an associate or joint venture that are investment entities, when applying the equity method, such entity can retain the fair value measurement applied by its investment associate or joint venture to its interests in subsidiaries. This decision is made individually for each investment associate or joint venture at the later of: (a) the date of initial recognition of an investment associate or joint venture; (b) the date when an associate or joint venture becomes an investment entity and (c) the date when an investment associate or joint venture first becomes a parent.

These amendments are applied retrospectively and are effective from 1 January 2018. The Bank does not expect any significant effect from these amendments.

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

These amendments eliminate concerns arising from implementing the new standard related to financial instruments, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments grant two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated at the entity's discretion on transition to IFRS 9. In addition, the entity restates comparative information to reflect the overlay application approach if, and only if, it restates comparative data while applying IFRS 9. These amendments are not applicable to the Bank.

IFRIC 22 - Foreign Currency Transactions and Prepayment

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

IFRIC 23 - Uncertainty over Income Tax Treatments

The clarification addresses the treatment of income tax when there is uncertainty over tax interpretations, which affects the application of IAS 12. The clarification does not apply to taxes or fees that are not within the scope of IAS 12, nor does it contain specific requirements for interest and penalties related to uncertain tax interpretations. The entity should decide whether to consider each uncertain tax interpretation separately or together with one or several other uncertain tax interpretations. It is necessary to use an approach that will allow predicting results of resolving uncertainty more accurately. The clarification also covers assumptions made to review interpretations of tax authorities and changes in facts and circumstances.

The clarification become effective for annual reporting periods beginning on or after 1 January 2019. The Bank is not subject to taxation, therefore application of these amendments has no effect on the Bank's financial position and performance.

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

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

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - previously held interest in a joint operation

- ▶ These amendments clarify whether the previously held interest in a joint operation (that is a business as defined in IFRS 3) should be remeasured to fair value, when: A party to a joint operation obtains control over the joint operation (IFRS 3);
- ▶ A party that participates in (but does not have joint control over a joint operation) obtains joint control over the joint operation (IFRS 11).

The Bank does not expect any effect on its financial statements.

IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity

These amendments clarify that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Earlier application is permitted and must be disclosed.

The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with the amendments, the Bank does not expect any effect on its financial statements.

IAS 23 Borrowing Costs - borrowing costs eligible for capitalization

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

4. USE OF ESTIMATES AND JUDGEMENTS

(a) Key sources of estimation uncertainty

Allowances on loans to customers

Assets recognised at amortised cost are evaluated where there is evidence of impairment according to the procedure described in the accounting policy (Note 5(e)).

Allowance for impairment of financial assets in terms of individually impaired loans is based on the best estimates made by the Management of the Bank with respect to the present value of cash flows, which the Bank expects to receive. In evaluating cash flows, the management makes judgment on the financial position of the counterparty and the net realizable value of related collateral. The calculation of the discounted cash flows of secured financial assets reflect cash flows which may occur as a result of the repossession of a debtor's assets net of the costs for acquisition and sale. Allowance for impairment of collectively impaired loans is based on the available information concerning the measurable decrease in the estimated future cash flows of a group of loans. The Bank's estimates of losses are based on past performance results, behavior of counterparties in the past, creditworthiness of customers and general economic environment, which is not necessarily an indication of future losses.

When assessing credit risk and impairment allowances, the Bank applies the same estimates and judgments to loan commitments as to loans.

In accordance with IAS 39, p.59 a financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. The impairment is caused by a set of events. Losses expected as a result of future events, no matter how likely, are not recognized.

The Management of the Bank decided not to apply requirements of IAS 39 Financial instruments: recognition and measurement in relation to the recognition of impairment of the debt of EuroStepGroup incurred on 28.12.2016, recognized at amortized cost, due to the individual nature of the transaction not typical for transactions performed within the Bank's normal activity. No allowances were created for impairment of the above mentioned debt.

The transaction was approved by the regulatory body who decided not to apply any supervisory measures to the Bank in relation to the underestimated allowance and violation of the secure functioning rates, which arose due to the above mentioned debt and the high social significance of the project.

Description of transaction

Under the decision of the General Shareholders' meeting dated 08.12.2016 Technobank JSC entered into an agreement of assignment of claims with the Bank, a resident of the Republic of Belarus (hereinafter referred to as the transferring bank) in relation to a loan agreement with EuroStepGroup dated 2013.

To reduce other risks and increase responsibility of a debtor under transaction with EuroStepGroup, Arteintrog LLC became a participant, possessing an interest of 75% of the share capital, 95% of which belongs to Igor Kurach (shareholder and Deputy Chairman of the Supervisory Board of JSC "Technobank"). The second participant of the entity is Presidential Sports Club.

Rights, transferred under the agreement of assignment of claims, by the transferring bank had a discount of 10% of the principal.

For the purpose of financing the above project in 2016 a long-term interbank loan agreement has been signed with the Bank a resident of the Republic of Belarus (hereinafter referred to as the Financing Bank) for the amount of 65,000,000 (sixty-five million) US dollars, with a total validity period of 3 years.

The additional agreement No. 37 to the above loan agreement between the Bank and EuroStepGroup was signed on 13.01.2017. According to this addition, the currency of the obligation was changed from USD to euro, thus the debt of the client for the principal debt and accrued interest was transferred to euro at the rate 1,063 USD and amounted to 52,968,964.68 euro and 284,995.03 euro, respectively.

In 2016 and 2017 EuroStepGroup pledged as collateral for fulfillment of the obligation of JSC "Technobank" to the Financing Bank an item of construction in progress of "A multifunctional shopping, administrative, hotel and fitness complex with an open multi-level parking spot and above-ground parking spot at the intersection of Pritytskogo Street and IV-Koltso Street (Kuntsevschina street) in Minsk" and a children's entertainment center with an approximate total area of 1 815 sq.m., a multi-level open parking garage with an approximate total area of 16 800 sq.m. able to place 495 parking units, which is constructed by EuroStepGroup according to the investment agreement with the Republic of Belarus dated 26.11.2011 No. 109, registered with the State register of investment agreements with the Republic of Belarus.

The loan will be repaid as follows: 50% of the provided amount on 28.12.2018, the remaining part - on 31.12.2019.

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In accordance with p. 2.3. of the Interbank Lending Agreement, the financing Bank is entitled unilaterally and without judicial procedures to demand from JSC "Technobank" an early repayment of the loan under the Agreement in case of failure of the Bank to fulfill (improper fulfillment of) any of the obligations (liabilities) under the Agreement, and in other cases, established by the law.

In case of occurrence of events in 2018, described in paragraph 2.3. of the Agreement, the management of the Bank believes that JSC "Technobank" possesses sufficient amount of highly liquid assets which will at any time ensure repayment of the debts to the financing Bank.

As at 31 December 2017 and 31 December 2016 the debt of EuroStepGroup was recognized at the amortized cost, excluding possible impairment.

Assessment of the impact of deviation

Assessment of the impact of this deviation on the amount of assets, liabilities, equity, profit (loss) and cash flows for each period as of 31.12.2017 is presented in the financial statements below:

| Statement of Financial Position | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|---|---|-----------------|--|
| ASSETS | | | |
| Cash and Cash equivalents | 147,383 | - | 147,383 |
| Precious metals | 539 | - | 539 |
| Balances due from financial institutions | 20,287 | - | 20,287 |
| Loans to customers | 272,459 | (59,770) | 212,689 |
| Financial assets available for sale | 77,721 | - | 77,721 |
| Financial assets held to maturity | 1,949 | - | 1,949 |
| Financial assets at fair value through profit or loss | - | - | - |
| Investment property | 6,871 | - | 6,871 |
| Property, plant and equipment and intangible assets | 21,950 | - | 21,950 |
| Assets held for sale | 1,972 | - | 1,972 |
| Deferred income tax asset | - | - | - |
| Other assets | 3,951 | - | 3,951 |
| TOTAL ASSETS | 555,082 | (59,770) | 495,312 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Balances due to financial institutions | 109,880 | - | 109,880 |
| Customer accounts | 366,059 | - | 366,059 |
| Debt securities issued | 13,547 | - | 13,547 |
| Preference shares | 19 | - | 19 |
| Current income tax liabilities | - | - | - |
| Deferred income tax liabilities | 2,149 | 861 | 1,288 |
| Other liabilities | 3,380 | - | 3,380 |
| Total liabilities | 495,034 | 861 | 494,173 |
| Equity | | | |
| Share capital | 52,787 | - | 52,787 |
| Treasury shares | - | - | - |

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| Statement of Financial Position | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|--|---|-------------|--|
| Revaluation reserve of Property, plant and equipment | 3,914 | - | 3,914 |
| Revaluation reserve of financial assets available for sale | (64) | - | (64) |
| Accumulated gain/(loss) | 3,411 | 58,909 | (55,498) |
| Total equity | 60,048 | 58,909 | 1,139 |
| TOTAL LIABILITIES AND EQUITY | 555,082 | 59,770 | 495,312 |
| Statement of Comprehensive Income | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
| Interest income | 39,688 | - | 39 688 |
| Interest expense | (17,256) | - | (17 256) |
| Net interest income | 22,432 | - | 22 432 |
| Commission and fee income | 14,209 | - | 14 209 |
| Commission and fee expense | (3,610) | - | (3 610) |
| Net commission and fee income | 10,599 | - | 10 599 |
| Net gain on financial instruments | (44) | - | (44) |
| Net foreign exchange gain | 12,354 | - | 12 354 |
| Other operating income, net | 2,561 | - | 2 561 |
| Operating income | 47,902 | - | 47 902 |
| Net change in provisions on financial assets | (15,362) | (17 987) | (33,349) |
| Net change in provisions for impairment of other assets | (4,681) | - | (4,681) |
| Net change in provisions for loan commitments | 5,144 | - | 5,144 |
| Personnel expenses | (15,566) | - | (15,566) |
| Depreciation and amortization, impairment | (1,317) | - | (1,317) |
| Administrative expenses | (11,740) | - | (11,740) |
| Profit before income tax and loss on net monetary position | 4,380 | (17,987) | (13,607) |
| Income tax expense | (2,008) | 2,009 | 1 |
| Profit for the year | 2,372 | (15,978) | (13,606) |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| (Expense)/income from property, plant and equipment revaluation | 5,219 | - | 5,219 |
| Income tax relating to property, plant and equipment revaluation | (1,305) | - | (1,305) |

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

| Statement of Comprehensive Income | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|---|---|-------------|--|
| Other comprehensive income that will not be reclassified to profit or loss less income tax | 3,914 | - | 3,914 |
| Items that are or may be reclassified to profit or loss: | | | |
| Gains/(losses) from revaluation of securities available for sale | 32 | - | 32 |
| Realized losses on securities available for sale reclassified to other comprehensive income | (468) | - | (468) |
| Income tax relating to securities available for sale | 75 | - | 75 |
| Other comprehensive income that may be reclassified to profit or loss less income tax | (361) | - | (361) |
| Total comprehensive income / (loss) less income tax | 3,553 | - | 3,553 |
| Total comprehensive (loss) / income for the reporting year | 5,925 | (15,978) | (10,053) |

