BELGAZPROMBANK

Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2018

BELGAZPROMBANK

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Independent Auditors' Report

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

Opinion

We have audited the Financial Statements of Belorussian-Russian Belgazprombank Joint Stock (hereinafter, the "Bank"), which comprise the Balance Sheet as at 31 December 2018, the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash flows for the year then ended, and Notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter, the "IFRS").

Basis for Opinion

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Expected credit losses allowance for loans to corporate clients</th></tr>
<tr><td colspan="2">See Notes: 7 “Allowance For Expected Credit Losses”; 19 “Loans to Customers” and 37 “Risk Management Policy”.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Loans to customers represent 68% of assets and are stated net of allowance for expected credit losses (hereinafter, the “ECL”) that is estimated on a regular basis and is sensitive to assumptions used.

From 1 January 2018 the Bank has implemented a new ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas:</td><td>We analyzed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists.

To analyze the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we included in our audit procedures the following:

— we tested the design and operating effectiveness of internal controls over timely allocation of loans into credit risk stages.</td></tr>
<tr><td>— timely identification of significant increase in credit risk and default events related to loans to customers (allocation between Stages 1, 2 and 3 in accordance with the IFRS 9 Financial Instruments (hereinafter, “IFRS 9”));</td><td>— for a sample of loans estimated for ECL collectively, for which a potential change in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Bank by analyzing financial and non-financial information, as well as assumptions and professional judgments applied by the Bank.</td></tr>
<tr><td>— assessment of probability of default (PD) and loss given default (LGD);</td><td>— for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the design and implementation of the related models, and reconciled the model input data against the primary documents on a sample basis.</td></tr>
<tr><td>— assessment of add-on adjustment to account for different scenarios and forward-looking information;</td><td>— we analyzed the overall adequacy of the add-on adjustment to account for different scenarios and forward-looking information by comparison with our own estimate considering current economic situation and business environment of certain categories of borrowers.</td></tr>
<tr><td>— expected cash flows forecast for loans to customers classified in Stage 3.</td><td>— for a sample of Stage 3 loans, where ECL are assessed individually, we critically assessed assumptions used by the Bank to forecast future cash flows, including estimated proceeds from realisable collateral and their expected disposal terms based on our understanding and publicly available market information. We specifically focused on those loans to customers that potentially may have the most significant impact</td></tr>
</table>

Due to the significant volume of loans to customers, adoption of the new ECL model and the related estimation uncertainty, this area is a key audit matter.	on the financial statements. We assessed the predictive capability of the Bank's ECL calculation methodology by comparing the estimates made as at 1 January 2018 with the actual results for 2018. We also confirmed that the Financial Statements disclosures appropriately reflect the Bank's exposure to credit risk.

Adoption of IFRS 9 Financial instruments by the Bank from 1 January 2018

See Notes 5 "Adoption of IFRS 9 Financial Instruments"; 7 "Allowance for Expected Credit Losses".

The key audit matter	How the matter was addressed in our audit
The core operations of the Bank are related to transactions with financial instruments, with financial assets representing the major part of the Bank's assets. From 1 January 2018, the Bank has adopted a new accounting standard for financial instruments, IFRS 9, which provides significant changes to the classification and recognition of financial assets. Due to the adoption of new requirements, which provide significant changes to the effective accounting principles for financial instruments, and due to a significant impact of the new standard on the financial position and performance of the Bank, this area is a key audit matter.	We analysed the definition of business models used by the Bank to manage financial assets by making inquiries of responsible employees, reviewing the Bank's internal documentation and analyzing internal business processes on selected significant financial instruments portfolios. We checked the correctness of the Bank's assessment of whether contractual cash flows are solely payments of principal and interest by analyzing primary documents and contractual terms for a sample of financial instruments. We also checked whether the Bank has correctly identified and accounted for significant modifications of loans to customers by both a general analysis of the main areas of focus in the Bank's revision of loan terms and the analysis of primary documents for sampled loans to customers. We also confirmed that the Financial Statements provide an adequate disclosure of key financial instruments classification and measurement aspects as well as the effect of the adoption of IFRS 9 by the Bank.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

The engagement partner on the audit resulting in this Independent Auditors' Report is:

Irina Vereschagina
Partner
Director of KPMG LLC

12 March 2019
Minsk
The Republic of Belarus

BELGAZPROMBANK

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 Restated*
Interest income calculated using the effective interest rate method	6, 33	301,953	294,779
Other interest income	6, 33	10,246	4,280
Interest expenses	6, 33	(131,594)	(134,949)
NET INTEREST INCOME BEFORE EXPECTED CREDIT LOSSES ALLOWANCE FOR FINANCIAL ASSETS		180,605	164,110
Recovery / (creation) of expected credit losses allowance for financial assets	7, 33	33,899	(13,627)
NET INTEREST INCOME		214,504	150,483
Financial result for investment securities at FVOCI transferred to profit or loss (2017: available-for-sale investments)	33	3,122	4,701
Net foreign exchange gain	8	50,624	85,885
Net trading loss	9, 33	(21,822)	(42,859)
Fee and commission income	10, 33	62,403	47,895
Fee and commission expenses	10, 33	(15,326)	(9,121)
Net loss on operations with precious metals	11	(9,720)	(1,028)
Recovery of expected credit losses allowance for contingent liabilities	7	1,258	37
Other income	12, 33	5,228	4,732
NET NON-INTEREST INCOME		75,767	90,242
OPERATING INCOME		290,271	240,725
OPERATING EXPENSES	13, 33	(151,894)	(139,082)
PROFIT BEFORE TAX		138,377	101,643
Income tax expense	14	(34,468)	(16,899)
NET PROFIT		**103,909**	**84,744**
Basic earnings per share (BYN)	31	0.0051	0.0045

*The Bank initially applied IFRS 9 from 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
12 March 2019
Minsk

Chief Accountant
N.M. Dylevskaya
12 March 2019
Minsk

The Notes on pages 12-92 form an integral part of these Financial Statements

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Year ended 31 December 2018	Year ended 31 December 2017 Restated*
NET PROFIT	103,909	84,744
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss:		
Change in fair value of investment securities transferred to profit or loss	(3,122)	(4,701)
Creation of expected credit losses allowance for investment securities	(1,566)	-
Change in fair value of investment securities measured at FVOCI (2017: available-for-sale investments)	(1,209)	5,920
Income tax	-	1,153
TOTAL OTHER COMPREHENSIVE (LOSS) / INCOME	(5,897)	2,372
TOTAL COMPREHENSIVE INCOME	**98,012**	**87,116**

*The Bank initially applied IFRS 9 from 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
12 March 2019
Minsk

Chief Accountant
N.M. Dylevskaya
12 March 2019
Minsk

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BELGAZPROMBANK

BALANCE SHEET
AS AT 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Notes	31 December 2018	31 December 2017 Restated*
ASSETS:			
Cash and cash equivalents	15, 33	593,310	635,327
Securities carried at FVTPL	16, 33	233,686	70,748
Derivative financial instruments, assets	17, 33	4,523	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	18	75,186	76,942
Loans to customers	19, 33	3,069,654	2,681,656
Investment securities	20, 33	351,260	609,121
Including those pledged under REPO agreements	*20*	*24,001*	*24,188*
Non-current assets held for sale	21	30,588	37,042
Property, equipment and intangible assets	22	159,303	153,596
Deferred tax assets	14	4,683	4,355
Other assets	23, 33	20,245	28,835
TOTAL ASSETS		**4,542,438**	**4,297,768**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	17, 33	1,709	962
Due to banks and other financial institutions	24, 33	894,217	553,119
Customer accounts	25, 33	2,726,724	2,799,187
Debt securities issued	26	50,229	77,557
Current income tax liabilities		10,464	13,746
Other liabilities	27, 33	21,836	10,925
Subordinated loans	28, 33	158,446	351,599
Total liabilities		3,863,625	3,807,095
EQUITY:			
Share capital	30	535,944	377,140
Investment securities revaluation reserve		7,980	8,857
Retained earnings		134,889	104,676
Total capital		678,813	490,673
TOTAL LIABILITIES AND EQUITY		**4,542,438**	**4,297,768**

*The Bank initially applied IFRS 9 from 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 5).

On behalf of the Management Board:

Chairman of the Management Board	**Chief Accountant**
V.D. Babaryka	N.M. Dylevskaya
12 March 2019	12 March 2019
Minsk	Minsk

The Notes on pages 12-92 form an integral part of these Financial Statements

BELGAZPROMBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Notes	Share capital	Investment securities revaluation reserve	Retained earnings	Total equity
1 January 2017		**377,140**	**6,485**	**74,210**	**457,835**
Net profit		-	-	84,744	84,744
Other comprehensive income net of Income tax					
Investment securities revaluation reserve					
Net change in fair value		-	5,920	-	5,920
Net change in fair value of investment securities transferred to profit and loss		-	(4,701)	-	(4,701)
Tax related to other comprehensive income	14	-	1,153	-	1,153
Total other comprehensive income		-	**2,372**	-	**2,372**
Total comprehensive income for the year		-	**2,372**	**84,744**	**87,116**
Transactions with shareholders					
Dividends paid	30	-	-	(54,278)	(54,278)
Total transactions with shareholders		-	-	**(54,278)**	**(54,278)**
31 December 2017*		**377,140**	**8,857**	**104,676**	**490,673**
Effect of IFRS 9 adoption	5	**-**	**5,020**	**(13,198)**	**(8,178)**
Adjusted balance as at 1 January 2018		**377,140**	**13,877**	**91,478**	**482,495**
Net profit		-	-	103,909	103,909
Other comprehensive income net of Income tax					
Investment securities revaluation reserve					
Net change in fair value		-	(1,209)	-	(1,209)
Net change in fair value of investment securities transferred to profit and loss		-	(3,122)	-	(3,122)
Creation of expected credit losses allowance for investment securities		-	(1,566)	-	(1,566)
Total other comprehensive loss		-	**(5,897)**	-	**(5,897)**
Total comprehensive income for the year		-	**(5,897)**	**103,909**	**98,012**
Transactions with shareholders					
Dividends declared	30	-	-	(60,498)	(60,498)
Increase in share capital	30	158,804	-	-	158,804
Total transactions with shareholders		**158,804**		**(60,498)**	**98,306**
31 December 2018		**535,944**	**7,980**	**134,889**	**678,813**

*The Bank initially applied IFRS 9 from 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 2).