The table below disclosed the effect of a deviation on the adequacy of the regulatory capital in accordance with the Basel requirements:

| | Without taking into account the possible impairment | With taking into account the possible impairment |
|-----------------------------------|---|--|
| Basic capital | 52,062 | 9,132 |
| Additional capital | 6,241 | (9,738) |
| Total regulatory capital | 58,303 | (606) |
| Risk-weighted assets | 334,063 | 271,935 |
| Regulatory capital adequacy ratio | 17,5% | (0,2)% |

Translation from the original in Russian

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Financial statements for the year ended 31 December 2017

Assessment of the impact of deviation

Assessment of the impact of this deviation on the amount of assets, liabilities, equity, profit (loss) and cash flows for each period as of 31.12.2016 is presented in the financial statements below:

| Statement of Financial Position | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|--|---|-----------------|--|
| ASSETS | | | |
| Cash and Cash equivalents | 83,687 | - | 83,687 |
| Precious metals | 597 | - | 597 |
| Balances due from financial institutions | 6,459 | - | 6,459 |
| Loans to customers | 239,279 | (41,783) | 197,496 |
| Financial assets available for sale | 104,843 | - | 104,843 |
| Financial assets held to maturity | 16,588 | - | 16,588 |
| Financial assets at fair value through profit or loss | 54 | - | 54 |
| Investment property | 10,001 | - | 10,001 |
| Property, plant and equipment and intangible assets | 15,110 | - | 15,110 |
| Assets held for sale | 2,115 | - | 2,115 |
| Deferred income tax asset | 1,090 | (1,090) | - |
| Other assets | 6,096 | - | 6,096 |
| TOTAL ASSETS | 485,919 | (42,873) | 443,046 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Balances due to financial institutions | 111,800 | - | 111,800 |
| Customer accounts | 308,617 | - | 308,617 |
| Debt securities issued | 2,975 | - | 2,975 |
| Preference shares | 19 | - | 19 |
| Current income tax liabilities | - | - | - |
| Deferred income tax liabilities | - | (58) | 58 |
| Other liabilities | 8,385 | - | 8,385 |
| Total liabilities | 431,796 | (58) | 431,854 |
| Equity | | | |
| Share capital | 52,787 | - | 52,787 |
| Treasury shares | - | - | - |
| Revaluation reserve of Property, plant and equipment | - | - | - |
| Revaluation reserve of financial assets available for sale | 297 | - | 297 |
| Accumulated gain/(loss) | 1,039 | 42,931 | (41,892) |
| Total equity | 54,123 | 42,931 | 11,192 |
| TOTAL LIABILITIES AND EQUITY | 485,919 | 42,873 | 443,046 |

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

| Statement of Comprehensive Income | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|---|---|-----------------|--|
| Interest income | 28,478 | - | 28,478 |
| Interest expense | (15,848) | - | (15,848) |
| Net interest income | 12,630 | - | 12,630 |
| Commission and fee income | 12,189 | - | 12,189 |
| Commission and fee expense | (3,394) | - | (3,394) |
| Net commission and fee income | 8,795 | - | 8,795 |
| Net gain on financial instruments | 143 | - | 143 |
| Net foreign exchange gain | 11,322 | - | 11,322 |
| Other operating income, net | 14,288 | - | 14,288 |
| Operating income | 47,178 | - | 47,178 |
| Net change in provisions on financial assets | (10,993) | (41,783) | (52,776) |
| Net change in provisions for impairment of other assets | (332) | - | (332) |
| Net change in provisions for loan commitments | (5,181) | - | (5,181) |
| Personnel expenses | (13,709) | - | (13,709) |
| Depreciation and amortization, impairment | (1,399) | - | (1,399) |
| Administrative expenses | (12,045) | - | (12,045) |
| Profit before income tax and loss on net monetary position | 3,519 | (41,783) | (38,264) |
| Income tax expense | (63) | (1,148) | (1,211) |
| Profit for the year | 3,456 | (42,931) | (39,475) |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| (Expense)/income from property, plant and equipment revaluation | - | - | - |
| Income tax relating to property, plant and equipment revaluation | - | - | - |
| Other comprehensive income that will not be reclassified to profit or loss less income tax | - | - | - |
| Items that are or may be reclassified to profit or loss: | | | |
| Gains/(losses) from revaluation of securities available for sale | 430 | - | 430 |
| Realised losses on securities available for sale reclassified to other comprehensive income | (200) | - | (200) |
| Income tax relating to securities available for sale | (58) | - | (58) |

Translation from the original in Russian

JSC "Technobank"

Financial statements for the year ended 31 December 2017

| Statement of Comprehensive Income | Without taking into account the possible impairment | Adjustments | With taking into account the possible impairment |
|---|---|-------------|--|
| Other comprehensive income that may be reclassified to profit or loss less income tax | 172 | - | 172 |
| Total comprehensive income / (loss) less income tax | 172 | - | 172 |
| Total comprehensive (loss) / income for the reporting year | 3,628 | - | 3,628 |

The table below disclosed the effect of a deviation on the adequacy of the regulatory capital in accordance with the Basel requirements:

| | Without taking into account the possible impairment | With taking into account the possible impairment |
|-----------------------------------|---|--|
| Basic capital | 49,196 | 49,196 |
| Additional capital | 3,772 | (39,159) |
| Total regulatory capital | 52,968 | 10,037 |
| Risk-weighted assets | 373,625 | 341,139 |
| Regulatory capital adequacy ratio | 14,2% | 2,9% |

Fair value determination

The determination of fair value of financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 5(e). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Critical accounting judgements

Critical accounting judgements made in applying the Bank's accounting policies include:

Evaluation of financial instruments

The Bank's accounting policy on fair value measurement is described in the Note 5(e).

| | |
|----------|---|
| Level 1: | Quoted market price (unadjusted) in an active market for an identical instrument |
| Level 2: | Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes financial instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. |

Level 3: Valuation techniques using significant unobservable inputs. This category includes all financial instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Determination of deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The estimate of probability is based on the Bank's management forecasts in relation to the future taxable profit and includes a significant degree of judgement of the Bank's Management.

5. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency

Foreign currency transactions are translated to the functional currency at the exchange rate set by the National Bank of the Republic of Belarus on the date of the respective transaction. All monetary assets and liabilities, including off-balance-sheet assets and liabilities denominated in foreign currencies are translated into Belarusian rubles at the exchange rate effective at the reporting period.

Profit or loss relating to fluctuations in the exchange rate on monetary assets and liabilities denominated in a foreign currency are recognised in profit or loss in the period in which the fluctuation occurs. Foreign currency differences arising on retranslation are recognised through profit or loss.

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

(b) Income and expenses recognition

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate of interest that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income and expense relate mainly to transaction and service fees, which are recognised as the services are provided or received.

Premiums and discounts on floating rate instruments are amortised to the next date when the floating interest rate is reset to market rates excluding premiums and discounts which result from a change in the credit spread over the floating rate specified in the instrument or other variables that are not reset to market rates. These premiums and discounts are amortised over the expected life of the instrument.

(c) Lease payments

Lease payments under operating leases are recognized on a straight-line basis over the lease term in the statement of comprehensive income. Rental income under operating leases is equally recognized in the statement of comprehensive income over the lease term as part of other income. In the event that the Bank acts as a lessee, payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included in other expenses.

Minimum lease payments made under finance lease agreements are distributed between the finance expense and the reduction of the outstanding liability. The finance expenses are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(d) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except for the items recognized directly in equity or in other comprehensive income.

Current tax is calculated based on the taxable income for the year, using tax rates enacted or substantively enacted at the financial statements date considering the adjustment to tax payable in respect of previous years.

Deferred income tax is calculated using the balance sheet method in respect of all temporary differences between the tax base of assets and liabilities its book value in accordance with the IFRS financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in a period when the temporary differences are reversed, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Financial assets and liabilities

Recognition

The Bank initially recognises loans and borrowings, deposits, debt securities issued and subordinated liabilities at the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

All financial assets and financial liabilities are initially recognized at fair value. Fair value is added by expenses that are directly attributable to the acquisition or issue, except for financial assets measured at fair value through profit or loss.

Classification

Financial instruments are classified into the following categories:

Financial assets and liabilities at fair value through profit or loss are those that have been classified by the Bank as revalued at fair value through profit or loss or as held for trading. Held for trading financial instruments are those that the Bank principally buys for the purpose of generating profit from short-term fluctuations in the price of the instruments. Derivatives include mainly forwards and swaps on foreign currency. The Bank uses derivative financial instruments to manage currency and liquidity risks and for trading purposes. Derivative financial instruments entered into by the Bank do not qualify for hedge accounting.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are classified into other categories of financial instruments. Loans and receivables include loans to financial organizations, loans and receivables from customers and other financial assets which comply with these classification criteria.

Available-for-sale financial assets are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Available for sale financial assets represent equity and debt securities. Unquoted equity and debt securities whose fair value cannot reliably be measured are carried at cost. All other available for sale investments are carried at fair value.

Financial liabilities carried at amortised cost represent financial liabilities of the Bank other than financial liabilities designated at fair value through profit or loss. This category includes deposits due to banks, deposits due to customers, debt securities issued, subordinated loan and other financial liabilities corresponding to such a classification.

Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that such asset comprises. This occurs when the rights are realised, expire or are surrendered. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Amortised value measurement

The amortised value of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus allowance for impairment.

Fair value measurement

Fair value is the amount that would be received upon sale of an asset or paid upon transfer of a liability in an ordinary transaction between market participants at the measurement date.

The Bank estimates the fair value of the instrument based on quoted market prices, if this information is available. The market is considered active if transactions are conducted on a regular basis between independent informed parties, and the corresponding price quotations are readily available and reflect market conditions.

If a market for a financial instrument is not active, various valuation techniques are used. Valuation techniques include discounted cash flow model, comparison to similar instruments for which market observable prices exist, and others. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date upon the transaction between independent parties.

Impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level.

All individually significant loans and advances are assessed for the presence of impairment indicators. At each reporting date, Bank assesses on a case-by-case basis whether there is any objective evidence that a loan is impaired. In determining impairment losses, the following factors are considered: (i) the overdue state of the financial asset, (ii) financial position of the borrower, (iii) insufficient debt service and (iv) the possibility to sell the collateral.

Loans and borrowings that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics. In assessing collective impairment the Bank uses statistical information on historical trends of the probability of default, timing of recoveries and the amount of loss incurred. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets recognized at amortised cost are measured as the difference between the book value of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and borrowings.

Impairment losses on available for sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances due from the National Bank of the Republic of Belarus less resources in statutory reserve fund, balances due from other financial institutions not restricted by contractual obligations, and loans to financial institutions with an original maturity of less than 3 months.

(g) Property, plant and equipment

Property and equipment, except for buildings, as well as intangible assets are recorded at historical cost adjusted for inflation less accumulated depreciation/amortisation and impairment loss.

Buildings are accounted using the revaluation method. Buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The fair value of buildings is determined from market-based evidence based on professional appraiser's report (Note 13). Any gain arising on remeasurement is recognised directly in other comprehensive income.