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
12 March 2019
Minsk

Chief Accountant
N.M. Dylevskaya
12 March 2019
Minsk

The Notes on pages 12-92 form an integral part of these Financial Statements

BELGAZPROMBANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 Restated*
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		103,909	84,744
Adjustments:			
(Recovery)/ creation of expected credit losses allowance for financial assets	7	(33,899)	13,627
Recovery of expected credit losses allowance for contingent liabilities	7	(1,258)	(37)
Net change in the fair value of derivatives		(2,814)	816
Net change in fair value of precious metals		-	(45)
Revaluation of precious metals balance sheet items	11	10,037	1,333
Net change in fair value of securities at fair value through profit and loss		6,486	1,172
Effect of assets recognition at non-market rate		304	47
Decrease in value of non-current assets held for sale		210	170
Depreciation and amortization	13, 22	16,891	16,492
Loss from sale of property, equipment and non-current assets held for sale	13	581	30
Net change in salary payable to employees		473	142
Net interest income	6	(180,605)	(164,110)
Net change in accruals of fee and commission income and penalties		(447)	(1,435)
Profit from disposal of investment securities	12	(3,122)	(4,701)
Income tax expense	14	34,468	16,899
Foreign exchange differences, net	8	(53,763)	(74,818)
Cash flows from operating activities before changes in operating assets and liabilities		(102,549)	(109,674)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum mandatory reserve deposit with the National Bank of the Republic of Belarus		(2,986)	(18,921)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions		8,277	(45,825)
Securities at fair value through profit or loss		(95,864)	(68,311)
Derivative financial instruments		(816)	1,005
Loans to customers		(281,738)	(624,209)
Other assets		6,535	(1,963)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		82,181	(47,999)
Customer accounts		(172,381)	1,094,741
Other liabilities		10,553	117
Interest received		320,836	293,952
Interest paid		(133,839)	(136,012)
Income tax paid		(35,321)	(12,686)
Net cash (outflow)/inflow from operating activities		(397,112)	324,215

BELGAZPROMBANK

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017 Restated*
CASH FLOW FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment and intangible assets		(22,113)	(21,490)
Proceeds from sale of property, equipment and non-current assets held for sale, other property		8,080	6,892
Purchase of investment securities		(532,524)	(1,535,308)
Proceeds from sale and repayment of investment securities		741,789	1,705,314
Net cash flows from investing activities		195,232	155,408
CASH FLOWS FROM FINANCING ACTIVITIES:			
Syndicated loans raised		275,573	-
Proceeds from issue of debt securities		488,436	157,041
Repayment of debt securities issued		(524,381)	(155,246)
Repayment of loans received from international financial institutions		(34,393)	(80,438)
Dividends paid	30	(60,498)	(54,278)
Net cash inflow/(outflow) from financing activities	29	144,737	(132,921)
NET CHANGE IN CASH AND CASH EQUIVALENTS		(57,143)	346,702
Effect of changes in foreign exchange rates on cash and cash equivalents		15,126	13,674
CASH AND CASH EQUIVALENTS, beginning of the year	15	635,327	274,951
CASH AND CASH EQUIVALENTS, end of the year	15	593,310	635,327

*The Bank initially applied IFRS 9 from 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 5). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 2).

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
12 March 2019
Minsk

Chief Accountant
N.M. Dylevskaya
12 March 2019
Minsk

The Notes on pages 12-92 form an integral part of these Financial Statements

(in thousands of Belarusian Roubles, unless otherwise indicated)

1. ORGANIZATION

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

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

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

As at 31 December 2018 and 2017, the structure of the Bank’s share capital was as follows:

Shareholders	**% 31 December 2018**	**% 31 December 2017**
PJSC “Gazprom” (Russian Federation)	49.82	49.66
Gazprombank (Joint-stock Company) (the Russian Federation)	49.82	49.66
OJSC “Gazprom transgaz Belarus” (the Republic of Belarus)	0.26	0. 50
State Committee on Property of the Republic of Belarus	0.10	0.18
Other	less than 0.01	less than 0.01
Total	**100.00**	**100.00**

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

In 2014, the Office of Foreign Assets Control of the U.S. Department of the Treasury (hereinafter, the “OFAC”) and the Council of the European Union (hereinafter, the “EU”) introduced sectoral sanctions against some entities of the Russian Federation including Gazprombank (Joint-stock Company) and PJSC “Gazprom”.

Belgazprombank is not subject to any sanctions limiting financial transactions that were imposed on Gazprombank (Joint-stock Company) since the share of Gazprombank (Joint-stock Company) in the Bank is currently less than 50% (49.82%).

At the same time, limitations on the extraction of mineral resources in hard-to-reach locations imposed on PJSC “Gazprom”, notwithstanding the fact that Gazprom share in the Bank amounts to 50.08% (taking into account the 100% share of PJSC “Gazprom” in OJSC “Gazprom transgaz Belarus”), do not extend to the Bank’s operations, since those are not related to the extraction of mineral resources in hard-to-reach locations.

The absence of grounds for the limitations provided for by the sectoral sanctions of OFAC when conducting transactions with the Bank is confirmed in an official OFAC statement received by the Bank and in an external legal opinion issued in the form of a memorandum by an international legal advisor.

These Financial Statements were authorized for issue by the Chairman of the Management Board and the Chief Accountant of the Bank on 12 March 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Financial Statements were prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”).

Other basis of presentation criteria

These Financial Statements were prepared under the assumption that the Bank is a going concern and will continue to operate for the foreseeable future. The Management and Shareholders intend to further develop the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on the historical experience that short-term obligations will be refinanced in the normal course of business.

These Financial Statements are presented in thousands of Belarusian Roubles (“BYN thousand”), unless otherwise indicated.

These Financial Statements were prepared on a historical cost basis, except for certain non-cash items that originated before 31 December 2014, which were recognized in accordance with the International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29), and certain assets that are recognized at revalued value or fair value as at each reporting date as indicated below.

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

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

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

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

Changes in accounting policies and presentation

The Precious metals item amounting to BYN 634 thousand is presented within Other assets in the Balance Sheet as at 31 December 2017 (Note 23).

The Bank initially applied IFRS 9 and IFRS 15 from 1 January 2018. Due to the transition methods chosen by the Bank in applying IFRS 9, comparative information throughout these Financial Statements has not generally been restated to reflect its requirements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* (hereinafter, "IFRS 9"). IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement (hereinafter, "IAS 39").

In October 2017, the IASB issued Prepayment Features with Negative Compensation (Amendments to IFRS 9). The amendments are effective for annual periods beginning on or after 1 January 2019, with early adoption permitted.

The Bank adopted IFRS 9 that was issued in July 2014 on 1 January 2018 without the early application of 2017 amendments. IFRS 9 requirements significantly differ from those of IAS 39. The new standard introduces fundamental changes to financial assets accounting and certain features of financial liabilities accounting.

Below is information about key changes of the Bank's accounting policy due to the application of IFRS 9.

Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

According to IFRS 9, the classification of financial assets is mainly determined on the basis of the business model in which a financial asset is managed, and contractual cash flows of the asset. The standard eliminates the existing IAS 39 financial asset categories of: held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 5.

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

For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 5.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts and does not apply to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment measurement requirements of IFRS 9, see Note 37.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 as at 1 January 2018 are recognized in retained earnings and reserves. Accordingly, the information presented as at and for the year ended 31 December 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented as at and for the year ended 31 December 2018 under IFRS 9.

The determination of the business model within which a financial asset is held was performed based on facts and circumstances that existed at the date of initial application.

If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Presentation of comparative information

As a result of adoption of IFRS 9 the Bank changed presentation of certain captions in the primary forms of Financial Statements. The presentation of comparative information has also been changed accordingly to conform to the presentation in the current period (Note 5).

The effect of main changes on the presentation of information in the balance sheet as at 31 December 2017 is as follows:
- “Available-for-sale financial assets” were presented within “Investment securities” line item.
- “Assets held for trading” were presented within the “Securities carried at FVTPL” line item.

The Bank used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present ‘interest income calculated using the effective interest rate’ as a separate line item in the income statement and statement of comprehensive income, the Bank has reclassified comparative interest income on non-derivative debt financial assets measured at FVTPL and net investments in finance leases from ‘interest income’ to ‘other interest income’ and changed the description of the line item from ‘interest income’ to ‘interest income calculated using the effective interest method’.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank’s fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

Significant accounting policies are presented below. The Bank has consistently applied the following accounting policies, except as described above.

Recognition of interest income and expense starting from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- gross carrying amount of the asset; or
- amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The effective interest rate calculation includes transaction costs as well as fees and charges paid or received that form an integral part of the effective interest rate. Transaction costs include additional expenses directly attributable to the acquisition or issue of the financial asset or liability.

Amortized cost and gross carrying amount

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

Gross carrying amount of a financial asset measured at amortized cost is the amortized cost of the financial asset before adjustment for the amount of loss allowance.

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. When calculating interest income and expenses the effective interest rate is applied to the amount of the asset gross carrying amount (when the asset is not credit-impaired) or amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that became credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If a financial asset is no longer credit-impaired, interest income is calculated based on gross carrying amount.

For financial assets that were credit-impaired at initial recognition interest income is calculated through applying the effective interest rate adjusted for credit risk to the amount of the financial asset amortized cost. For such assets interest income is not calculated based on gross carrying amount even if the related credit risk subsequently decreases.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss includes:

- interest income on financial assets measured at amortized cost;
- interest on debt instruments measured at FVOCI;

Other interest income presented in the income statement includes interest income on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

Interest expense presented in the income statement includes:

- Interest expenses on financial liabilities measured at amortized cost.

Recognition of interest income and expenses before 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and amounts paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the income statement includes:

- interest income on financial assets measured at amortized cost;
- interest income on available-for-sale debt financial instruments;
- interest on non-derivative debt financial instruments measured at FVTPL and net investments in finance leases.

Interest expense presented in the income statement includes:

- interest expenses on financial liabilities measured at amortized cost.

Recognition of income under REPO and reverse REPO agreements

In the normal course of business the Bank enters into sale and repurchase agreements ("repos") as well as purchase and sale back agreements of financial assets ("reverse repos").

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

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

Recognition of fee and commission income

Loan maintenance fees, together with the related direct costs, are recognized as an adjustment to the effective interest rate of the loan. Loan servicing fees that are not part of the effective interest rate are recognized as the services are provided.

A contract with a customer that results in a recognised financial instrument in the Bank's Financial Statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Recognition of dividend income

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

Recognition of lease income

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

Recognition of trading income and expenses

Trading income and expenses are recognized in profit or loss as trading transactions are performed.

Financial assets and liabilities

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

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

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

Financial assets classification starting from 1 January 2018

Upon initial recognition, financial assets are classified as measured at amortized cost or fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL).
A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

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

For debt financial instruments measured at FVOCI gains and losses are recognized in other comprehensive income except for the following items that are recognized in profit or loss in the same manner as for financial assets at amortized cost:

- interest income calculated using the effective interest rate method;
- expected credit losses and recovered impairment losses; and
- gains or losses from changes in exchange rates.

On derecognition of a debt financial asset measured at FVOCI accumulated profit or loss that were previously recognized in other comprehensive income are reclassified from equity into profit or loss.

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

For such equity instruments gains and losses are never reclassified into profit or loss and no impairment is recognized in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the initial cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as at FVTPL.
In addition, on initial recognition the Bank may irrevocably designate a financial asset that meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise (Note 5) arise.

Business model assessment

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

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

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

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

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

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

In making the assessment, the Bank considers:

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

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the National Bank. The borrowers have an option to either accept the revised rate or redeem the loan at par without significant penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that interest represents consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Thus, the Bank treats these loans as essentially those with a variable interest rate.

Financial assets classification before 1 January 2018

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

Cash and cash equivalents

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

Mandatory reserve deposit with the National Bank

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

Repurchase and reverse repurchase agreements

Repos and reverse repos are utilized by the Bank as an element of its liquidity management.

These transactions are accounted for as financing transactions. Financial assets sold under repo are retained in the Financial Statements and consideration received under these agreements is recorded as a collateralized deposit.

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

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

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

Financial assets measured at fair value through profit and loss

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

A financial asset is classified as held for trading if:

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

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

Derivative financial instruments

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

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

Investment securities starting from 1 January 2018

Investment securities are debt investment securities measured at FVOCI and equity investments.

The fair value of investment securities denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange translation differences for equity instruments are recognized in other comprehensive income.

Investment securities before 1 January 2018

Investment securities as at 31 December 2017 include available-for-sale financial assets recognized at fair value and represented by those non-derivative financial assets that are designated as available-for-sale on initial recognition or not classified as (a) loans and receivables, (b) held-to-maturity financial investments, (c) financial assets carried at FVTPL.

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

Loans to customers after 1 January 2018

Loans to customers include:

- loans to customers measured at amortized cost (Note 19). They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method; and
- finance lease receivables (Note 19).

Loans to customers before 1 January 2018

Loans to customers are non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans to customers include:

- those classified as loans and receivables;
- finance lease receivables.

Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method. When the Bank chooses to designate the loans to customers as measured at FVTPL, fair value changes are recognised immediately in profit or loss.

Loans to customers also include finance lease receivables in which the Bank is the lessor (Note 19).

Financial assets impairment after 1 January 2018

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- net investments in finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs.

The Bank's approach to financial assets impairment, significant increase of credit risk and the definition of default is disclosed in Note 37.

Measurement of ECLs

ECLs are a default probability-weighted estimate of credit losses. They are measured as follows:

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

The expected credit losses model applied by the Bank is disclosed in Note 37.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised, and ECL are measured as follows:

- if the expected restructuring does not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- if the expected restructuring results in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI, and net investments in finance leases are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The list of impairment events applied by the Bank when analyzing borrowers is presented in Note 37.

A loan the terms of which were renegotiated due to an adverse change of the borrower's financial condition is usually considered credit-impaired if there is no evidence that the risk of not receiving contractual cash flows has decreased significantly and there are no other indicators of impairment. Additionally, credit-impaired loans include retail loans overdue by more than 90 days.

Purchased or originated credit-impaired assets (POCI assets)

POCI assets are assets that are credit-impaired on initial recognition.

POCI assets include the following assets of the Bank:

– new financial assets provided by the Bank as part of a credit-impaired asset restructuring (replacement of a credit-impaired assets with another asset having a similar credit risk grade);

– assets that originated upon derecognition of a financial asset due to a significant modification of contractual terms as part of credit-impaired financial assets restructuring;

– acquired credit-impaired financial assets.

Impairment allowance is not created for POCI assets upon their initial recognition. Instead, the amount of lifetime expected credit losses is included into the effective interest rate calculation (hereinafter, the "EIR").

To calculate the EIR for acquired or originated credit-impaired financial assets expected cash flows are used taking into account the initial estimate of lifetime expected credit losses. The calculated amount of contractual cash flows of an asset is decreased by the amount of lifetime expected credit losses.

The resulting EIR is called credit risk adjusted EIR. Upon initial recognition of POCI assets (generally, these are originated assets) the fair value of such loans is determined based on the cash flows that are expected to be received by the Bank as a result of selling collateral and/or receiving cash flows.

Subsequently, expected credit losses for POCI assets are always measured at an amount equal to the lifetime expected credit losses. The amount of expected credit losses for such assets is equal to the amount of changes in the amount of the lifetime expected credit losses since initial recognition of the respective asset.

The amount of positive changes in the lifetime expected credit losses is recognized as impairment gains even if the amount of such changes exceeds the amount, if any, that was previously recognized within profit or loss as impairment loss.

Interest on POCI assets is charged to the amortized cost using the credit-adjusted EIR determined upon the initial recognition of the asset.

Presentation of allowance for expected credit losses in the balance sheet

The amount of expected credit losses allowance is presented in the balance sheet as follows:

- *financial assets measured at amortized cost*: as a decrease of the gross carrying amount of such assets;
- *loan commitments and financial guarantee agreements:* generally, as a provision;
- *where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component:* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVOCI:* no loss allowance is recognised in the balance sheet because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Financial assets impairment before 1 January 2018

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments;
- default or delinquency in interest or principal payments;
- high probability of bankruptcy or other financial reorganization of the borrower;
- disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

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

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. If the financial instrument is not derecognized, once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-offs after 1 January 2018

Loans and investment securities are written off (partially or in full) when they are reasonably deemed to be uncollectible partially or in full. Usually this is the case when the Bank determines that the borrower has no assets or income source that could generate cash flows sufficient to repay outstanding amounts subject to a write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "Impairment allowance for interest-bearing assets" in the income statement.

Financial assets that are written off could still be subject to enforcement activities of the Bank in order to comply with the Bank's procedures for recovery of amounts due.

Write-offs before 1 January 2018

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

Reclassification of financial assets and liabilities after 1 January 2018

Classification of financial assets after initial recognition does not change, except for in the period following the period when the Bank changes its business model with regard to financial assets management.

Financial liabilities are not reclassified subsequent to their initial recognition.

Reclassification of financial assets and liabilities before 1 January 2018

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost. Reclassification is performed at the election of management, and is determined on an instrument by instrument basis.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial assets after 1 January 2018

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.
From 1 January 2018 any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated by the Bank as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Derecognition of financial assets before 1 January 2018

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

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

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

Modification of financial assets and financial liabilities after 1 January 2018

Financial assets

If the terms of a financial asset are modified, the Bank assesses whether cash flows related to such modified asset significantly differ. If cash flows differ significantly (significant modification) the rights for contractual cash flows related to the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the refinancing rate of the National Bank, if the loan agreement entitles the Bank to do so.

The Bank performs quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows related to the original financial asset differ significantly from the modified or new financial asset.

The Bank performs quantitative and qualitative assessment of whether the modification is substantial, analyzes qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors.

If cash flows differ significantly, the rights for contractual cash flows related to the original financial asset are deemed to have expired. Similarly, in performing this assessment the Bank acts in line with the requirements with regard to the derecognition of financial liabilities.

The Bank concludes that a modification is significant based on the following qualitative factors:
- change of the financial asset currency;
- change of the collateral type or other enhancements of the asset;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place.

This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such modification is caused by a financial distress of the borrower, the related profit or loss is presented in impairment losses. In other cases the related profit or loss is presented in interest income calculated using the effective interest rate method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank performs quantitative and qualitative assessment of whether modification is material analyzing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. The Bank concludes that a modification is significant based on the following qualitative factors:
- change of the financial liability currency;
- change of the collateral type or other enhancements of the liability;
- addition of a conversion feature;

- change of the financial liability subordination.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Modification of financial assets and financial liabilities before 1 January 2018

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified asset or liability are substantially different. In this case, a new financial asset or liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial asset or liability extinguished and the new financial asset or liability with modified terms is recognised in profit or loss. For financial liabilities consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of the financial asset or liability does not result in derecognition, any costs and fees incurred are recognised as an adjustment to the carrying amount of the asset or liability and amortized over the remaining term of the modified financial asset or liability by re-computing the effective interest rate on the instrument.

Financial liabilities and equity instruments issued

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

Financial liabilities, including due to banks and customer accounts, debt securities issued, other borrowings and other liabilities, are initially measured at fair value, net of transaction costs.
Financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

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

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank performs trading transactions with derivatives to hedge its risks, these transactions do not meet the hedging transactions accounting criteria.

Leases

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

The Bank as the lessor

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

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

The Bank as lessee

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

Precious metals

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

Property and equipment

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

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

	Average annual depreciation rate
Buildings and constructions	2%
Computer equipment, furniture and other equipment	18%
Vehicles	14%

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

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

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

Intangible assets

Intangible assets acquired separately

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

	Average annual depreciation rate
Intangible assets	27%

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

Impairment of tangible and intangible assets

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

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

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

Taxation

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

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other reporting periods and does not include items that are never taxable or deductible. Current income tax liability is calculated using tax rates that have been enacted by the end of the reporting period.

Deferred income tax

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

Deferred tax is not recognized for the following temporary differences:

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

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

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

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

Current and deferred income tax for the year

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

Operating taxes

In the Republic of Belarus, where the Bank operates, there are also various other tax requirements applied to the Bank’s activities, other than income tax. These taxes are included as a component of operating expenses in the statement of profit or loss.

Provisions for future expenses

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

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

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

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

Contingencies

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

Financial guarantee contracts and loan commitments after 1 January 2018

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value, with their initial fair value being amortized over the life of such guarantee or commitment. Subsequently, they are measured at the higher of the amortized amount initially recognized and the loss allowance amount.

The Bank has no loan commitments measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance according to the approach described in Note 37. Liabilities arising from financial guarantees and loan commitments are included within the Other liabilities line item.

Financial guarantee contracts before 1 January 2018

A financial guarantee liability is recognized initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amounts: amount initially recognized, net of cumulative depreciation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognized when losses are considered probable and can be measured reliably.

Functional currency

The functional currency of these Financial Statements is the national currency of the Republic of Belarus – Belarusian Rouble.

Foreign currency

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

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

	31 December 2018	31 December 2017
USD/BYN	2.1598	1.9727
EUR/BYN	2.4734	2.3553
100 RUB/BYN	3.1128	3.4279

Collateral

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

Non-current assets held for sale

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

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

Operating segments

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

3. SIGNIFICANT ASSUMPTIONS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

Use of estimates and judgments

In preparing these Financial Statements, the Management has made a professional judgement, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results could differ from those estimates.

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

Judgments

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements is included in this and other notes:

Applicable to 2018 only:

- classification of financial assets: assessment of the business model in which a financial asset is held and assessment of whether the contractual terms of a financial asset include solely payments of principal and interest.
- information on establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL is presented in Note 37.

Applicable to 2018 and 2017:

- to determine Levels of fair value hierarchy the Bank uses judgment with regard to the definition of an active market. The description of measurement methods and key input data for financial instruments carried at fair value is presented in Note 35.
- to purpose of presentation in the cash flow statement, short-term loans from international financial organizations relate to operational activities, long-term loans refer to financial activities.

Assumptions and estimation uncertainty.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 includes:

Impairment of financial instruments

Applicable to 2018 only:

- the following assumptions regarding the impairment of financial instruments are presented in Note 37: assessing whether the credit risk of an asset has increased significantly since initial recognition; and incorporating forward-looking information into the measurement of ECLs.

Applicable to 2017 only:

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

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

Estimates of fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. When measuring the fair value of an asset or liability the Bank considers characteristics of the asset or liability if the market participants would take those characteristics into account to price the asset or liability as at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 of the fair value hierarchy (Note 35). The levels reflect the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

Measurement of fair value of financial derivatives

Derivative financial instruments represented by forwards do not have an active market and are measured using the interest rates parity model. Interest rates on financial instruments denominated in the same currency and with relevant maturity period are used as such rates.

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

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

4. NEW STANDARDS AND INTEPRETATIONS NOT YET EFFECTIVE

The Bank has yet to adopt the following new and revised standards, amendments and interpretations issued and not yet effective.

Standards and Interpretations	**Effective for annual period beginning on or after**
IFRS 16 Leases	1 January 2019
Amendments to IFRS 9 Prepayment Features with Negative Compensation.	1 January 2019
Clarification to IFRIC 23: Uncertainty over Income Tax Treatments	1 January 2019

The Bank plans to adopt these pronouncements when they become effective.

IFRS 16 Leases

IFRS 16 Leases (hereinafter, “IFRS 16”) introduces a single, on-balance sheet lease accounting model for lessees.

According to this model, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including 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*.

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

The Bank has started initial assessment of the potential impact on its Financial Statements resulting from the application of IFRS 16. So far, the most significant impact identified is that the Bank will recognize assets and liabilities under its operating leases of premises, parking spaces and optical fiber networks. In addition, the nature of expenses related to those leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Bank has not yet decided whether it will apply practical expedients and recognition exemption.

As a lessee, the Bank can apply the standard using either:

- a retrospective approach; or
- a modified retrospective approach with optional practical expedients.

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

As a lessor, the Bank is not required to make any adjustments for leases while transforming to IFRS 16 in which it is a lessor except where it is an intermediate lessor in a sub-lease.

Although the Bank has not yet completed its quantitative assessment of the impact of IFRS 16 application on its assets and liabilities, the Bank does not expect any significant impact on its Financial Statements with regard to leases.The qualitative effect will depend on, inter alia, the transition method chosen, the extent to which the Bank uses the practical expedients and recognition exemptions, and any additional leases that the Bank enters into.

5. TRANSITION TO IFRS 9

Classification of financial assets and liabilities as at the date of the initial application of IFRS 9.