The property, plant and equipment items are reviewed at each reporting date for the evidence of impairment. If such evidences exist, the Bank evaluates the recoverable amount of property and equipment, which is determined as the higher of its fair value less costs to sell and its value in use. Where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount and difference is recognised in statement of comprehensive income as impairment loss.

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

Gains and losses on disposals of property and equipment are recognised in the statement of comprehensive income in the period when the disposal occurred.

Repair and maintenance costs are charged to the statement of comprehensive income as incurred. Capital repairs of property and equipment are added to historical cost of property and equipment. Useful lives, residual values and depreciation methods are reviewed annually.

Depreciation is calculated on a straight-line basis. The annual rates of depreciation are:

| | <u>Annual depreciation rate</u> |
|-------------------------------------|---------------------------------|
| Buildings and constructions | 1% - 11% |
| Computer facilities | 20% - 75% |
| Motor vehicles | 12.5% - 14.3% |
| Other property, plant and equipment | 2%-75% |

(h) Intangible assets

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

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

Intangible assets are represented by software.

Intangible assets are recognised at cost, less accumulated amortisation and impairment loss, if any.

Profit and loss from disposal of intangible assets are recognised in the statement of comprehensive income as incurred.

Amortisation of intangible assets is charged on a straight-line basis. The useful life is 1 - 10 years.

(i) Investment property

Investment property, which comprises buildings and premises, is held for long-term rental yields or appreciation in value and is not occupied by the Bank. Investment property is initially measured at actual cost together with transaction expenses. Subsequent to initial recognition the Bank carries the investment property at actual cost less accumulated depreciation and impairment, if any.

Investment property is depreciated on a straight-line basis. The useful life is 10 - 100 years.

(j) Precious metals

Gold and other precious metals are recorded at London Bullion Market rates and fair values. Changes in valuations are recorded in other income.

(k) Repossessed assets; non-current assets held for sale

As part of the normal course of business the Bank occasionally takes possession of non-financial assets that originally were pledged as security for loans. When the Bank acquires (i.e. gains a full title to) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Initially the non-financial assets are recognised at the carrying value of respective loans and are classified as other assets. Repossessed assets are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Property is classified as «Non-current assets held for sale» if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. To be classified in this category the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset; an active programme to locate a buyer and complete the plan must have been initiated; the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value; the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less distribution costs.

(l) Impairment of non-financial assets

The book value of the Bank's non-financial assets, other than investment property which is recognized at fair value and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated annually irrespective of whether there are indications of impairment.

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

An impairment loss is recognised if the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

At the end of each reporting period, the Bank determines that there is evidence that an impairment loss recognized in prior periods for an asset no longer exists or has decreased. Impairment losses recognized in prior periods for an asset should be reversed if and only if, since the last recognition of an impairment loss, there have been changes in the estimated estimates used to determine the recoverable amount of the asset. The increased carrying amount of an asset attributable to the reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognized for that asset in prior years.

(m) Provisions

Provisions are recognized in the financial statements when the Bank incurs obligations (legal or arising from established business practices) that arose before the reporting date. At the same time, it is highly probable that an outflow of economic resources will be required to fulfill these obligations to the Bank, and the amount of liabilities can be reliably estimated.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Short-term employee benefits

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

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Republic of Belarus from its employee salaries.

The Bank carries no further pension obligations in respect of its retired and former employees.

(o) Share capital**Ordinary shares**

Ordinary shares are classified as equity items. Costs related to the issuance of shares are recognized directly in equity.

Preference shares

Preference shares are classified as equity if they are non-redeemable, or redeemable only at the Bank's discretion, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Bank's shareholders.

Preference shares are classified as a liability if it is redeemable on a specific date or at the option of the holders, or if dividend payments are not at Bank's discretion. Dividends thereon are recognised as interest expense in the statement of comprehensive income as accrued.

(p) Loan commitments

The Bank assumes the obligations of a credit nature, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties and have the same level of the credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in agreed amount when certain conditions are met; they are collateralised with the corresponding deliveries of goods or deposits and, accordingly, have lower risk level, than direct loan granting. In respect of the commitments to issue loans the Bank potentially has the risk to sustain losses in the amount equal to the total amount of the unused commitments, although the probable loss is less than the total amount of the unused obligations, as loans commitments also require customers' compliance with certain credit standards. The Bank monitors maturity terms, as usually long-term obligations bear higher credit risk level than the short-term ones.

Loan commitments are initially recognised at fair value, which is usually an initial commission income received. At each reporting date loan commitments are measured at the higher of the two: unamortized initial cost and best estimate of costs relating to settlement of liability as at the reporting date.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following amounts:

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Balances due from the National Bank of the Republic of Belarus (other than obligatory reserve deposit) | 66,811 | 27,484 |
| Short-term balances due from financial institutions | 41,992 | 28,361 |
| Cash | 38,580 | 27,842 |
| Total | 147,383 | 83,687 |

As at 31 December 2017 cash and cash equivalents comprises balances placed with CJSC "MTBank" (Republic of Belarus), Belarusbank JSC (Republic of Belarus), PJSC SCB «Metallinvestbank» (The Russian Federation), the amount of which exceeded 10% of the Bank's equity. The total amount as at 31 December 2017 equaled BYN 18,619 thousand.

As at 31 December 2016 cash and cash equivalents comprises balances placed with JSC "Idea Bank" (Republic of Belarus), "RAIFFEISEN ZENTRALBANK OESTERREICH AG" (Austria), the amount of which exceeded 10% of the Bank's equity. The total amount as at 31 December 2016 equaled BYN 14,975 thousand.

7. BALANCES DUE FROM FINANCIAL INSTITUTIONS

Balances due from financial institutions include the following:

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Funds provided to resident banks on the REPO transactions | 10,123 | - |
| Resources in the statutory reserve fund in the National Bank of the Republic of Belarus | 3,830 | 1,403 |
| Loans in financial institutions | 3,428 | 2,433 |
| Nostro accounts restricted | 2,911 | 1,859 |
| Nostro accounts | 55 | 1,038 |
| Total balances due from financial institutions | 20,347 | 6,733 |
| Less allowance for impairment loss | (60) | (274) |
| Total net balances due from financial institutions | 20,287 | 6,459 |

In accordance with the law of the Republic of Belarus the Bank has to place a deposit in the statutory reserve fund in the National Bank of the Republic of Belarus.

a) Restricted balances with financial institutions (except for resources in Statutory reserve fund with the National Bank of the Republic of Belarus)

As at 31 December 2017 and 2016 balance that was restricted for use was represented by the amounts pledged as a collateral for liabilities to make transactions with payment cards and other payments.

b) Concentration of placement with financial institutions

As of 31 December 2017, the funds in financial institutions included the funds provided to the Bank of the Republic of Belarus for REPO transactions, the amount of which exceeded 10% of the Bank's capital. The amount of these funds as of 31 December 2017 was 10,123 thousand rubles.

As at 31 December 2016 the Bank had no balances exceeding 10% of the Bank's equity.

c) Movements in allowance for impairment:

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Allowance for impairment at the beginning of the year | 274 | 13 |
| Creation | 25,349 | 34,271 |
| Recovery | (25,566) | (33,848) |
| Exchange differences | 3 | (2) |
| Assets written-off | - | (160) |
| Total allowance for impairment at the end of the year | 60 | 274 |

8. LOANS TO CUSTOMERS**(a) by customer profile:**

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Legal entities and individual entrepreneurs | 296,080 | 254,531 |
| Private individuals | 9,291 | 5,733 |
| Total loans to customers | 305,371 | 260,264 |
| Less allowance for impairment | (32,912) | (20,985) |
| Total net loans to customers | 272,459 | 239,279 |

(b) by type of loan:

| | 31 December 2017 | 31 December 2016 |
|-------------------------------------|---------------------|---------------------|
| Credit lines | 244,490 | 100,137 |
| Standard loans | 46,875 | 41,557 |
| Factoring | 13,138 | 14,371 |
| Net investments in finance lease | 788 | 171 |
| Other credit operations | 80 | 104,028 |
| Total loans to customers | 305,371 | 260,264 |
| Less allowance for impairment | (32,912) | (20,985) |
| Total net loans to customers | 272,459 | 239,279 |

(c) by industry:

| | 31 December 2017 | 31 December 2016 |
|-------------------------------------|---------------------|---------------------|
| Real estate | 185,138 | 152,551 |
| Trade | 71,932 | 65,989 |
| Manufacturing industry | 24,090 | 21,744 |
| Transport | 5,172 | 2,784 |
| Construction | 3,444 | 2,564 |
| Agriculture and food industry | 1,471 | 1,822 |
| Other | 4,833 | 7,077 |
| Private individuals | 9,291 | 5,733 |
| Total net loans to customers | 305,371 | 260,264 |

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(d) by collateral:

To mitigate credit risk the Bank demands security for a loan the amount and type of which depends on the credit risk of the counterparty.

Main types of the received security for loans to legal entities and entrepreneurs are real estate, equipment, vehicles and goods for sale. Forfeit penalty and guarantee from individuals are security for loans to individuals.

(e) by overdue periods:

| | 31 December 2017 | | 31 December 2016 | |
|----------------------------|--------------------|--------------------------|--------------------|--------------------------|
| | Loans to customers | Allowance for impairment | Loans to customers | Allowance for impairment |
| Impaired loans | | | | |
| Not due | 301,047 | (29,944) | 253,135 | (19,352) |
| Past due less than 30 days | 203 | (5) | 4,481 | (1,288) |
| Past due 31-90 days | 37 | (1) | 2,594 | (152) |
| Past due 91-180 days | 3,677 | (2,853) | 51 | (192) |
| Past due 181 - 366 days | 407 | (109) | 3 | (1) |
| Total | 305,371 | (32,912) | 260,264 | (20,985) |

(f) credit quality of loan portfolio:

| Loans impaired, 2017 | Loans | Allowance for impairment | Loans less allowance |
|-----------------------------|----------------|--------------------------|----------------------|
| Individually impaired loans | 222,742 | (28,538) | 194,204 |
| Collectively impaired loans | 82,629 | (4,374) | 78,255 |
| Total | 305,371 | (32,912) | 272,459 |

| Loans impaired, 2016 | Loans | Allowance for impairment | Loans less allowance |
|-----------------------------|----------------|--------------------------|----------------------|
| Individually impaired loans | 135,034 | (13,872) | 121,162 |
| Collectively impaired loans | 125,230 | (7,113) | 118,117 |
| Total | 260,264 | (20,985) | 239,279 |

(g) The movement in the allowance for impairment:

| | 31 December 2017 | 31 December 2016 |
|--|------------------|------------------|
| Allowance for impairment at the beginning of the year | 20,985 | 21,443 |
| Creation | 68,512 | 66,140 |
| Recovery | (53,146) | (55,570) |
| Assets written-off | (4,314) | (10,684) |
| Exchange differences | 875 | (344) |
| Total allowance for impairment at the end of the year | 32,912 | 20,985 |

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(h) Changes in investments in finance lease:

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Gross investments in finance lease: | | |
| Less than 1 year | 12 | 176 |
| 1 to 5 years | 798 | - |
| Past due | - | - |
| Total gross investments in finance lease | 810 | 176 |
| Deferred income on finance lease | (22) | (5) |
| Net investments in finance lease | 788 | 171 |

(i) Concentration of loans to customers

As at 31 December 2017 the Bank had had 5 borrowers, whose balances exceeded 10% of the Bank's equity: JV LLC "EuroStepGroup", LLC "Midivisana", LLC "Univermag "Gomel", LLC "Bertalservice" ALC "RETAIL-ALLIANCE PLUS". The gross value of these balances (less allowance for impairment) as at 31 December 2016 was BYN 163,575 thousand.