The following table shows original measurement categories under IAS 39 and new measurement categories under IFRS 9 for financial assets and liabilities of the Bank as at 1 January 2018:

1 January 2018		IAS 39		IFRS 9	
	Note	**Classification category**	**Carrying amount**	**Classification category**	**Carrying amount**
Financial assets					
Cash and cash equivalents	15	loans and receivables	635,327	measured at amortized cost	635,327
Securities at fair value through profit or loss	16	financial assets carried at FVTPL	70,748	measured at FVTPL	70,748
Securities carried at FVTPL (description 1)		available-for-sale financial assets	62,910	measured at FVTPL	62,910
Derivative financial instruments, assets	17	financial assets carried at FVTPL	146	measured at FVTPL	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	18	loans and receivables	76,942	measured at amortized cost	76,942
Loans to customers	19	loans and receivables	2,681,656	measured at amortized cost	2,678,982
Investment securities – debt (description 2)	20	available-for-sale financial assets	545,600	measured at fair value through other comprehensive income (FVOCI)	545,600
Investment securities – equity (description 3)	20	available-for-sale financial assets (other unquoted equity instruments)	611	measured at fair value through other comprehensive income (FVOCI)	611
Other financial assets	23	loans and receivables	15,862	measured at amortized cost	10,452
Total financial assets			**4,089,802**		**4,081,718**
Financial liabilities					
Derivative financial instruments, liabilities	17	Financial liabilities carried at FVTPL	962	measured at FVTPL	962
Due to banks and other financial institutions	24	measured at amortized cost	553,119	measured at amortized cost	553,119
Customer accounts	25	measured at amortized cost	2,799,187	measured at amortized cost	2,799,187
Debt securities issued	26	measured at amortized cost	77,557	measured at amortized cost	77,557
Other financial liabilities (other than guarantee provisions and other contingent liabilities)	27	measured at amortized cost	4,277	measured at amortized cost	4,277
Subordinated loans	28	measured at amortized cost	351,599	measured at amortized cost	351,599
Total financial liabilities			**3,786,701**		**3,786,701**

1 January 2018		IAS 39		IFRS 9	
	Note	Classification category	Carrying amount	Classification category	Carrying amount
Guarantee provisions and other contingent liabilities					
Guarantee provisions and other contingent liabilities	27	Not applicable	649	Not applicable	3,429
Total guarantee provisions and other contingent liabilities			**649**		**3,429**

The Bank's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 2. The application of these policies resulted in the reclassifications set out in the table above and explained below.

Description 1

The non-trading debt securities indicated are held by the Bank with an objective of realising cash flows through sale. The Bank primarily focuses on fair value information and uses that information to assess the portfolio performance and to make decisions. These assets are therefore measured at FVTPL under IFRS 9.

Description 2

The indicated debt securities are held by the Bank to meet everyday liquidity needs. The Bank seeks to minimise the costs of managing those liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Bank considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Description 3

Certain equity investments held by the Bank for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable.

The following table shows the reconciliation of carrying value amounts under IAS 39 with those under IFRS 9 upon transition to the new standard on 1 January 2018.

	IAS 39 carrying amount 31 December 2017	Reclassifi-cation	Remeasure-ment	IFRS 9 carrying amount 1 January 2018
Financial assets				
Amortized cost				
Loans to customers				
Opening balance	2,681,656			
Remeasurement			(2,674)	
Closing balance				2,678,982
Other financial assets				
Opening balance	15,862			
Remeasurement			(5,410)	
Closing balance				10,452
Total at amortized cost	**2,697,518**	-	**(8,084)**	**2,689,434**

	IAS 39 carrying amount 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 January 2018
Available-for-sale investments				
Opening balance	609,121			
To FVTPL		(62,910)		
To FVOCI		(546,211)		
Closing balance				
Total available-for-sale Investments	**609,121**	**(609,121)**	**-**	**-**
FVOCI				
Securities carried at FVOCI				
Opening balance				
From available-for sale		546,211		546,211
Closing balance		**546,211**		**546,211**
Total at FVOCI	**-**	**546,211**	**-**	**546,211**
FVTPL				
Securities at fair value through profit or loss				
Opening balance	70,748			
From available-for sale		62,910		
Closing balance				133,658
Total at FVTPL	**70,748**	**62,910**	**-**	**133,658**
Financial liabilities				
Other liabilities				
Guarantee provisions and other contingent liabilities				
Opening balance	649			
Remeasurement			2,780	
Closing balance				3,429
Guarantee provisions and other contingent liabilities	**649**	**-**	**2,780**	**3,429**

The following table shows the effect of transition to IFRS on retained earnings, investment securities revaluation reserve as at 1 January 2018:

	Retained earnings	Investment securities revaluation reserve	Total
Opening balance under IAS 39 as at 31 December 2017	**104,676**	**8,857**	**113,533**
Effect on the Bank's equity items	**(13,198)**	**5,020**	**(8,178)**
Change in measurement of Financial instruments and recognition of Expected credit losses under IFRS 9			
Loans to customers	**(2,674)**	**-**	**(2,674)**
Change in measurement of assets (before allowance)	(590)	-	(590)
Change in measurement of expected credit losses	(2,084)		(2,084)
Other assets	**(5,410)**	**-**	**(5,410)**
Change in measurement of expected credit losses	(5,410)	-	(5,410)

	Retained earnings	Investment securities revaluation reserve	Total
Other liabilities	**(2,819)**	**-**	**(2,819)**
Change in measurement of expected credit losses on contingent liabilities	(2,780)	-	(2,780)
Change in measurement of the premium recognized as a result of a decrease in allowance for specific contingent liabilities	(39)	-	(39)
Effect of deferred tax recognition	**2,693**	**32**	**2,725**
Investment securities (effect on retained earnings and equity)	**(4,988)**	**4,988**	**-**
Write-off of available-for-sale securities revaluation reserve (IAS 39) due to reclassification into the FVTPL category (IFRS 9).	128	(128)	-
Expected credit losses on investment securities (FVOCI)	(5,116)	5,116	-
Opening balance under IFRS 9 as at 1 January 2018	**91,478**	**13,877**	**105,355**

6. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income:		
Interest income calculated using the effective interest rate method:		
Interest on loans to customers	273,917	240,346
Interest on investment securities	20,254	49,082
Interest on due from banks and other financial institutions	6,325	4,284
Interest income on REPO transactions	1,071	588
Other interest income	386	479
Total interest income calculated using the effective interest rate method	301,953	294,779
Other interest income:		
Interest on securities at fair value through profit or loss	9,654	3,532
Interest income on finance lease receivables	592	748
Total other interest income	10,246	4,280
Total interest income	**312,199**	**299,059**

Interest expenses:	Year ended 31 December 2018	Year ended 31 December 2017
Interest expense on financial instruments recorded at amortized cost:		
Customer accounts	63,904	71,766
Interest on due to banks and other financial institutions, loans from the National Bank of the Republic of Belarus	36,566	29,806
Interest on subordinated loans	22,046	26,179
Interest on debt securities issued	7,176	5,731
Interest income on REPO transactions	1,475	1,146
Other interest expense	427	321
Total interest expense on financial liabilities recorded at amortized cost	**131,594**	**134,949**
Net interest income before expected credit losses allowance for financial assets	**180,605**	**164,110**

7. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The movements in allowance for financial assets, financial guarantees and other contingent liabilities under IAS 39 for 2017 are as follows:

	Loans to customers	Other assets	Guarantees and other contingencies	Total
31 December 2016	**119,033**	**2,128**	**686**	**121,847**
Charge/(reversal) of allowance	13,584	43	(37)	13,590
Repayment against previously created allowance	13,895	-	-	13,895
Write-off of assets	(31,265)	-	-	(31,265)
31 December 2017	**115,247**	**2,171**	**649**	**118,067**

The movements in expected credit losses allowance for financial assets, financial guarantees and other contingent liabilities under IFRS 9 for 2018 are as follows:

	Investment securities	Loans to customers	Other assets	Guarantees and other contingencies	Total
31 December 2017	**-**	**115,247**	**2,171**	**649**	**118,067**
Effect of IFRS adoption with regard to change in measurement (Note 5)	5,116	2,084	5,410	2,780	15,390
Unwinding of discount related to the open balance	-	15,797	-	-	15,797
1 January 2018	**5,116**	**133,128**	**7,581**	**3,429**	**149,254**

	Investment securities	Loans to customers	Other assets	Guarantees and other contingencies	Total
(Recovery)/charge of allowance	1,566	(34,310)	(1,155)	(1,258)	(35,157)
Repayment against previously created allowance	-	10,505	-	-	10,505
Write-off of assets	-	(12,155)	-	-	(12,155)
Unwinding of discount	-	3,631	-	-	3,631
31 December 2018	**6,682**	**100,799**	**6,426**	**2,171**	**116,078**

Below are the movements in allowance for financial assets, financial guarantees and other contingent liabilities with a breakdown by the expected credit losses measurement stages under IFRS 9 for 2018:

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	Total
Investment securities measured at FVOCI				
As at 31 December 2017 (under IAS 39)				**-**
Effect of IFRS adoption with regard to change in measurement (Note 5)				5,116
As at 1 January 2018 (under IFRS 9)	**5,116**	**-**	**-**	**5,116**
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL, but not credit-impaired	-	-	-	-
Transfer to lifetime ECL, credit-impaired	-	-	-	-
New financial assets originated or purchased	3,418	-	-	3,418
Financial assets that have been derecognised*	(2,775)	-	-	(2,775)
Net change in loss allowance	923	-	-	923
Total as at 31 December 2018	**6,682**	**-**	**-**	**6,682**
Loans to customers				
As at 31 December 2017 (under IAS 39)				**115,247**
Effect of IFRS adoption with regard to change in measurement (Note 5)				2,084
Unwinding of discount related to the open balance			15,797	15,797
As at 1 January 2018 (under IFRS 9)	**28,411**	**15,891**	**88,826**	**133,128**
Transfer to 12-month ECL	8,809	(8,807)	(2)	-
Transfer to lifetime ECL, but not credit-impaired	(7,093)	7,112	(19)	-
Transfer to lifetime ECL, credit-impaired	(1,978)	(1,685)	3,663	-
New financial assets originated or purchased	10,576	-	-	10,576
Financial assets that have been derecognised*	(9,250)	(3,607)	(2,760)	(15,617)
Write-off of financial assets against allowance created	-	-	(12,155)	(12,155)
Amount of income related to debt previously written-off	-	-	10,505	10,505
Unwinding of discount	-	-	3,631	3,631
Net change in loss allowance	(16,748)	(3,565)	(8,956)	(29,269)
Total as at 31 December 2018	**12,727**	**5,339**	**82,733**	**100,799**
Other financial assets				
As at 31 December 2017 (under IAS 39)				**2,171**
Effect of IFRS adoption with regard to change in measurement (Note 5)				5,410
As at 1 January 2018 (under IFRS 9)	**133**	**143**	**7,305**	**7,581**
Net change in loss allowance	29	30	(1,214)	(1,155)
Total as at 31 December 2018	**162**	**173**	**6,091**	**6,426**

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	Total
Contingent liabilities				
As at 31 December 2017 (under IAS 39)				**649**
Effect of IFRS adoption with regard to change in measurement (Note 5)				2,780
As at 1 January 2018 (under IFRS 9)	**3,138**	**257**	**34**	**3,429**
Transfer to 12-month ECL	44	(44)	-	-
Transfer to lifetime ECL, but not credit-impaired	(25)	25	-	-
Transfer to lifetime ECL, credit-impaired	(5)	(1)	6	-
New financial assets originated or purchased	1,589	-	-	1,589
Financial assets that have been derecognised*	(1,449)	(212)	(34)	(1,695)
Net change in loss allowance	(1,144)	(2)	(6)	(1,152)
Total as at 31 December 2018	**2,148**	**23**	**-**	**2,171**

**Including repayment effect (early repayment)*

Allowances for loans to customers (Note 19) and other financial assets (Note 23) are deducted from the respective assets. Allowance for financial guarantees and other contingencies are recognized within other liabilities (Note 27). Allowances for investment securities do not decrease the value of assets and are recorded in other comprehensive income (Note 20).

8. NET FOREIGN EXCHANGE GAIN

Net foreign exchange gain comprises:

	Year ended 31 December 2018	Year ended 31 December 2017
Foreign exchange differences, net	53,763	74,818
Trading operations, net	(3,139)	11,067
Total net foreign exchange gain	**50,624**	**85,885**

9. NET TRADING LOSS

Net trading loss is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Net loss on securities at fair value through profit or loss	(7,141)	(1,172)
Net loss on derivative financial instruments	(14,681)	(41,687)
Total trading loss	**(21,822)**	**(42,859)**

10. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income:		
Bank payment card operations	30,887	18,345
Settlement and cash operations with clients	28,758	26,264
Documentary operations	1,209	1,589
Foreign currency operations	662	960
Other	887	737
Total fee and commission income	**62,403**	**47,895**
Fee and commission expenses:		
Bank payment card operations	9,359	4,589
Legal support of banking operations	2,779	2,045
Maintenance of bank accounts	1,673	996
Foreign currency operations	485	374
Securities operations	370	384
Payments accepted for the bank	328	236
Documentary operations	117	293
Other	215	204
Total fee and commission expenses	**15,326**	**9,121**

11. NET LOSS ON OPERATIONS WITH PRECIOUS METALS

Net gain on operations with precious metals comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Financial result from operations with precious metals	317	305
Revaluation of precious metals balance sheet items	(10,037)	(1,333)
Total net loss on operations with precious metals	**(9,720)**	**(1,028)**

12. OTHER INCOME

Other income comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Fines and penalties	2,247	1,581
Considerations from payment service providers	1,005	459
Lease payments	986	1,493
Settlement of tax payments	253	487
Dividends	227	132
Other	510	580
Total other income	**5,228**	**4,732**

13. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2018	Year ended 31 December 2017
Payroll expenses	50,686	45,281
Depreciation and amortization	16,891	16,492
Expenses for services of automated interbank and international settlement system	14,009	10,773
Mandatory social insurance contributions	12,368	11,933
Remuneration to the members of the Board of Directors and Revision Committee	9,561	9,008
Charity and sponsorship expenses	7,934	8,212
Contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	6,381	5,940
Taxes other than income tax	5,187	4,493
Expenses on maintenance of banking software	4,321	4,266
Stationery and office expenses	3,538	3,473
Information and advisory services	3,061	3,497
Rent and property and equipment maintenance	3,015	2,453
Insurance expenses	2,584	2,785
Communication expenses	1,870	1,322
Advertising costs	1,826	1,563
Security expenses	1,257	1,079
Vehicles maintenance and fuel expenses	875	724
Disposal of property and equipment, intangible assets, non-current assets held for sale and other property	581	30
Other expenses	5,949	5,758
Total operating expenses	**151,894**	**139,082**

14. INCOME TAX

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

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

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2018 and 2017 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax-book bases' differences for certain assets and liabilities.

The Bank calculates current income tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the periods ended 31 December 2018 and 2017 the tax rate for the Bank was 25%.

Tax effect of temporary differences and movement of deferred taxes as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	Changes in deferred taxes recognized in profits or losses	Tax effect of transition to IFRS 9	31 December 2017	Changes in deferred taxes recognized in profits or losses	Changes in deferred taxes recognized in other comprehend-sive income	1 January 2017
Loans to customers	2,705	(3,901)	1,238	5,368	6,260	-	(892)
Other assets	2,024	(554)	1,353	1,225	(455)	-	1,680
Securities at fair value through profit or loss	1,419	1,419	-	-	-	-	-
Derivative financial instruments	721	314	-	407	790	-	(383)
Other liabilities	459	238	-	221	(43)	-	264
Non-current assets held for sale	53	10	-	43	43	-	-
Debt securities issued	-	(297)	-	297	270	-	27
Investment property	-	-	-	-	76	-	(76)
Investment securities	(10)	-	32	(42)	-	1,153	(1,195)
Expected credit losses allowance for contingent liabilities	(351)	562	134	(1,047)	(76)	-	(971)
Due from banks and other financial institutions	(539)	243	-	(782)	(314)	-	(468)
Due to banks and other financial institutions	(716)	(299)	-	(417)	99	-	(516)
Property, equipment and intangible assets	(1,082)	(164)	-	(918)	(139)	-	(779)
Deferred tax assets/(liabilities)	**4,683**	**(2,429)**	**2,757**	**4,355**	**6,511**	**1,153**	**(3,309)**

The relationship between income tax expenses and accounting profit for the years ended 31 December 2018 and 31 December 2017 is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before tax	138,377	101,643
	25%	25%
Tax at the statutory tax rate	34,594	25,411
Tax effect of permanent differences:		
Tax effect of non-taxable income and other deductions	(10,706)	(16,640)
Tax effect of non-deductible expenses	10,149	7,704
Tax effect of other permanent differences	431	424
Income tax expense	**34,468**	**16,899**
Current income tax expenses	32,071	23,410
Charge/(reversal) of deferred income tax recognized in profit or loss	2,397	(6,511)
Income tax expense	**34,468**	**16,899**

15. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash at the correspondent accounts in the National Bank of the Republic of Belarus	353,428	173,916
Correspondent accounts and demand deposits	160,612	175,204
Petty cash	79,270	63,320
Deposits with banks and other financial institutions with original maturity of up to 90 days	-	222,887
Total cash and cash equivalents	**593,310**	**635,327**

The following table shows information on the credit quality of cash equivalents:

	12-month ECLs	31 December 2018
International rating of AA+	22,573	22,573
International rating of AA-	900	900
International rating of A	1,848	1,848
International rating of A-	577	577
International rating of BBB+	75,945	75,945
International rating of BBB-	1,097	1,097
International rating of BB+	15,504	15,504
International rating of BB	7,904	7,904
International rating of B	378,195	378,195
International rating of B-	4,168	4,168
International rating of CCC+	5,329	5,329
	514,040	**514,040**
Less allowance for losses	-	-
Total cash and cash equivalents	**514,040**	**514,040**

Information on the Bank's methodology for the calculation of expected credit losses on cash equivalents is presented in Note 37. Credit ratings as at 31 December 2017 are presented in Note 37.

16. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	Credit rating as at 31 December 2018	Interest to nominal	31 December 2018	31 December 2017
Bonds:				
Bonds of Eurasian Development Bank	BBB	4.77%-7.75%	112,062	-
U.S. Treasury bonds	AAA	1.88%-2.00%	53,708	-
Eurobonds of the Republic of Belarus	B	6.20%-7.63%	49,689	51,884
Bonds of Russian banks	BBB	8.20%	18,227	18,864
Total securities at fair value through profit or loss*			**233,686**	**70,748**

**Comparative amounts as at 31 December 2017 for securities carried at FVTPL reflect the measurement basis under IAS 39.*

Approaches to fair value measurement and the analysis by fair value hierarchy levels are presented in Note 35. Credit ratings as at 31 December 2017 are presented in Note 37.

17. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2018, derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency forward contracts:			
USD/EUR	USD 182,384,925	371	-
Total foreign currency forward contracts		**371**	**-**

	Nominal amount (mass in grams of purchased metal)	Fair value	
		Assets	Liabilities
Precious metals swap contracts:			
XAU/USD	XAU 1,527,788	2,857	(1,683)
XAU/EUR	XAU 258,817	691	(26)
XAU/BYN	XAU 171,444	604	-
Total metals swap contracts		**4,152**	**(1,709)**
Total derivative financial instruments		**4,523**	**(1,709)**

As at 31 December 2017, derivative financial instruments comprised:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency forward contracts:			
USD/EUR	USD 296,273,265	93	(17)
EUR/USD	EUR 1,000,000	3	-
USD/RUB	USD 24,500,000	-	(77)
Total foreign currency forward contracts		**96**	**(94)**

	Contractual amount of purchased securities	Fair value	
		Assets	Liabilities
Forward contracts for purchase of securities:			
Eurobonds of Eurasian Development Bank	USD 10,609,700	-	(4)
Total forward contracts for purchase of securities		**-**	**(4)**

	Nominal amount (mass in grams of purchased metal)	Fair value	
		Assets	Liabilities
Precious metals swap contracts:			
XAU/USD	XAU 443,516	18	(659)
XAU/EUR	XAU 60,006	1	(99)
XAU/BYN	XAU 189,273	31	(106)
Total metals swap contracts		**50**	**(864)**
Total derivative financial instruments		**146**	**(962)**

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

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

	31 December 2018	31 December 2017
Funds provided under repurchase agreement	43,698	37,043
Mandatory reserve deposit with the National Bank of the Republic of Belarus	29,301	26,315
Funds pledged as a collateral	2,187	1,747
Term deposits with original maturity over 90 days	-	11,837
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**75,186**	**76,942**

As at 31 December 2018 reverse repurchase agreements were concluded with one Belarusian bank for the period of up to two months. The Bank received foreign currency government long-term bonds and bonds of the National Bank of the Republic of Belarus as a collateral with the fair value of EUR 17,699 thousand, which is equal to BYN 43,776 thousand.

As at 31 December 2017 reverse repurchase agreements were concluded with two Belarusian banks for the period of up to three months. The Bank received foreign currency government long-term bonds and bonds of the National Bank of the Republic of Belarus as a collateral with the fair value of EUR 15,772 thousand, which is equal to BYN 37,148 thousand.

The following table shows information about the credit quality of amounts due from the National Bank of the Republic of Belarus, banks and other financial institutions:

	12-month ECLs	31 December 2018
International rating of AA	1,947	1,947
International rating of A	108	108
International rating of B	29,301	29,301
International rating of B-	43,830	43,830
	75,186	**75,186**
Less allowance for losses	-	-
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**75,186**	**75,186**

Information about the Bank's methodology of calculating expected credit losses for amounts due from the National Bank of the Republic of Belarus, banks and other financial institutions is disclosed in Note 37.

19. LOANS TO CUSTOMERS

Loans to customers are represented as follows:

	31 December 2018	31 December 2017
Loans issued	3,146,060	2,765,175
Net investments in finance lease	24,393	31,728
	3,170,453	2,796,903
Less allowance for losses*	(100,799)	(115,247)
Total loans to customers	**3,069,654**	**2,681,656**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

The table below summarizes the information on the loans by types of borrowers:

	31 December 2018	31 December 2017
Loans to corporate customers	2,616,037	2,385,374
Less allowance for losses*	(92,737)	(98,533)
Total corporate loans less allowance for impairment losses	**2,523,300**	**2,286,841**
Loans to individuals	554,416	411,529
Less allowance for losses*	(8,062)	(16,714)
Total loans to individuals less allowance for impairment losses	**546,354**	**394,815**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2018 and 2017 are disclosed in Note 7.

As at 31 December 201, the Bank provided loans to seven customers totaling BYN 741,210 thousand before allowance for impairment losses where the debt of each borrower individually exceeded 10% of the Bank's equity.