As at 31 December 2016 the Bank had had 5 borrowers, whose balances exceeded 10% of the Bank's equity: JV LLC "EuroStepGroup", LLC "Midivisana", LLC "ARTEINTORG", LLC "Univermag "Gomel", LLC "Bertalservice". The gross value of these balances (less allowance for impairment) as at 31 December 2016 was BYN 136,949 thousand.

9. FINANCIAL ASSETS AVAILABLE FOR SALE

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Quoted debt instruments | 77,688 | 104,713 |
| Unquoted equity instruments | 33 | 130 |
| Total financial assets available for sale | 77,721 | 104,843 |

During 2017 the Bank conducted transactions with state bonds denominated in foreign currency, bonds of the National Bank of the Republic of Belarus, bonds of other banks of the Republic of Belarus.

As at 31 December 2017 quoted securities available for sale comprised the following positions:

| The issuer of the security | Type of security | Fair value of investments |
|--|------------------|------------------------------|
| National Bank of the Republic of Belarus | Bonds | 68,174 |
| The Ministry of Finance | Bonds | 9,514 |
| Total | | 77,688 |

As at 31 December 2016 quoted securities available for sale comprised the following positions:

| The issuer of the security | Type of security | Fair value of investments |
|---|------------------|------------------------------|
| National Bank of the Republic of Belarus | Bonds | 95,264 |
| Alfa-Bank | Bonds | 5,129 |
| OJSC "Paritetbank" | Bonds | 2,148 |
| JSC "Development Bank of the Republic of Belarus" | Bonds | 2,172 |
| Total | | 104,713 |

10. FINANCIAL ASSETS HELD TO MATURITY

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Bonds issued by NBRB | - | 16,461 |
| Bonds issued by commercial organizations | 2,059 | 182 |
| Less allowance for impairment | (110) | (55) |
| Total financial assets held to maturity | 1,949 | 16,588 |

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

During 2017 the Bank conducted transactions with financial instruments at fair value through profit or loss. These instruments were presented mainly by currency swaps, forwards and deposit exchange transactions with the National Bank of the Republic of Belarus.

As at 31 December 2017 the Bank had not derivative financial instruments (financial assets) at fair value through profit or loss.

As at 31 December 2016 the Bank had the following derivative financial instruments (financial assets) at fair value through profit or loss:

| Type of transaction | Purchase / Sale | Maturity | Сумма в валюте Amount in foreign currency | Asset (liability) | Fair value |
|---|--------------------|------------------|---|-------------------|------------|
| Currency SWAP - internal contracts with Belarusian banks | Purchase | Up to 1 month | 54 KBYN | Asset | 54 |
| Total | | | | | 54 |

12. INVESTMENT PROPERTY

The movement in the investment property for the years ended 31 December 2017 and 2016 are as follows:

| | 31 December 2017 |
|---------------------------------|---------------------|
| Cost | |
| As at 31 December 2016 | 10 447 |
| Additions in 2017 | - |
| Transfer between categories | (2 124) |
| Disposals in 2017 | (885) |
| As at 31 December 2017 | 7 438 |
| Accumulated depreciation | |
| As at 31 December 2016 | (446) |
| Accrued for 2017 | (151) |
| Transfer between categories | 7 |
| Disposed for 2017 | 23 |
| As at 31 December 2017 | (567) |
| Residual value | |
| As at 31 December 2016 | 10 001 |
| As at 31 December 2017 | 6 871 |

| | 31 December 2016 |
|---------------------------------|---------------------|
| Cost | |
| As at 31 December 2015 | 10,356 |
| Additions in 2016 | 105 |
| Disposals in 2016 | (14) |
| As at 31 December 2016 | 10,447 |
| Accumulated depreciation | |
| As at 31 December 2015 | (307) |
| Accrued for 2016 | (157) |
| Disposed for 2016 | 18 |
| As at 31 December 2016 | (446) |
| Residual value | |
| As at 31 December 2015 | 10,049 |
| As at 31 December 2016 | 10,001 |

Investment property includes trade centre premises, parking places and other property acquired either through the possession of collateral over loans to customers that became non-collectible or through purchase, and subsequently is held by the Bank to earn rentals.

As at 31 December 2017 and 2016 the Management of the Bank estimated the fair value of the investment property in the amount of approximately BYN 9,040 thousand and BYN 9,959 thousand.

13. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The movement in property, plant and equipment and intangible assets of the Bank for the year ended 31 December 2016 was as follows:

| | Buildings | Constructions | Vehicles | Computers and office facilities | Furniture and others | Capital investments | Intangible assets | Total |
|--|----------------|---------------|--------------|---------------------------------------|-------------------------|------------------------|----------------------|----------------|
| Cost | | | | | | | | |
| As at 31 December 206 | 11,756 | 2,064 | 578 | 2 513 | 4,711 | 91 | 1,773 | 23,486 |
| Additions in 2017 | 1 | 45 | 51 | 550 | 565 | 2,075 | 831 | 4,118 |
| Revaluation | 6,509 | - | - | - | - | - | - | 6,509 |
| Transfer between categories | - | - | - | - | - | (2,013) | - | (2,013) |
| Disposal in 2017 | - | (6) | (56) | (118) | (136) | (150) | - | (466) |
| As at 31 December 2017 | 18,266 | 2,103 | 573 | 2,945 | 5,140 | 3 | 2,604 | 31,634 |
| Accumulated depreciation/amortization | | | | | | | | |
| As at 31 December 2016 | (2,181) | (575) | (370) | (1,923) | (2,679) | - | (648) | (8,376) |
| Additions in 2017 | (65) | (50) | (90) | (334) | (438) | - | (189) | (1,166) |
| Revaluation | (444) | - | - | - | - | - | - | (444) |
| Disposals in 2017 | - | 1 | 29 | 134 | 138 | - | - | 302 |
| As at 31 December 2017 | (2,690) | (624) | (431) | (2,123) | (2,979) | - | (837) | (9,684) |
| Residual value | | | | | | | | |
| As at 31 December 2016 | 9,575 | 1,489 | 208 | 590 | 2,032 | 91 | 1,125 | 15,110 |
| As at 31 December 2017 | 15,576 | 1,479 | 142 | 822 | 2,161 | 3 | 1,767 | 21,950 |

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The movement in property, equipment and intangible assets of the Bank for the year ended 31 December 2016 was as follows:

| | Buildings | Constructions | Vehicles | Computers and office facilities | Furniture and others | Capital investments | Intangible assets | Total |
|--|-----------|---------------|----------|---------------------------------------|-------------------------|------------------------|----------------------|---------|
| Cost | | | | | | | | |
| As at 31 December 2015 | 11,517 | 2,069 | 578 | 2,400 | 4,339 | 74 | 1,054 | 22,031 |
| Additions in 2016 | 8 | 11 | 21 | 146 | 440 | 4,299 | 719 | 5,644 |
| Revaluation | 231 | - | - | - | - | - | - | 231 |
| Transfer between categories | - | - | - | - | - | (1,345) | - | (1,345) |
| Disposal in 2016 | - | (16) | (21) | (33) | (68) | (2,937) | - | (3,075) |
| As at 31 December 2016 | 11,756 | 2,064 | 578 | 2,513 | 4,711 | 91 | 1,773 | 23,486 |
| Accumulated depreciation/amortization | | | | | | | | |
| As at 31 December 2015 | (2,100) | (538) | (268) | (1,661) | (2,320) | - | (554) | (7,441) |
| Additions in 2016 | (62) | (50) | (103) | (299) | (415) | - | (94) | (1,023) |
| Revaluation | (19) | - | - | - | - | - | - | (19) |
| Disposals in 2016 | - | 13 | 1 | 37 | 56 | - | - | 107 |
| As at 31 December 2016 | (2,181) | (575) | (370) | (1,923) | (2,679) | - | (648) | (8,376) |
| Residual value | | | | | | | | |
| As at 31 December 2015 | 9,417 | 1,531 | 310 | 739 | 2,019 | 74 | 500 | 14,590 |
| As at 31 December 2016 | 9,575 | 1,489 | 208 | 590 | 2,032 | 91 | 1,125 | 15,110 |

The Bank accounts for buildings at revalued cost. As at 31 December 2017 revaluation of buildings was carried out by an independent appraiser. For the purpose of the determination of the fair value of the buildings three methods were applied: income method, comparative method and cost method. For the ultimate calculation from the value estimated by each method the following proportions were taken:

- cost method - 0-20%;
- income method value - 40-50%;
- comparative method value - 40-50%.

The cost method implies calculation of costs adjusted to the level of asset's physical deterioration, current price level and profit margin. In accordance with income method, estimated judgments are applied in respect of market risk, management risk factor, and financial risk. Comparative method uses the following assumptions: location adjustment, level of maintenance adjustment, possibility of use adjustment.

According to the results of an independent assessment of the Bank's buildings as at 31 December 2017 the carrying amount of these facilities increased by BYN 6,056 thousand rubles, which is reported in the financial statements by recovering previously recognized impairment losses in the amount of BYN 846 thousand rubles. For the remaining amount of the increase in the carrying amount, a fixed assets revaluation fund is formed, taking into account the effect of deferred taxes.

In the case of buildings accounting at historical cost, their carrying amount as of 31.12.2017 would be BYN 8,538 thousand rubles. (31 December 2016 BYN 8,545 thousand rubles.).

14. ASSETS HELD FOR SALE

As at 31 December 2017, 12 apartments were transferred to non-current assets held for sale located in Minsk, 20 Dzerzhinsky Ave., due to dissolution of finance lease agreements with individuals for a total of BYN 1,587 thousand, as well as 3 capital buildings at the address: Minsk, ul. Radial 29.