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

The following table shows information on the credit quality of loans to corporate clients:

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	31 December 2018
Loans to corporate customers				
Bank's internal rating of A*	371	-	-	371
Bank's internal rating of B*	593,674	18,794	-	612,468
Bank's internal rating of C*	908,634	268,699	-	1,177,333
Bank's internal rating of E*	331,887	113,664	-	445,551
Bank's internal rating of D*	-	-	201,809	201,809
Not rated*	140,572	1,163	12,569	154,304
Finance lease receivables, corporate customers				
Bank's internal rating of A*	29	-	-	29
Bank's internal rating of B*	1,538	-	-	1,538
Bank's internal rating of C*	2,634	396	-	3,030
Bank's internal rating of E*	10,510	8,322	-	18,832
Bank's internal rating of D*	-	-	742	742
Not rated*	30	-	-	30
Total loans to corporate customers	**1,989,879**	**411,038**	**215,120**	**2,616,037**
Less allowance for losses	(9,344)	(3,518)	(79,875)	(92,737)
Total loans to corporate customers	**1,980,535**	**407,520**	**135,245**	**2,523,300**

**The grouping of internal corporate customers ratings is presented in Note 37.*

As at 31 December 2018, loans to corporate customers that are credit-impaired are as follows:

Loans to to corporate customers	**Lifetime expected credit losses for assets that are credit-impaired**
Gross carrying amount as at 1 January 2018 (under IFRS 9)	**206,386**
Unwinding of discount related to the open balance	15,797
Total gross carrying amount as at 1 January 2018 (under IFRS 9)	**222,183**
Classified as credit-impaired during the reporting period	14,163
Repayments	(22,556)
Write-off of financial assets against allowance created	(4,287)
Other changes	5,617
Gross carrying amount as at 31 December 2018	**215,120**
Loss allowance as at 1 January 2018 (under IFRS 9)	**(71,091)**
Unwinding of discount related to the open balance	(15,797)
Total loss allowance as at 1 January 2018 (under IFRS 9)	**(86,888)**
Classified as credit-impaired during the reporting period	(795)
Repayments	2,582
Write-off of financial assets against allowance created	4,287
Other changes	939
Loss allowance as at 31 December 2018	**(79,875)**
Total credit-impaired loans issued to corporate customers as at 31 December 2018	**135,245**

Below is the structure of the Bank's credit portfolio by industries as at 31 December 2018 and 31 December 2017:

	31 December 2018	31 December 2017
Analysis by sectors:		
Retail portfolio	554,416	411,529
Trade	469,010	509,369
Chemicals and petrochemicals	362,238	365,520
Investments in real estate	317,761	204,911
Financial and insurance services	244,623	190,927
Oil industry	182,492	127,413
Gas transportation	165,666	129,167
Transport	148,597	105,082
Food industry	119,937	106,222
Metallurgy	112,600	141,891
Other industry	105,857	95,483
Light industry	86,722	100,887
Machinery construction	67,083	102,886
Agriculture	64,526	19,572
Construction	54,679	62,658
Timber industry	23,915	17,595
Energy industry	21,584	43,051
Media business	1,729	1,733
Other	67,018	61,007
	3,170,453	2,796,903
Less allowance for losses*	(100,799)	(115,247)
Total loans to customers	**3,069,654**	**2,681,656**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

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

Retail portfolio comprises the following products:

	31 December 2018	31 December 2017
Car loans	216,313	97,504
Payment cards	185,410	164,476
Delay consumer loans	78,750	63,886
Loans on real estate	67,991	79,085
Consumer loans	5,820	6,242
Other	132	336
	554,416	411,529
Less allowance for losses*	(8,062)	(16,714)
Total loans to individuals	**546,354**	**394,815**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

Delay consumer loans represent a program according to which individuals pay by installments for the consumer goods purchased in a number of stores participating in the program.

As at 31 December 2018, information about loans to customers is presented in the table below by overdue periods with regard to expected credit losses under IFRS 9:

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	31 December 2018
Loans to corporate customers measured at amortized cost				
Not overdue	1,989,169	409,172	167,737	2,566,078
Overdue:	710	1,866	47,383	49,959
Up to 30 days	710	1 365	221	2,296
From 31 to 60 days	-	329	11,427	11,756
From 61 to 90 days	-	172	12	184
From 91 to 180 days	-	-	2,197	2,197
Over 180 days	-	-	33,526	33,526
Loss allowance	**(9,344)**	**(3,518)**	**(79,875)**	**(92,737)**
Carrying amount	**1,980,535**	**407,520**	**135,245**	**2,523,300**
Loans to individuals measured at amortized cost				
Not overdue	534,344	-	-	534,344
Overdue:	10,145	4,415	5,512	20,072
Up to 30 days	10,145	-	-	10,145
From 31 to 60 days	-	2,853	-	2,853
From 61 to 90 days	-	1,562	-	1,562
From 91 to 180 days	-	-	2,828	2,828
Over 180 days	-	-	2,684	2,684
Loss allowance	**(3,383)**	**(1,821)**	**(2,858)**	**(8,062)**
Carrying amount	**541,106**	**2,594**	**2,654**	**546,354**
Loans to customers	**2,521,641**	**410,114**	**137,899**	**3,069,654**

Analysis of the credit quality of loans provided to individuals by classes of loans and overdue periods under IFRS 9 as at 31 December 2018 is presented as follows:

Loans to individuals assessed collectively	Payment cards	Car loans	Real estate loans	Delay consumer loans	Consumer loans	Other	31 December 2018 Total
Not overdue	170,873	214,792	66,183	76,776	5,588	132	534,344
Overdue:	14,537	1,521	1,808	1,974	232	-	20,072
Up to 30 days	6,762	1,167	1,477	561	178	-	10,145
From 31 to 60 days	1,929	323	331	239	31	-	2,853
From 61 to 90 days	1,413	-	-	149	-	-	1,562
From 91 to 180 days	2,211	31	-	586	-	-	2,828
Over 180 days	2,222	-	-	439	23	-	2,684
Loss allowance	**(6,067)**	**(121)**	**(80)**	**(1,775)**	**(18)**	**(1)**	**(8,062)**
Loans to individuals less allowance for losses	**179,343**	**216,192**	**67,911**	**76,975**	**5,802**	**131**	**546,354**

Analysis of the credit quality of loans provided to individuals by classes of loans and overdue periods under IAS 39 as at 31 December 2017 is presented as follows:

Loans to individuals assessed collectively	**Payment cards**	**Car loans**	**Real estate loans**	**Delay consumer loans**	**Consumer loans**	**Other**	**31 December 2017 Total**
Not overdue	152,289	96,807	78,220	62,497	6,128	336	396,277
Overdue:	12,187	697	865	1,389	114	-	15,252
Up to 30 days	6,035	523	464	604	38	-	7,664
From 31 to 60 days	1,745	106	137	286	20	-	2,294
From 61 to 90 days	1,158	21	16	179	22	-	1,396
From 91 to 180 days	1,902	26	158	268	8	-	2,362
Over 180 days	1,347	21	90	52	26	-	1,536
Impairment allowance*	**(10,617)**	**(1,270)**	**(1,308)**	**(3,339)**	**(178)**	**(2)**	**(16,714)**
Loans to individuals after allowance for impairment losses	**153,859**	**96,234**	**77,777**	**60,547**	**6,064**	**334**	**394,815**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

Analysis of credit quality of loans provided to customers by classes of loans and impairment assessment models under IAS 39 as at 31 December 2017 is presented in the following table:

As at 31 December 2017	**Loans before allowance for impairment losses**	**Impairment allowance**	**Loans after allowance for impairment losses**	**Allowance for impairment to gross loans before allowance for impairment losses,%**
Loans to individuals assessed collectively				
Not overdue	396,277	13,373	382,904	3.37
Overdue:	15,252	3,341	11,911	21.91
Up to 30 days	7,664	356	7,308	4.65
From 31 to 60 days	2,294	322	1,972	14.04
From 61 to 90 days	1,396	251	1,145	17.98
From 91 to 180 days	2,362	1,080	1,282	45.72
Over 180 days	1,536	1,332	204	86.72
Total loans assessed collectively	**411,529**	**16,714**	**394,815**	**4.06**
Corporate loans assessed collectively				
Not overdue	1,338,529	28,034	1,310,495	2.09
Overdue:	19,598	389	19,209	1.98
Up to 30 days	5,959	89	5,870	1.49
From 31 to 60 days	1,554	39	1,515	2.51
From 61 to 90 days	1,092	18	1,074	1.65
From 91 to 180 days	1,833	61	1,772	3.33
Over 180 days	9,160	182	8,978	1.99
Total corporate loans assessed collectively	**1,358,127**	**28,423**	**1,329,704**	**2.09**
Loans assessed individually with a reserve ratio higher than the collective one				
Not overdue	1,007,080	59,610	947,470	5.92
Overdue:	20,167	10,500	9,667	52.07
Up to 30 days	12	12	-	100.00
From 31 to 60 days	2,228	1,114	1,114	50.00
From 61 to 90 days	-	-	-	-
From 91 to 180 days	181	181	-	100.00

As at 31 December 2017	Loans before allowance for impairment losses	Impairment allowance	Loans after allowance for impairment losses	Allowance for impairment to gross loans before allowance for impairment
Over 180 days	17,746	9,193	8,553	51.80
Total loans assessed individually with a reserve ratio higher than the collective one	**1,027,247**	**70,110**	**957,137**	**6.83**
	2,796,903	**115,247**	**2,681,656**	**4.12**

Not overdue corporate clients' loan liabilities impaired individually that show objective signs of impairment as at 31 December 2017 amount to BYN 111,570 thousand, with the allowance of BYN 29,665 thousand.

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

	31 December 2018	31 December 2017
Loans collateralized by real estate and rights thereto	1,420,104	1,148,750
Loans collateralized by equipment and rights thereto	536,780	509,658
Loans collateralized by inventories	235,703	249,094
Loans collateralized by liens over receivables	146,294	235,494
Loans collateralized by guarantees of legal entities	67,396	40,558
Loans collateralized by insurance of credit risk exposure	64,076	101,436
Loans collateralized by guarantees of individuals	55,402	18,291
Loans collateralized by securities	3,271	103,007
Loans collateralized by cash and guarantee deposit	309	6,183
Unsecured loans and loans collateralized by other and mixed types of collateral	641,118	384,432
	3,170,453	2,796,903
Less allowance for losses*	(100,799)	(115,247)
Total loans to customers	**3,069,654**	**2,681,656**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

The table above excludes overcollateralisation.

On 1 January 2018, the Bank changed its approach to the measurement of collateral received. Usually, the Bank revises the estimated value of the collateral for loans with signs of impairment as it is used as input data for calculating expected credit losses as part of credit risk management.

When determining impairment for loans issued to individually significant customers the Bank calculates the estimated value of collateral as at the reporting date. As at 31 December 2017, the fair value of pledged property for individually impaired loans is as follows:

	31 December 2017	
Type of collateral	**Fair value of the collateral**	**Amortized amount of the loan**
Real estate	536,725	463,582
Goods in trade	156,730	146,819
Liens over receivables	203,603	182,576
Vehicles	78,036	64,860
Technological equipment	145,301	114,700
Credit risk insurance	34,758	27,458
Pledge of rights for property	24,328	19,849
Other collateral	8,814	7,403
	1,188,295	**1,027,247**

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

As at 31 December 2018, the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale amounted to BYN 2,648 thousand and BYN 30,588 thousand respectively.

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

The components of net investments in finance lease as at 31 December 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Less than 1 year	11,299	8,866
From 1 to 5 years	18,696	27,074
More than 5 years	932	1,826
Minimum payments under financial leases	30,927	37,766
Less: unearned finance income	(6,726)	(6,038)
Net investments in finance lease before allowance	**24,201**	**31,728**
Less allowance for losses*	(722)	(1,834)
Total finance lease receivables	**23,479**	**29,894**
Less than 1 year	7,352	7,204
From 1 to 5 years	16,069	23,034
More than 5 years	780	1,490
Net investments in finance lease before allowance	**24,201**	**31,728**
Less allowance for losses*	(722)	(1,834)
Net investments in finance lease	**23,479**	**29,894**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

20. INVESTMENT SECURITIES

Investment securities are as follows:

	Interest to nominal	31 December 2018	Interest to nominal	31 December 2017*
Long-term governmental bonds in foreign currency	4.95%-7.50%	248,958	5.00%-7.00%	116,603
Including pledged under repurchase agreements	*5.0%-5.5%*	*18,251*	-	-
Short-term bonds issued by the National Bank of the Republic of Belarus in foreign currency	3.00%-4.25%	86,708	2.75%-6.30%	414,136
Including pledged under repurchase agreements	*3.00%*	*586*	*5.35%*	*11,158*
Bonds issued by Belarusian banks, BYN	10.00%	13,072	11.00%	13,030
Including pledged under repurchase agreements	*10.00%*	*5,164*	*11.00%*	*13,030*
Bonds issued by local authorities, BYN	10.00%	1,819	11.00%	1,831
Eurobonds of the Republic of Belarus	-	-	6.88%	17,390
Bonds issued by foreign issuers	-	-	4.77%-5.00%	45,520
Other unquoted equity instruments		703		611
Total investment securities		**351,260**		**609,121**

**Comparative data as at 31 December 2017 for investment securities reflect the measurement basis under IAS 39.*

As at 31 December 2018, investments securities with the fair value of BYN 24,001 thousand were provided as collateral of funds received under repurchase transactions in the amount of BYN 23,847 thousand with the maturity of up to one year (Note 24). The fair value of these securities is equal to their carrying amount.

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

As at 31 December 2018, a loss allowance was created for investment securities recognized in other comprehensive income equal to 12-months expected credit losses amounting to BYN 6,682 thousand.

Information about the credit quality of investment securities is presented in the following table:

	12-month ECLs	**31 December 2018**
International rating of B	350,557	350,557
Not rated	703	703
Total investment securities measured at FVOCI	**351,260**	**351,260**
Loss allowance	(6,682)	(6,682)
Carrying value - fair value of investment securities measured at FVOCI*	**351,260**	**351,260**

** Debt investment securities at FVOCI are stated at fair value while loss allowance is recognized in OCI.*

21. NON-CURRENT ASSETS HELD FOR SALE

As at 31 December 2018 and 31 December 2017, non-current assets held for sale included property (real estate, motor vehicles, equipment), that had been transferred to the Bank to repay loans or obtained by the Bank through repossession of leased items in the amounts of BYN 30,588 thousand and BYN 37,042 thousand, respectively.

As at 31 December 2018 and 31 December 2017, the management of the Bank intends to sell the property classified as non-current assets held for sale. The Bank plans to complete the sale of these assets within the next 12 months.

As at 31 December 2018, the Bank transferred buildings and constructions amounting to BYN 28,188 thousand to the trust management.

22. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

Property, equipment and intangible assets comprise:

	Buildings and constructions	Computer equipment, furniture and other equipment	Vehicles	Corporate collection of art works	Investments into property, equipment and intangible assets	Intangible assets	Total
Initial cost restated for hyperinflation effect							
As at 1 January 2017	71,185	55,859	3,620	14,370	11,783	32,489	189,306
Additions	-	-	-	-	24,588	-	24,588
Transfers between categories	11,400	4,026	419	67	(26,108)	10,196	-
Disposals	(1,049)	(1,016)	(57)	-	-	(107)	(2,229)
As at 31 December 2017	81,536	58,869	3,982	14,437	10,263	42,578	211,665
Additions	-	-	-	-	22,711	-	22,711
Transfers between categories	8,581	7,252	149	2,018	(26,705)	8,705	-
Disposals	(39)	(782)	(149)	-	-	(131)	(1,101)
As at 31 December 2018	90,078	65,339	3,982	16,455	6,269	51,152	233,275
Accumulated depreciation restated for hyperinflation effect							
As at 1 January 2017	5,026	22,355	1,569	-	-	14,095	43,045
Charge for the year	1,150	6,862	504	-	-	7,976	16,492
Written-off on disposal	(337)	(967)	(57)	-	-	(107)	(1,468)
As at 31 December 2017	5,839	28,250	2,016	-	-	21,964	58,069
Charge for the year	1,184	7,225	508	-	-	7,974	16,891
Transfers between categories	(755)	755	-	-	-	-	-
Written-off on disposal	(5)	(704)	(149)	-	-	(130)	(988)
As at 31 December 2018	6,263	35,526	2,375	-	-	29,808	73,972
Net book value							
31 December 2017	**75,697**	**30,619**	**1,966**	**14,437**	**10,263**	**20,614**	**153,596**
31 December 2018	**83,815**	**29,813**	**1,607**	**16,455**	**6,269**	**21,344**	**159,303**

23. OTHER ASSETS

Other assets comprise:

	31 December 2018	31 December 2017
Other financial assets:		
Settlements on Bank payment cards	7,655	5,189
Fee and commission income and penalties accured	6,873	6,426
Receivables from sale of non-current assets held for sale	51	235
Receivables reclaimable due to termination of joint venture agreement	-	1,107
Other debtors	5,358	5,076
Less allowance for losses*	(6,426)	(2,171)
Total other financial assets	**13,511**	**15,862**

	31 December 2018	31 December 2017
Other non-financial assets:		
Prepayments for property, equipment and other assets	3,409	2,591
Prepaid expenses and other non-financial assets	2,188	4,749
Precious metals	597	634
Inventories	526	434
Taxes recoverable and prepaid taxes other than income tax	14	4,565
Total other assets:	**20,245**	**28,835**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

Movements in loss allowance for other assets for the years ended 31 December 2018 and 2017 are disclosed in Note 7.

Analysis of the credit quality of other financial assets by overdue periods under IFRS 9 as at 31 December 2018 is presented as follows:

Other financial assets	**Lifetime expected credit losses for assets that are not credit-impaired**	**Lifetime expected credit losses for assets that are credit-impaired**	**31 December 2018**
Overdue:			
Up to 30 days	1,959	-	1,959
From 31 to 60 days	421	-	421
From 61 to 90 days	136	-	136
Over 90 days	-	6,365	6,365
No maturity	11,056	-	11,056
Less allowance for losses	**(335)**	**(6,091)**	**(6,426)**
Total other financial assets	**13,237**	**274**	**13,511**

24. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2018	31 December 2017
Loans from banks and non-banking financial institutions	517,536	456,058
Syndicated loan	287,975	-
Loans from international financial organizations	38,385	69,776
Correspondent and demand accounts of other banks	26,474	14,767
Loans received under repurchase agreements	23,847	12,518
Total due to banks and other financial institutions	**894,217**	**553,119**

In the second quarter of 2018, the Bank raised a syndicated loan amounting to EUR 117,500,000 from a pool of creditors comprising nine banks and one international financial institution. The syndicated loan consists of two tranches provided for 1.5 and 2 years, respectively, with a prolongation option for the same term.

As at 31 December 2018, loans received under repurchase agreements comprised short-terms loans received from four Belarusian banks with maturities of up to one year that were collateralized by debt securities in BYN with the fair value of BYN 5,164 thousand and in foreign currency with the fair value of BYN 18,837 thousand. (Note 20).

As at 31 December 2017, loans received under repurchase agreements comprised short-terms loans received from two Belarusian banks with maturities of up to five months that were collateralized by debt securities in BYN with the fair value of BYN 13,030 thousand. (Note 20).

As at 31 December 2018, due to banks and other financial institutions included loans from three banks totaling BYN 413,437 thousand that individually exceeded 10% of the Bank's equity, which represents a significant concentration (46% from the total amount).

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

25. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2018	31 December 2017
Term deposits	2,144,199	1,716,063
Current/settlement accounts and demand deposits	582,525	1,073,115
Funds received from clients under repurchase agreements	-	10,009
Total customer accounts	**2,726,724**	**2,799,187**

As at 31 December 2017, the Bank concluded a repurchase agreement with a client with a maturity of up to three months that was collateralized by foreign currency bonds with a fair value of BYN 11,158 thousand. (Note 20).

Below are the Bank's customer accounts by industries as at 31 December 2018 and 31 December 2017:

Analysis by sectors:	31 December 2018	31 December 2017
Individuals	1,293,917	1,066,642
Gas transportation	603,898	1,003,668
Machinery construction	160,162	137,831
Trade	145,516	114,851
Construction	89,506	62,617
Other industry	75,368	39,041
Investments in real estate	57,764	29,461
Transport	56,081	43,277
Agriculture	25,287	12,379
Chemicals and petrochemicals	24,446	20,038
Financial and insurance companies	23,598	88,713
Food industry	15,999	18,013
Timber industry	11,798	7,444
Communication	9,905	2,119
Oil industry	9,772	54,992
Light industry	5,686	24,257
Media business	4,274	5,664
Metallurgy	2,283	2,825
Energy industry	1,346	2,914
Other	110,118	62,441
Total customer accounts	**2,726,724**	**2,799,187**

As at 31 December 2018, customer accounts totaling BYN 593,080 thousand (22% of the total) comprised the balances of accounts of one customer, which represents significant concentration.

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

As at 31 December 2018 and 31 December 2017, customer accounts of BYN 7,053 thousand and BYN 23,184 thousand, respectively, were held as collateral against letters of credit, guarantees and loans issued by the Bank.

26. DEBT SECURITIES ISSUED

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

	31 December 2018	31 December 2017
Bonds issued by the Bank and held by individuals	50,229	56,946
Bonds issued by the Bank and held by legal entities	-	20,611
Total debt securities issued	**50,229**	**77,557**

27. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2018	31 December 2017
Other financial liabilities:		
Settlements on other banking operations and accrued expenses	9,742	3,823
Loss allowance for financial guarantees and other contingent liabilities*	2,171	649
Settlements for property and equipment and other assets acquired	1,757	454
Total other financial liabilities	**13,670**	**4,926**
Other non-financial liabilities:		
Salary payable to employee	4,163	3,689
Taxes payable other than income tax	2,060	602
Payables to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	1,712	1,527
Other non-financial liabilities	231	181
Total other liabilities	**21,836**	**10,925**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

Movements in provision for guarantees and other contingent liabilities for the years ended 31 December 2018 and 2017 are disclosed in Note 7.

28. SUBORDINATED LOANS

	Currency	Maturity date	Interest rate	31 December 2018	31 December 2017
The subordinated loan from Gazprombank (Joint-stock Company)	Russian roubles	January 2022	5.95%	81,289	181,665
The subordinated loan from PJSC “Gazprom”	Russian roubles	January 2022	8.25%	77,157	169,934
Total subordinated loans				**158,446**	**351,599**

Subordinated loans were raised in January 2015. Payments on this debt are subordinated to repayments of the Bank's other liabilities to all other creditors.

In 2018, PJSC “Gazprom” and Gazprombank (Joint-Stock Company) converted in equal parts 50% of provided subordinated loans into 50% of the Bank’s share capital through acquiring ordinary shares of an additional issue by way of a private placement.

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

	Loans from international financial organizations	Debt securities issued	Subordinated loans	Syndicated loan
Balance as at 31 December 2017	**69,776**	**77,557**	**351,599**	**-**
Cash flow				
Inflows	-	488,436	-	275,573
Outflows	(34,393)	(524,381)	-	
Total changes related to cash flows from financing activities	**(34,393)**	**(35,945)**	**-**	**275,573**
Non-monetary changes				
Effect of exchange rate fluctuations	3,176	4,703	(26,937)	15,097
Increase in share capital	-	-	(158,804)	-
Other changes				
Interest paid	(1,658)	(3,262)	(29,458)	(3,773)
Interest accrued	1,484	7,176	22,046	1,078
Balance as at 31 December 2018	**38,385**	**50,229**	**158,446**	**287,975**

Information about the amounts of loans from international financial organizations, as well as the syndicated loan amount is disclosed in Note 24. Information about the amounts of debt securities issued by the Bank is disclosed in Note 26, information on the amounts of subordinated loans is presented in Note 28.