As at 31 December 2016, 17 apartments were transferred to non-current assets held for sale located in Minsk, 20 Dzerzhinsky Ave., due to dissolution of finance lease agreements with individuals for a total of BYN 2,115 thousand.

| | Assets held for sale |
|---|----------------------|
| Carrying amount as of 31 December 2015 | - |
| Additions | 2,115 |
| Disposal | - |
| Carrying amount as of 31 December 2016 | 2,115 |
| Additions | - |
| Transfer between categories | 385 |
| Disposal in 2016 | (528) |
| Carrying amount as of 31 December 2017 | 1,972 |

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15. OTHER ASSETS

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Prepayments on property, plant and equipment and construction | 4,034 | 4,064 |
| Property received as debt repayment | 2,655 | 100 |
| Settlements with buyers on distribution of investment property | 2,115 | 2,664 |
| Income accrued | 1,024 | 638 |
| Prepayment on taxes other than income tax | 578 | 553 |
| Settlements with suppliers | 317 | 307 |
| State duty | - | 20 |
| Shortages reported from accountable officers | - | 9 |
| Other | 247 | 98 |
| Total other assets | 10,970 | 8,433 |
| Less allowance for impairment | (7,019) | (2,337) |
| Total net other assets | 3,951 | 6,096 |

As at 31 December 2017 the property transferred to the redemption of debt of UE "NORDALFA-BEL", CSJC "Industrial leasing company", LLC "VILEYSKY TUBE FACTORY, FIIE "INDUSTRIAL TRANSIT", JLLC "STL EXTRUSION", FPPTUE "GOSPAK", Susha E.A. amounted to BYN 2,655 thousand and includes residual and non-residual real estate.

As at 31 December 2016 the property transferred to the redemption of debt of "Proizvodstvenno-investicionnaya gruppа" Ltd, UE "NORDALFA-BEL", LLC "AKTIVEST", CSJC "Industrial leasing company", LLC "VILEYSKY TUBE FACTORY" an individual amounted to BYN 100 thousand and includes residual and non-residual real estate.

The movement in allowance for impairment of other assets as at 31 December 2017 and 31 December 2016 was as follows:

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Allowance for impairment at the beginning of the year | 2,337 | 2,006 |
| Creation | 4,683 | 335 |
| Recovery | (1) | (4) |
| Total allowance for impairment at the end of the year | 7,019 | 2,337 |

16. BALANCES DUE TO FINANCIAL INSTITUTIONS

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Loans received from other banks | 96,002 | 109,467 |
| Current accounts due to banks | 13,878 | 1,733 |
| Deposits due to financial institutions | - | 600 |
| Total balances due to financial institutions | 109,880 | 111,800 |

As at 31 December 2017 the Bank had balances raised from 2 banks exceeding 10% of the Bank's equity in the amount of BYN 107,945 thousand.

As at 31 December 2016 the Bank had balances raised from 2 banks exceeding 10% of the Bank's equity in the amount of BYN 108,241 thousand.

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17. CUSTOMER ACCOUNTS

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Profit-oriented companies | 157,753 | 112,776 |
| Individual entrepreneurs | 9,603 | 7,860 |
| Non-for-profit and public organisations | 6,282 | 4,491 |
| Transactions with e-money | 3,317 | 2,056 |
| Private individuals | 189,104 | 181,434 |
| Total customer accounts | 366,059 | 308,617 |

As at 31 December 2017 and 2016 the Bank had no balances with clients, whose balances exceeded 10% of the Bank's equity.

18. DEBT SECURITIES ISSUED

As at 31 December 2017 and 2016 the Bank had the following securities in circulation:

| | 31 December 2017 | 31 December 2016 |
|-------------------------------------|---------------------|---------------------|
| Bonds issued | 13,545 | 2,973 |
| Deposit certificates issued | 2 | 2 |
| Total debt securities issued | 13,547 | 2,975 |

During 2017 the Bank conducted transactions with, 13th, 15th, 16th, 17th bond-issue, including 13th, 16th issues in US dollars, 15th issue in Belarusian rubles, 17th issue in Euro. During 2017 no deposits and savings certificates were issued. No deposit certificated were settled.

During 2016 the Bank conducted transactions with 12th, 13th bond issues in US dollars. During 2016 no deposits and savings certificates were issued. No deposit certificated were settled.

As at 31 December 2017 the Bank had the following bonds issued:

| | Maturity | Interest rate | Amount as at 31 December 2017 |
|-------------------------------------|------------|---------------|----------------------------------|
| Bonds of the 13 th issue | 01.06.2018 | 6% | 3,035 |
| Bonds of the 15 th issue | 15.12.2023 | 8.50% | 8,048 |
| Bonds of the 16 th issue | 15.12.2023 | 3.70% | 923 |
| Bonds of the 17 th issue | 15.12.2023 | 3.30% | 1,539 |
| Total | | | 13,545 |

As at 31 December 2016 the Bank had the following bonds issued:

| | Maturity | Interest rate | Amount as at 31 December 2015 |
|-------------------------------------|------------|---------------|----------------------------------|
| Bonds of the 13 th issue | 01.06.2018 | 6% | 2,973 |
| Total | | | 2,973 |

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The information about the reconciliation between the balance of liabilities arising in connection with the financial performance of the Bank as at 31 December 2017 and 2016 is represent below:

| | Debt securities issued |
|--|------------------------|
| Carrying amount as of 31 December 2015 | 904 |
| Additions | 5,031 |
| Repayment | (2,808) |
| Discount | (154) |
| Exchange differences | 2 |
| Carrying amount as of 31 December 2016 | 2,975 |
| Additions | 23,738 |
| Repayment | (9,051) |
| Discount | (4,236) |
| Exchange differences | 121 |
| Carrying amount as of 31 December 2017 | 13,547 |

19. PREFERENCE SHARES

As at 31 December 2017 and 2016 the Bank issued 64,213 preference shares. As at 31 December 2017 the par value of one share amounted BYN 0,24 (24 kopecks). In 2017, the authorized capital was not increased, the par value of the share did not change.

In 2016, the Bank increased its share capital by increasing the nominal value of shares from 2,345 non-denominated Belarusian rubles to 2,400 non-denominated Belarusian rubles in accordance with the decision of the Extraordinary General Meeting of Shareholders №2 dated 28.04.2016. After the increase of the share capital, changes in the nominal value of the Bank's shares and the denomination of the Belarusian ruble in 10,000 times as at 01.07.2016, the nominal value of one share as at 01.01.2017 amounted to 0.24 BYN (24 kopecks). Preference shareholders have a right to receive annual dividends in the amount of BYN 0,02 for one share and a right to the Bank's residual assets. The preference shares give no voting right at the Shareholders' Meetings.

20. OTHER LIABILITIES

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Loan commitments | 557 | 5,681 |
| Settlements with other creditors | 985 | 1,119 |
| Unused vacations provision | 1,009 | 848 |
| Expenses accrued | 509 | 474 |
| Tax liabilities other than income tax liabilities | 117 | 84 |
| Other | 203 | 179 |
| Total other liabilities | 3,380 | 8,385 |

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21. SHARE CAPITAL

The Bank's shareholders as at 31 December 2017 and 2016 were as follows:

| | % of the issued share capital 31 December 2017 | % of the issued share capital 31 December 2016 |
|---|--|--|
| Legal entities | | |
| Limited liability company "Kvolitas-Plus" | 48,66 | 48,66 |
| State Committee on Property of the Republic of Belarus | 8,03 | 8,03 |
| General Department of Justice of Minsk City Executive Committee | 2,81 | 2,81 |
| Superadded liability company "Stroytechnotrade" | - | 2,44 |
| Limited Liability Company "BelEuroProfit" | 2,44 | - |
| Limited liability company "Megaproektstroy" | 2,01 | 2,01 |
| Limited liability company "Novy Standard" | 1,40 | 1,40 |
| FPTC "Gospak" | 1,09 | 1,09 |
| Private individuals | | |
| I. A. Kurach | 15,62 | 15,62 |
| V. A. Kotsarenko | 7,52 | 7,52 |
| E. M. Kotsarenko | 2,12 | 2,12 |
| O.V. Zverev | 2,78 | 2,78 |
| M. V. Nikolaevich | 1,56 | 1,56 |
| Other shareholders | 3,96 | 3,96 |
| Total share capital | 100,00 | 100,00 |

In 2016, the Bank increased its share capital by increasing the nominal value of shares from 2,345 non-denominated Belarusian rubles to 2,400 non-denominated Belarusian rubles in accordance with the decision of the Extraordinary General Meeting of Shareholders No. 2 dated 28.04.2016.

After the increase of the share capital, changes in the nominal value of the Bank's shares and the denomination of the Belarusian ruble in 10,000 times as at 01.07.2016, amount of the registered share capital of the Bank as at 01.01.2017 amounted to BYN 11,462,630.88 (eleven million four hundred sixty-two thousand six hundred thirty rubles eighty-eight copeck). The nominal value of one share as at 01.01.2017 amounted to 0.24 rubles (24 copeck).

During 2017 the Bank did not repurchase shares of its own issue at the request of shareholders. As at 01.01.2017 the Bank has no repurchased shares of its own issue. In accordance with IAS 29, share capital of the Bank has been restated in terms of purchasing power of the Belarusian ruble as at 31 December 2014 and amounted to BYN 52,524 thousand. The amount of registered statutory fund as of 31 December 2017 amounted to 52,787 thousand rubles.

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22. INTEREST INCOME

| | 2017 | 2016 |
|--|---------------|---------------|
| On loans to customers | 29,298 | 18,540 |
| Financial assets available for sale | 6,488 | 7,834 |
| Balances due from financial institutions | 2 025 | 834 |
| Financial assets held to maturity | 1,832 | 1,218 |
| Other interest income | 45 | 52 |
| Total interest income | 39,688 | 28,478 |

23. INTEREST EXPENSE

| | 2017 | 2016 |
|--|-----------------|-----------------|
| Interest expense on liabilities at amortised cost: | | |
| - on customer accounts | (10,533) | (12,104) |
| - on balances due to financial institutions | (6,331) | (2,733) |
| - on debt securities issued | (392) | (131) |
| Preference shares | - | (1) |
| Other interest expense | - | (879) |
| Total interest expense | (17,256) | (15,848) |

24. COMMISSION AND FEE INCOME

| | 2017 | 2016 |
|--|---------------|---------------|
| Transactions with bank payment cards | 6,094 | 5,190 |
| Client accounts' maintenance | 4,912 | 4,288 |
| Money transfers | 1,006 | 830 |
| Transactions with checks | 606 | 534 |
| Documentary transactions | 303 | 202 |
| Foreign currency transactions | 87 | 123 |
| Transactions with securities | 66 | 70 |
| Bank accounts' maintenance | - | 91 |
| Borrowings | - | 1 |
| Other transactions | 1,135 | 860 |
| Total commission and fee income | 14,209 | 12,189 |

25. COMMISSION AND FEE EXPENSE

| | 2017 | 2016 |
|---|----------------|----------------|
| Transactions with bank payment cards | (2,496) | (2,316) |
| Bank accounts' opening and (or) maintenance | (321) | (408) |
| Purchase (sale) of cash | (291) | (307) |
| Foreign currency transactions | (31) | (37) |
| Documentary transactions | (22) | (7) |
| Transactions with securities | (20) | (16) |
| Other transactions | (429) | (303) |
| Total commission and fee expense | (3,610) | (3,394) |

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26. NET GAIN ON FINANCIAL INSTRUMENTS

| | 2017 | 2016 |
|---|-------------|------------|
| Net gain on financial assets available for sale | (17) | 81 |
| Net gain/(loss) on financial instruments at fair value through profit or loss | (27) | 62 |
| Net gain on financial instruments | (44) | 143 |

27. NET FOREIGN EXCHANGE GAIN

| | 2017 | 2016 |
|---------------------------------------|---------------|---------------|
| Exchange differences gain | 1,386 | 949 |
| Gain on foreign currency transactions | 10,968 | 10,373 |
| Total foreign exchange gain | 12,354 | 11,322 |

28. PERSONNEL EXPENSES

| | 2017 | 2016 |
|---------------------------------|-----------------|-----------------|
| Remuneration | (11,938) | (10,549) |
| Social security contributions | (3,628) | (3,160) |
| Total personnel expenses | (15,566) | (13,709) |

The average number of employees employed by the Bank in 2017 amounted to 777 persons (in 2016: 748 persons).

29. OTHER OPERATING INCOME, NET

| | 2017 | 2016 |
|---|--------------|---------------|
| Income from the increase in the value of previously impaired assets | 846 | - |
| Lease payments | 515 | 580 |
| Penalties (fines, fees) | 363 | 472 |
| Income from cash collection services | 192 | 267 |
| Net profit from distribution of property, plant and equipment, intangible assets and other property | 181 | 915 |
| Compensation of utilities and maintenance costs under lease agreements | 89 | 21 |
| The recognition of other payables unclaimed by customers | 54 | 11,091 |
| Other | 321 | 942 |
| Total operating income less expenses | 2,561 | 14,288 |

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30. ADMINISTRATIVE EXPENSES

| | 2017 | 2016 |
|--------------------------------------|-----------------|-----------------|
| Lease payments | (2,707) | (2,522) |
| Repairs and maintenance | (2,034) | (1,637) |
| Software | (1,546) | (1,479) |
| Social security contributions | (1,078) | (1,020) |
| Taxes other than income tax | (763) | (1,100) |
| Stationery | (572) | (571) |
| Marketing | (470) | (349) |
| Security | (399) | (357) |
| Transportation | (320) | (288) |
| Charity | (299) | (472) |
| Collection | (246) | (248) |
| Communication and mail | (233) | (203) |
| Household maintenance costs | (227) | (205) |
| Information services | (178) | (175) |
| Insurance | (130) | (131) |
| Professional services | (74) | (71) |
| Other | (464) | (1,217) |
| Total administrative expenses | (11,740) | (12,045) |

31. INCOME TAX

Belarusian legal entities are obliged to file individual tax returns. From 1 January 2015 the profit tax rate for banks was set at 25%.

As of December 31, 2017 and 2016 calculation of deferred tax assets and liabilities was carried out using the tax rates of 25%. Expenses / (income) on income tax are as follows:

| | 2017 | 2016 |
|--|--------------|-----------|
| Current income tax expenses | - | - |
| (Recovery)/expenses on deferred income tax | 2,008 | 63 |
| Total | 2,008 | 63 |

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

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| | 2017 | 2016 |
|--|-----------------|-----------------|
| Deductible temporary differences | | |
| Financial assets held to maturity | - | 46 |
| Property, plant and equipment and intangible assets | 5,590 | 5,691 |
| Customer accounts | 1,503 | 1,068 |
| Other assets and liabilities | - | 8,161 |
| Total deductible temporary differences | 7,093 | 14,966 |
| Deferred income tax asset | 1,773 | 3,742 |
| Temporary differences subject to taxation | | |
| Cash and cash equivalents | (1,742) | (1,355) |
| Balances due from financial institutions | (91) | (125) |
| Loans to customers | (5,895) | (5,132) |
| Assets, available for sale | - | (108) |
| Property, plant and equipment and intangible assets | (737) | - |
| Investment property | (1,981) | (3,530) |
| Financial assets held to maturity | (32) | - |
| Financial assets available for sale | (59) | (126) |
| Total temporary differences subject to taxation | (10,537) | (10,376) |
| Deferred income tax liability | (3,444) | (2,594) |
| Total net asset | (861) | 1,148 |

Information on actual income tax expenses and its theoretical amount is presented as follows:

| | 2017 | 2016 |
|--|--------------|-----------|
| Profit before income tax and after loss on net monetary position | 4,380 | 3,519 |
| Theoretical corporate income tax at statutory rate 25% | 1,095 | 880 |
| The effect of the revaluation of fixed assets for tax purposes | - | - |
| Tax effect of income / expenses not involved in taxation | 913 | (817) |
| Total income tax expense | 2,008 | 63 |

Information on deferred income tax movement is as follows:

| | 2017 | 2016 |
|--|----------------|--------------|
| Deferred income tax at the beginning of the year | 1,090 | 1,211 |
| Recognised in profit and loss | (2,008) | (63) |
| Recognised in other comprehensive income | (1,231) | (58) |
| Woro | (2,149) | 1,090 |

32. RISK MANAGEMENT

The Bank has established an internal control system.

The objective of the internal control system is to provide:

- efficiency and effectiveness of banking activities;
- efficient management of assets and liabilities, including custody of assets; risk management, i.e. identification, valuation and determination of acceptable risk level along with inherent banking losses and liquidity worsening resulting from internal and external business situation;
- regular risk monitoring;
- adequate measures to hold the acceptable risk level, i.e. the one than does not threaten financial stability of the Bank and its investors and creditors;
- accuracy, completeness, impartiality and timeliness in preparing and presenting all kinds of reporting (statistic forms, accounting, financial statements);
- performance in compliance with national legislation of the Republic of Belarus and internal legal documents and rules of the Bank;
- non-involvement of the Bank into illegal activities, i.e. prevention of money-laundering activities, financing of terrorism;
- timely submission of all required information (according to the legislation of the Republic of Belarus) to statutory authorities.

Members of internal control system within the Bank are: General Shareholders' meeting, Committee of Directors, Board of the Bank, Chairman of the Board and his Deputies, Bank's Review Committee, Audit Committee, Loan Committee, Risk Committee, department managers and employees.

Within the framework of an internal control system, the Bank has developed the Risk Management Policy. The Risk Management Policy is established to identify and analyse the Bank's risks, to set appropriate risk limits and controls and to monitor the adherence to these limits.

The management of the Bank is responsible for the establishment and oversight of the Bank's risk management system, however risk monitoring on a daily basis is performed by the structural departments of the Bank. The Risk Management Policy is reviewed on a regular basis to reflect changes in market conditions and/or in the Bank's strategy.

The Bank faces the following main risks: credit risk, liquidity risk, market risk, country risk, operational risk.

This note presents information about the Bank's exposure to each of various risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

(a) Credit risk

Credit risk is the risk of potential loss resulting from non-fulfilment, past due fulfilment or incomplete fulfilment of contractual obligations by the Bank's debtor or counterparty according to the contract terms and legislation.

Credit risk is managed in accordance with the risk management policy. This policy details the basic principles of credit risk identification, assessment (measurement), determination of an acceptable level of risk, direct management, control and development of the level of risk measures for its restriction (reduction).

The aim of credit risk management is to balance acceptable ratios of profitability with indicators of safe and liquid functioning of Bank.

The Bank carries out qualitative and quantitative estimation of credit risk levels, using statistical and ratio methods of risk assessment.

The Bank's statistical method of credit risk assessment is based on the analysis of statistical data on a financial position of borrowers, about quantity and size of overdue payments, other information influencing the quality of a credit portfolio for the certain period of time, on risk groups, ownership forms, activity types. The obtained statistical data is compared to predictive estimates.

The ratio method involves calculation of the relative indicators, allowing estimating credit risks forming a part of the Bank's credit portfolio, which settlement values are compared to the permissible value of this indicator, and on this basis to define the Bank's level of overall credit risk qualitatively and quantitatively.

The management of risks related to ordinary loans involves the assessment of the potential borrower's credit standing. Decisions on providing loans are made by the Credit Committee and other authorised bodies.

To manage the credit risk the Bank applies the following methods:

- diversification of loan portfolio in order to distribute credit risks and to prevent its concentration;
- credit risks limitation. For interbank transactions the main credit risk restriction method is its limitation. When providing loans to individuals the Bank uses such credit risk restriction methods as: development and approval of crediting standards determining the maximum and minimum amounts of loans; development and approval of the requirements to the borrowers, defining criteria of their creditworthiness; check if a borrower complies with the approved requirements and selective control from Risk Management Department; segregation of duties concerning decision making on granting the loans to individuals between the Bank's Credit Committee and the Bank's authorized official; supervising how the borrower performs his obligations; work with loans which are past due. When providing loans to legal entities the Bank uses such credit risk restriction methods as: preliminary and current analysis of the client; analysis of sufficiency, quality and liquidity of collateral; collective decision-making on granting a loan; monitoring of the borrower's financial position and cost of the collateral; work with loans which are past due. Besides, restriction of credit risks is carried out by means of observance of the ratios established by NB RB;
- analysis of the structure and quality of the Bank's assets subject to credit risk and maintenance of a share of the problem loans to customers and to financial institutions at the level recommended by the National bank of the Republic of Belarus. Following the results of the clients' debt analysis by the Credit Committee, requirements to potential clients and conditions for transaction conducting subject to credit risks can be reconsidered;
- credit risk stress-testing in order to determine potential credit risk;
- determination of allowance for impairment.

The maximum level of credit risk exposure is reflected in the carrying value of financial assets recognised in the statement of financial position. The maximum exposure to credit risk for off-balance sheet commitments equals to the amount of liabilities. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Note 8.

(c) Liquidity risk

Liquidity risk is the risk of potential loss the Bank may incur as a result of inability to meet its obligations in time by turning its assets into the means of payment set by the contract or inability to receive additional resources to fulfil these obligations.

The main objective of the Bank's liquidity management is ensuring sufficiency of the Bank's liquid funds to cover both planned and unplanned outflow of money according to obligations.

The Bank applies such methods of liquidity risk management as ratio analysis, cash flows prognosis, gap analysis, stress-testing.

The Bank estimates liquidity mainly on the basis of the liquidity standard rates established by the National Bank of the Republic of Belarus. These standard rates are given below as at 31 December:

| Standard rate | Rate of the National Bank of the Republic of Belarus | 2017 | 2016 |
|--|---|--------|--------|
| "Short-term liquidity" (ratio of assets with maturity periods less than 1 year to liabilities with maturity periods less than 1 year) | Min 1 | 2.5 | 3.8 |
| "Quick liquidity" (ratio of assets on demand and liabilities on demand and overdue) | Min 20% | 233.7% | 182.4% |
| "Current liquidity" (ratio of assets with periods before 30 days, including assets on demand, and liabilities with periods before 30 days including liabilities on demand and overdue) | Min 70% | 146.3% | 180.2% |
| "Minimum ratio of liquid and total assets" (to maintain adequate ration of liquid assets) | Min 20% | 38.5% | 41.7% |

Analysis of financial liabilities by terms till maturity

The following table sets out the remaining contractual maturities of financial liabilities representing undiscounted cash flows (both principal and interest cash flows) based on the earliest date on which the Bank can be required to pay as at 31 December 2017 and 31 December 2016.

| 31 December 2017 | Amount, recognized in the statement of financial position/ off- balance commitments | Undiscounted cash flows | Within 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 1 - 5 years | More than 5 years | Maturity undefined |
|--|---|----------------------------|-------------------|-----------------|-----------------|------------------|----------------|-------------------------|-----------------------|
| Financial liabilities | | | | | | | | | |
| Balances due to financial institutions | 109,880 | 120,617 | 14,335 | 869 | 1,340 | 2,710 | 101,363 | - | - |
| Customer accounts | 366,059 | 368,361 | 48,340 | 32,699 | 8,665 | 14,831 | 48,951 | - | 214,875 |
| Debt securities issued | 13,547 | 16,426 | 56 | 105 | 3,183 | 237 | 12,843 | - | 2 |
| Preference shares | 19 | 19 | - | - | - | - | - | - | 19 |
| Other financial liabilities | 1,542 | 1,542 | 712 | - | 13 | - | 816 | - | 1 |
| Total future potential cash outflows on financial liabilities | 491,047 | 506,965 | 63,443 | 33,673 | 13,201 | 17,778 | 163,973 | - | 214,897 |
| Off-balance loan commitments | 34,875 | 34,875 | 23,561 | 4,323 | 239 | 3,018 | 1,197 | 2,537 | - |

| 31 December 2016 | Amount, recognized in the statement of financial position/ off- balance commitments | Undiscounted cash flows | Within 1 month | 1 - 3 months | 3 - 6 months | 6 -12 months | 1 - 5 years | More than 5 years | Maturity undefined |
|---|---|----------------------------|-------------------|-----------------|-----------------|-----------------|----------------|-------------------------|-----------------------|
| Financial liabilities | | | | | | | | | |
| Balances due to financial institutions | 111,800 | 138,710 | 3,792 | 11,016 | 2,228 | 4,505 | 117,169 | - | - |
| Customer accounts | 309,617 | 308,617 | 35,344 | 20,230 | 13,647 | 25,322 | 92,233 | - | 121,841 |
| Debt securities issued | 2,975 | 3,227 | 15 | 29 | 44 | 90 | 3,047 | - | 2 |
| Preference shares | 19 | 19 | - | - | - | - | - | - | 19 |
| Other financial liabilities | 1,690 | 1,700 | 635 | - | - | 7 | - | - | 1,058 |
| Total future potential cash outflows on financial liabilities | 426,101 | 452,273 | 39,786 | 31,275 | 15,919 | 29,924 | 212,449 | - | 122,920 |
| Off-balance loan commitments | 37,762 | 37,762 | 10,625 | 9,161 | 6,551 | 8,778 | 2,214 | 433 | - |

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(c) Market risk

Market risk covers currency risk, interest rate risk and other pricing risks, to which the Bank is exposed.

Currency risk is the risk of potential loss as a result of the revaluation of statement of financial position and off-balance sheet items denominated in foreign currencies due to change in exchange rates.

The Bank continuously monitors the open positions of foreign currencies and regularly assesses the structure of assets and liabilities by currency for the purpose to pursue the limit of the open currency position. This limit is set by NB RB and amounts to 10% of Tier I capital for each currency.

The table below provides the analysis of the Bank's financial assets and financial liabilities by currency profile as at 31 December 2017:

| 31 December 2017 | BYN | EUR | USD | RUB | Other currencies | Total |
|--|----------------|----------------|-----------------|---------------|------------------|----------------|
| Financial assets | | | | | | |
| Cash and cash equivalents | 79,840 | 22,185 | 32,220 | 12,691 | 447 | 147,383 |
| Balances due from financial institutions | 13,900 | 773 | 2,157 | 3,448 | 9 | 20,287 |
| Loans to customers | 76,868 | 152,640 | 40,686 | 2,265 | - | 272,459 |
| Financial assets available for sale | 33 | - | 77,688 | - | - | 77,721 |
| Financial assets held to maturity | - | - | 1,949 | - | - | 1,949 |
| Other financial assets | 694 | 25 | 1 | - | - | 720 |
| Total financial assets | 171,335 | 175,623 | 154,701 | 18,404 | 456 | 520,519 |
| Financial liabilities | | | | | | |
| Balances due to financial institutions | - | 108,243 | 1,636 | 1 | - | 109,880 |
| Customer accounts | 109,400 | 56,081 | 182,115 | 18,380 | 83 | 366,059 |
| Debt securities issued | 8,050 | 1,539 | 3,958 | - | - | 13,547 |
| Preference shares | 19 | - | - | - | - | 19 |
| Other financial liabilities | 1,009 | 99 | 425 | 9 | - | 1,542 |
| Total financial liabilities | 118,478 | 165,962 | 188,134 | 18,390 | 83 | 491,047 |
| Net long / (short) financial position | 52,857 | 9,661 | (33,433) | 14 | 373 | 29,472 |

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The table below provides the analysis of the Bank's financial assets and financial liabilities by currency profile as at 31 December 2016:

| 31 December 2016 | BYN | EUR | USD | RUB | Other currencies | Total |
|---|----------------|----------------|-----------------|----------------|------------------|----------------|
| Financial assets | | | | | | |
| Cash and cash equivalents | 48,556 | 15,487 | 14,667 | 4,804 | 173 | 83,687 |
| Balances due from financial institutions | 1,129 | 26 | 2,162 | 3,063 | 79 | 6,459 |
| Loans to customers | 49,412 | 21,800 | 164,903 | 3,164 | - | 239,279 |
| Financial assets available for sale | 9,579 | 4,103 | 91,161 | - | - | 104,843 |
| Financial assets at fair value through profit or loss | 54 | - | - | - | - | 54 |
| Financial assets held to maturity | 16,588 | - | - | - | - | 16,588 |
| Other financial assets | 4,190 | 29 | 18 | 10 | - | 4,247 |
| Total financial assets | 129,508 | 41,445 | 272,911 | 11,041 | 252 | 455,157 |
| Financial liabilities | | | | | | |
| Balances due to financial institutions | 600 | 2,003 | 109,194 | 3 | - | 111,800 |
| Customer accounts | 77,763 | 43,882 | 174,864 | 12,030 | 78 | 308,617 |
| Debt securities issued | 2 | - | 2,973 | - | - | 2,975 |
| Preference shares | 19 | - | - | - | - | 19 |
| Other financial liabilities | 1,009 | 131 | 536 | 14 | - | 1,690 |
| Total financial liabilities | 79,393 | 46,016 | 287,567 | 12,047 | 78 | 425,101 |
| Net long / (short) financial position | 50,115 | (4,571) | (14,656) | (1,006) | 174 | 30,056 |

Sensitivity analysis - Currency risk

A 10 % strengthening of the BYR against the following currencies as at 31 December 2017 would have increased / (decreased) profit before tax and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as for 2016.

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| | Impact on profit before tax | Impact on equity before tax |
|-------------------------|--------------------------------|--------------------------------|
| 31 December 2017 | | |
| EUR | (966) | (966) |
| USD | 3,343 | 3,343 |
| RUB | (2) | (2) |
| Other currencies | (37) | (37) |
| 31 December 2016 | | |
| EUR | 457 | 457 |
| USD | 1,466 | 1,466 |
| RUB | 101 | 101 |
| Other currencies | (17) | (17) |

A weakening of BYN against the above currencies at 31 December 2017 would have had the equal but opposite effect on amounts shown above, on the basis that all other variables remain constant.

Interest rate risk is the risk of potential loss the Bank may incur as a result of interest rate fluctuations.

Estimation technique of the interest rate risk is based on GAP-analysis of assets and liabilities sensitive to interest rate fluctuation and stress-testing.

Sensitivity analysis - interest risk

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit before tax and equity by the amounts shown below. The analysis assumes that all other variables remain constant.

| | Impact on profit before tax 100 bp increase | Impact on profit before tax 100 bp decrease | Impact on equity before tax 100 bp increase | Impact on equity before tax 100 bp decrease |
|---------------------------|---|---|---|---|
| 31 December 2017 | | | | |
| Floating rate instruments | (2) | 2 | (2) | 2 |
| 31 December 2016 | | | | |
| Floating rate instruments | 15 | (15) | 15 | (15) |

To manage the market risk the Bank uses the following methods: limitation, distribution of authority, insurance (i.e. forwards, swaps), stress-testing.

(d) Country risk

Country risk is the risk of potential losses arising from the inability of residents of foreign countries to meet their obligations as a result of changes in the economic, political, and legal environment of the respective countries.

Before entering into transactions with residents of foreign countries, the Bank performs an assessment of the influence of economic, social, political and legal circumstances on the residents' ability to fulfil their obligations.

To manage the country risk the Bank applies such methods as restriction, distribution of authority.

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

| 31 December 2017 | Belarus | OECD countries | Other countries | Total |
|--|----------------|----------------|-----------------|----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 132,907 | 4,211 | 10,265 | 147,383 |
| Balances due from financial institutions | 16,007 | - | 4,280 | 20,287 |
| Loans to customers | 272,379 | - | 80 | 272,459 |
| Financial assets available for sale | 77,721 | - | - | 77,721 |
| Financial assets held to maturity | 1,949 | - | - | 1,949 |
| Other financial assets | 720 | - | - | 720 |
| Total financial assets | 501,683 | 4,211 | 14,625 | 520,519 |
| Financial liabilities | | | | |
| Balances due to financial institutions | 109,870 | - | 10 | 109,880 |
| Customer accounts | 361,451 | 4,116 | 492 | 36,059 |
| Debt securities issued | 13,547 | - | - | 13,547 |
| Preference shares | 19 | - | - | 19 |
| Other financial liabilities | 1,542 | - | - | 1,542 |
| Total financial liabilities | 486,429 | 4,116 | 502 | 491,047 |
| Net financial position | 15,254 | 95 | 14,123 | 29,472 |

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

| 31 December 2016 | Belarus | OECD countries | Other countries | Total |
|---|----------------|----------------|------------------|----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 73,480 | 9,205 | 1,002 | 83,687 |
| Balances due from financial institutions | 3,261 | - | 3,198 | 6,459 |
| Loans to customers | 239,094 | - | 185 | 239,279 |
| Financial assets available for sale | 104,843 | - | - | 104,843 |
| Financial assets held to maturity | 16,588 | - | - | 16,588 |
| Financial assets at fair value through profit or loss | 54 | - | - | 54 |
| Other financial assets | 4,231 | 16 | - | 4,247 |
| Total financial assets | 441,551 | 9,221 | 4,385 | 455,157 |
| Financial liabilities | | | | |
| Balances due to financial institutions | 111,799 | - | 1 | 111,800 |
| Customer accounts | 177,725 | 733 | 130,159 | 308,617 |
| Debt securities issued | 2,975 | - | - | 2,975 |
| Preference shares | 19 | - | - | 19 |
| Other financial liabilities | 1,679 | - | 11 | 1,690 |
| Total financial liabilities | 294,197 | 733 | 130,171 | 425,101 |
| Net financial position | 147,354 | 8,488 | (125,786) | 30,056 |

(e) Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and influence all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management of the Bank. This responsibility is supported by the development of standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

(f) Capital management

The Management policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management also monitors the return on capital.

Capital adequacy

The main objective of the Bank's capital management is to ensure the Bank's compliance with externally imposed capital and maintaining a strong credit rating and healthy capital ratios required for the implementation of its business and maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it when economic conditions change and the risk characteristics of its activities. As compared to previous years there were no any changes in the objectives, policies and processes for managing capital.

The requirement of the National Bank of the Republic of Belarus for the minimum amount of regulatory capital calculated on the basis of accounts prepared in accordance with the Belarusian legislation for banks is to maintain the amount of regulatory capital at a minimum level of 51,7 million BYN with a quarterly adjustment to the value of the consumer price index. The regulatory value of regulatory capital as of 1 January 2018 was 54,9 million BYN.

Capital adequacy is calculated in accordance with the National Bank of Republic of Belarus (NB RB) requirements. The prescribed ratio of Tier I capital adequacy should be not less than 10 %; Tier II capital adequacy has to be not less than 5 %. As at 31 December 2017, the Bank was in compliance with the capital adequacy requirements set in the Belarusian Law and NB RB regulations.

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Basic capital | 37,303 | 34,549 |
| Additional capital | 17,598 | 19,962 |
| Total regulatory capital | 54,901 | 54,511 |
| Risk-weighted assets | 413,966 | 374,324 |
| Regulatory capital adequacy ratio | 13.3% | 14.6% |

The following table discloses analysis of the regulatory capital of the Bank for capital adequacy purposes in accordance with the Basel agreement. The ratio is calculated without taking into account the debt impairment of EuroStepGroup (Note 4 (a)):

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Basic capital | 52,062 | 49,196 |
| Additional capital | 6,241 | 3,772 |
| Total regulatory capital | 58,303 | 52,968 |
| Risk-weighted assets | 334,063 | 373,625 |
| Regulatory capital adequacy ratio | 17.5% | 14.2% |

33. CONTINGENT LIABILITIES AND COMMITMENTS**(a) Operating lease commitments**

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

| | 2017 | 2016 |
|--|--------------|--------------|
| Less than 1 year | 2,742 | 1,496 |
| From 1 to 5 years | 2,052 | 3,073 |
| Over 5 years | 112 | - |
| Total operating lease commitments | 4,906 | 1,569 |

(b) Loan commitments

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit loss under contingent liabilities and credit commitments to extend credit, in the event of non-performance by the other party of all counterclaims and impairment of collateral and guarantees, would be equal to the contractual amounts of those instruments.

The Bank applies the same credit control and management policies in undertaking contingent liabilities as it does for financial instruments recognized in the statements of financial position.

Loan commitments of the Bank were as follows:

| | 2017 | 2016 |
|-------------------------------------|---------------|---------------|
| Liabilities on provision of funds | 23,428 | 11,785 |
| Guarantees issued | 7,223 | 26,221 |
| Letters of credit | 4,781 | 5,437 |
| Total loan commitments | 35,432 | 43,443 |
| Less provision for loan commitments | (557) | (5,681) |
| Total loan commitments | 34,875 | 37,762 |

Analysis of changes in provisions for loan commitments is as follows:

| | 2017 | 2016 |
|---|------------|--------------|
| Provision as at the beginning of the year | 5,681 | 495 |
| Creation | 8,376 | 13,109 |
| Recovery | (13,520) | (7,928) |
| Exchange differences | 20 | 5 |
| Total provision at the year end | 557 | 5,681 |

(c) Litigation

From time to time in the process of the Bank's activity customers and counterparties claim against the Bank. The Management believes that as a result of proceedings thereon the Bank will not incur significant losses and, accordingly, no provisions in the financial statements were made.

(d) Retirement payments

The Bank's employees receive pension in accordance with the law of the Republic of Belarus. As at 31 December 2017 and 31 December 2016 the Bank had no obligations for additional payments, pension medical services, insurance, pension benefits for current or former employees to be charged.

(e) Legislation

Certain provisions of Belarusian business and tax legislation may have different interpretation and may be applied inconsistently. Besides that, interpretations made by the Management may differ from official interpretations and may be disputed by controlling bodies. This may lead to additional tax payments, imposition of fines and other preventive actions. The Management's opinion is that the Bank has made all required tax and other payments. However inspections by controlling bodies may refer to preceding tax periods.

34. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table shows analysis of the financial instruments recorded in the financial statements at fair value in view of the hierarchy level of fair value sources:

Financial assets and liabilities at fair value:

| 31 December 2017 | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant un-observable inputs (Level 3) | Total |
|---|---|---|--|---------|
| Financial assets available for sale | - | 77,688 | - | 77,688 |
| 31 December 2016 | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant un-observable inputs (Level 3) | Total |
| Financial assets available for sale | - | 104,713 | - | 104,713 |
| Financial assets at fair value through profit or loss | - | 54 | - | 54 |

Financial instruments at fair value

Description of fair value of financial instruments at fair value by means of assessment procedures is given below. Bank's assessment of the assumptions which could be used by the market players when determining the instruments cost is included.

Derivatives

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

Financial instruments not recognized at fair value in the statements of financial position

A comparison of the carrying amount and fair value per class of financial instruments of the Bank using third-level fair value hierarchy is described below. The table does not include the fair value of nonfinancial assets and nonfinancial liabilities:

| | Carrying amount as at 31 December 2017 | Fair value as at 31 December 2017 | Carrying amount as at 31 December 2016 | Fair value as at 31 December 2016 |
|--|---|--|---|--|
| Financial assets | | | | |
| Cash and cash equivalents | 147,383 | 147,383 | 83,687 | 83,687 |
| Balances due from financial institutions | 20,287 | 20,287 | 6,459 | 6,459 |
| Loans to customers | 272,459 | 273,610 | 239,279 | 239,279 |
| Financial assets held to maturity | 1,949 | 2,534 | 16,588 | 16,588 |
| Financial assets available for sale | 33 | 33 | 130 | 130 |
| Other financial assets | 720 | 720 | 4,247 | 4,247 |
| Total financial assets | 442,831 | 444,567 | 350,390 | 350,390 |
| Financial liabilities | | | | |
| Balances due to financial institutions | 109,880 | 109,880 | 111,800 | 111,800 |
| Customer accounts | 366,059 | 367,572 | 308,617 | 308,617 |
| Debt securities issued | 13,547 | 13,547 | 2,975 | 2,975 |
| Preference shares | 19 | 19 | 19 | 19 |
| Other financial liabilities | 1,542 | 1,542 | 1,690 | 1,690 |
| Total financial liabilities | 491,047 | 492,560 | 425,101 | 425,101 |

The methodologies and assumptions used in determining the fair value of those financial instruments that are not reflected in the financial statements at fair value are described below.

Assets with fair value approximating their carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) and for financial assets and financial liabilities in foreign currency it is assumed that the fair value approximate their carrying amounts. This assumption is also applied to demand deposits and savings accounts without a maturity. For financial instruments with floating interest rate which changes are determined by changes in the refinancing rate of the National Bank of the Republic of Belarus it is assumed that the fair value is normally their carrying amount.

Fixed and floating rate financial instruments

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

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35. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 31 "Risk management" for Bank's contractual undiscounted repayment obligation.

| | 31 December 2017 | | | 31 December 2016 | | |
|---|------------------|--------------------|----------------|------------------|--------------------|----------------|
| | Within one year | More than one year | Total | Within one year | More than one year | Total |
| Assets | | | | | | |
| Cash and cash equivalents | 147,383 | - | 147,383 | 83,687 | - | 83,687 |
| Precious metals | 539 | - | 539 | 597 | - | 597 |
| Balances due from financial institutions | 10,164 | 10,123 | 20,287 | 6,459 | - | 6,459 |
| Financial assets at fair value through profit or loss | - | - | - | 54 | - | 54 |
| Financial assets held to maturity | - | 1,949 | 1,949 | 16,406 | 182 | 16,588 |
| Investment property | - | 6,871 | 6,871 | - | 10,001 | 10,001 |
| Property, plant and equipment and intangible assets | - | 21,950 | 21,950 | - | 15,110 | 15,110 |
| Assets held for sale | - | 1,972 | 1,972 | - | 2,115 | 2,115 |
| Deferred income tax asset | - | 1,236 | 1,236 | - | 1,090 | 1,090 |
| Loans to customers | 168,385 | 104,074 | 272,459 | 54,690 | 184,589 | 239,279 |
| Financial assets available for sale | 68,174 | 9,547 | 77,721 | 95,394 | 9,449 | 104,843 |
| Other assets | 3,348 | 603 | 3,951 | 5,996 | 100 | 6,096 |
| Total assets | 397,993 | 158,325 | 556,318 | 263,283 | 222,636 | 485,919 |
| Liabilities | | | | | | |
| Balances due to financial institutions | 13,878 | 96,002 | 109,880 | 12,479 | 99,321 | 111,800 |
| Customer accounts | 304,856 | 61,203 | 366,059 | 194,921 | 113,696 | 308,617 |
| Debt securities issued | 3,035 | 10,512 | 13,547 | - | 2,975 | 2,975 |
| Preference shares | 19 | - | 19 | 19 | - | 19 |
| Current income tax liabilities | 3,385 | - | 3,385 | - | - | - |
| Other liabilities | 2,563 | 817 | 3,380 | 8,385 | - | 8,385 |
| Total liabilities | 327,736 | 168,534 | 496,270 | 215,804 | 215,992 | 431,796 |
| Net long/ (short) financial position | 70,257 | (10,209) | 60,048 | 47,479 | 6,644 | 54,123 |

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36. RELATED PARTIES

Related parties are defined as shareholders who have significant influence over the Bank, key Management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

Amounts included in the statement of financial position on transactions with related parties were as follows:

| | 31 December 2017 | 31 December 2016 |
|-------------------|---------------------|---------------------|
| Customer accounts | 36 | 22 |
| Total | 36 | 22 |

| | 31 December 2017 | 31 December 2016 |
|---|---------------------|---------------------|
| Loans to customers | | |
| Credit payables | 174,130 | 150,627 |
| Less allowance for impairment of loans to customers | (13,994) | (9,255) |
| Total net loans to customers | 160,136 | 141,372 |

| | 31 December 2017 | 31 December 2016 |
|----------------------|---------------------|---------------------|
| Assets held for sale | 1,587 | 2,115 |
| Total | 1,587 | 2,115 |

Transactions with related parties included in the statement of comprehensive income were as follows:

| | 2017 | 2016 |
|--|--------------|--------------|
| Interest and commission income and expenses | | |
| Interest income | 3,662 | 2,055 |
| Interest expenses | 11 | - |
| Commission and fee income | 32 | 25 |
| Total | 3,705 | 2,080 |

| | 31 December 2017 | 31 December 2016 |
|----------------|---------------------|---------------------|
| Lease payments | (717) | (1,019) |
| Total | (717) | (1,019) |

| | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Remuneration to key management personnel | 1,843 | 1,847 |
| Total | 1,843 | 1,847 |

37. SUBSEQUENT EVENTS

Since the beginning of 2018, the refinancing rate has been gradually decreasing from 11%, effective at the beginning of 2017, to 10.5% since 14 February 2018. As at 23 May 2018 the Belarusian rouble increased against a basket of currencies by 2.49% compared to 31 December 2017.

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

The international rating agency Fitch Ratings in January 2018 increased the long-term issuer default ratings of Belarus in foreign and local currency to the level of "B" from "B-", the forecast is "stable".