30. SHARE CAPITAL

During the year ended 31 December 2018, PJSC “Gazprom” and Gazprombank (Joint-Stock Company) converted in equal parts 50% of the subordinated loans provided amounting to BYN 158,804 thousand into the Bank’s share capital, which resulted in the share capital amounting to BYN 535,944 thousand. As at 31 December 2018, authorized, issued and fully paid capital of the Bank consisted of 34,812,225,866 ordinary shares and 3,932,200 preference shares with the par value of BYN 0,01 each.

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

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

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

During the period ended 31 December 2018, the Bank declared dividends for 2017 on ordinary and preference shares in the amount of BYN 60,498 thousands. The amount of declared and paid dividends per one ordinary and one preference share is BYN 0.00319.

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

31. EARNINGS PER SHARE

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

	Year ended 31 December 2018	Year ended 31 December 2017
Earnings used for calculating earnings per share	103,909	84,744
Weighted average number of ordinary shares used for calculating earnings per share	20,255,149,389	18,931,778,800
Earnings per share (BYN)	0.0051	0.0045

32. DEFERRED FINANCIAL COMMITMENTS AND CONTINGENCIES

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

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

As at 31 December 2018 and 31 December 2017, the nominal or contract value of contingent liabilities and loan commitments were as follows:

	31 December 2018	31 December 2017
Contingent liabilities and loan commitments:		
Commitments on loans and unused credit lines, cancellable	571,604	487,528
Guarantees issued and similar commitments, including financial guarantees	113,379	94,054
Letters of credit, not covered	12,218	29,586
Letters of credit, covered	28	10,853
Letters of credit that are not covered, the applicant under which is the Bank	-	3,438
Total contingent liabilities and loan commitments	**697,229**	**625,459**

Allowance for financial guarantees and other contingencies are recognized within other liabilities (Note 27).

Legal proceedings – In the normal course of business, customers and counterparties can claim against the Bank. Management is of the opinion that no material losses will be incurred by the Bank as a result thereof and accordingly no provision has been made in these Financial Statements.

Pensions and retirement plans – Employees are entitled to pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2018 and 31 December 2017, the Bank had no liabilities for any supplementary pension payments, post-retirement health care, insurance benefits, or other retirement benefits to its current or former employees.

Legislation - Certain provisions of Belarusian business and tax legislation in particular are subject to varying interpretations and may be applied inconsistently. In addition, since interpretations made by the Management may differ from official interpretations and compliance with law may be challenged by the authorities, the Bank may be subject to additional tax payments and fines and other preventive actions. Management of the Bank believes that the Bank has made all required tax and other payments and accruals, therefore no additional provisions have been created in these Financial Statements. A tax period remains open for review by the tax authorities in subsequent periods.

Fiduciary management – In the course of its ordinary activities the Bank concludes agreements with customers (individuals and corporate clients) for trust management of the customers' assets: as a fiduciary the Bank receives cash for trust management to further acquire or sell investment instruments as instructed by the customers. As at 31 December 2018, the balance of the trust management accounts amounted to BYN 8 thousand, with the amount of income for 2018 being BYN 3,791 thousand. As at 31 December 2017, the balance of the trust management account amounted to BYN 1 thousand, with the amount of income for 2017 being BYN 0.1 thousand.

Assets and liabilities related to trust management are not recognized in the Bank's Financial Statements.

Operating environment – The core operations of the Bank are conducted in the Republic of Belarus. In 2018, the Belarusian economy showed a steady growth. The GDP growth as at the end of 2018 amounted to 3.0%. The key driver of the growth was industrial production that increased by 5.7%.

Also, the increase of inflation rate was observed in 2018. As at the end of 2018, the basic consumer price index amounted to 5.6% (4.6% for 2017) with the target figure of 6%. The USD to BYN exchange rate increased by 9.5% during 2018 due to the depreciation of the main trade partner countries' currencies. At the same time, the monetary measures of the National Bank of the Republic of Belarus contributed to the macroeconomic and monetary stability.

Due to a high degree of integration, the Belarusian economy is subject to a significant influence of the Russian Federation. In 2018, the Russian economy generally showed a positive dynamics which was attributable to increased prices for energy resources, increased production and improved situation in the transport and trade sectors. The overall macroeconomic situation in Russia remained uncertain, which was caused by volatility in raw material markets, geopolitical uncertainty and possibility of new sanctions.

The current sanctions imposed on entities and individuals in the Russian Federation often affect Belarusian businessmen due to a close integration of the two economies. At the same time, the current wording of the U.S. and European Union sectoral sanctions does not provide legal grounds for imposing the sectoral sanctions introduced against the key shareholders of the Bank, PJSC "Gazprom" and Bank GPB (JSC) (Note 1), to Belgazprombank.

In its business activities, the Bank conducts a number of transactions with residents of the Russian Federation, as well as residents of the Republic of Belarus, that experience impact on their financial and economic activities from the residents of the Russian Federation. However, the Bank is following a prudent policy, maintaining sufficient financial stability cushion to absorb possible risks.

In 2018, international rating agencies increased the sovereign ratings of the Republic of Belarus: from "B-" to "B" by Fitch Ratings and from "Caa1" to "B3" by Moody's. Also, the position of Republic of Belarus was improved in the OECD classification for country risks (the Republic of Belarus has been transferred from the risk group 7 into the risk group 6). Following the increase of the sovereign rating by Fitch Ratings the Bank's rating was increased from "B-" to "B". Additionally, the Bank became the only Belarusian bank whose viability rating has been increased by Fitch Ratings from "b-" to "b".

33. RELATED PARTY TRANSACTIONS

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

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

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

companies under common control;
key management personnel.

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

Income Statement	Year ended 31 December 2018 Shareholders	Companies under common control	Key management personnel	Total	Total for financial statements caption
Interest income calculated using the effective interest rate method	163	7,788	106	**8,057**	**301,953**
Other interest income	-	3,912	-	**3,912**	**10,246**
Interest expenses	(32,000)	(19,650)	(867)	**(52,517)**	**(131,594)**
Recovery of expected credit losses allowance for financial assets	-	-	1	**1**	**33,899**
Net trading gain/(loss)	24,410	(4,534)	-	**19,876**	**(21,822)**
Fee and commission income	-	1,920	7	**1,927**	**62,403**
Fee and commission expenses	(2,239)	(226)	-	**(2,465)**	**(15,326)**
Operating expenses	-	(17)	(17,415)	**(17,432)**	**(151,894)**
salary and other personnel costs	-	-	*(16,668)*		
social security and insurance contributions	-	-	*(747)*		

Income Statement	Year ended 31 December 2017 Shareholders	Companies under common control	Key management personnel	Total	Total for financial statements caption
Interest income calculated using the effective interest rate method	45	4,681	126	**4,852**	**294,779**
Interest expenses	(38,372)	(20,401)	(567)	**(59,340)**	**(134,949)**
Creation of expected credit losses allowance for financial assets	-	-	5	**5**	**(13,627)**
Financial result for investment securities at FVOCI transferred to profit or loss	-	4,144	-	**4,144**	**4,701**
Net trading loss	(10,714)	(125)	(65)	**(10,904)**	**(42,859)**
Fee and commission income	-	2,071	5	**2,076**	**47,895**
Fee and commission expenses	(179)	(142)	-	**(321)**	**(9,121)**
Other income	-	116	-	**116**	**4,732**
Operating expenses	-	(967)	(13,482)	**(14,449)**	**(139,082)**
salary and other personnel costs	-	-	*(12,853)*		
social security and insurance contributions	-	-	*(629)*		

Remuneration of the key management personnel for the years ended 31 December 2018 and 31 December 2017 was represented by short-term remunerations.

The balance sheet as at 31 December 2018 and 31 December 2017 included the following amounts which arose due to transactions with related parties:

	31 December 2018				
Balance Sheet	**Shareholders**	**Companies under common control**	**Key management personnel**	**Total**	**Total for financial statements caption**
ASSETS:					
Cash and cash equivalents	14,237	43,151	-	**57,388**	**593,310**
Securities at fair value through profit or loss	-	130,289	-	**130,289**	**233,686**
Derivative financial instruments, assets	371	-	177	**548**	**4,523**
Loans to customers	-	10	670	**680**	**3,069,654**
Including loss allowance	-	-	(17)	**(17)**	**(100,799)**
Other assets	408	525	2	**935**	**20,245**
LIABILITIES:					
Derivative financial instruments, liabilities	-	-	29	**29**	**1,709**
Due to banks and other financial institutions	240,050	340,512	-	**580,562**	**894,217**
Customer accounts	50	744,381	31,248	**775,679**	**2,726,724**
Term deposits	-	728,295	30,454	**758,749**	**2,144,199**
Current/settlement accounts and demand deposits	50	16,086	794	**16,930**	**582,525**
Other liabilities	4,386	3	1,292	**5,681**	**21,836**
Subordinated loans	158,446	-	-	**158,446**	**158,446**
Contingent financial liabilities	-	1,508	513	**2,021**	**697,229**

	31 December 2017				
Balance Sheet	**Shareholders**	**Companies under common control**	**Key management personnel**	**Total**	**Total for financial statements caption**
ASSETS:					
Cash and cash equivalents	16,727	208,936	-	**225,663**	**635,327**
Securities at fair value through profit or loss	-	18,864	-	**18,864**	**70,748**
Derivative financial instruments, assets	64	-	2	**66**	**146**
Loans to customers	-	1	574	**575**	**2,681,656**
*including loss allowance**	-	-	(18)	**(18)**	**(115,247)**
Investment securities	-	45,520	-	**45,520**	**609,121**
Other assets	-	91	-	**91**	**28,835**
LIABILITIES:					
Derivative financial instruments, liabilities	73	-	58	**131**	**962**
Due to banks and other financial institutions	199,933	61,401	-	**261,334**	**553,119**
Customer accounts	-	1,088,762	26,737	**1,115,499**	**2,799,187**
Term deposits	-	425,106	26,232	**451,338**	**1,716,063**
Current/settlement accounts and demand deposits	-	663,656	505	**664,161**	**1,073,115**
Other liabilities	189	-	347	**536**	**10,925**
Subordinated loans	351,599	-	-	**351,599**	**351,599**
Contingent financial liabilities	-	1,441	453	**1,894**	**625,459**

**Comparative amounts as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

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

Additional information about terms and conditions of transactions with related parties can be found in the following notes: transactions with securities carried at fair value through profit or loss – Note 16; transactions with investment securities – Note 20, transactions with subordinated loans – Note 28.

34. ANALYSIS BY SEGMENTS

To provide the shareholders and management of the Bank with analytical information to make effective management decisions with regard to the business development certain types of the Bank's management statements are prepared with a breakdown by operating segments.

Operating segments of the Bank are:

"Corporate Business" operating segment is the Bank's operating segment that represents activities related to transactions with customers, both entrepreneurs and corporate clients (credit transactions, acquisition and issue of securities, opening of deposits and current accounts, foreign currency transactions, commission and other banking transactions).

"Retail Business" operating segment is the Bank's operating segment that represents activities related to transactions with individuals (credit transactions, issue of securities, opening of deposits and current accounts, foreign currency transactions, commission and other banking transactions).

"Investment and Banking Business" operating segment is the Bank's operating segment that represents activities related to transactions with customers represented by banks and non-banking financial organizations.

Amounts that have not been classified into the above operating segments represent the "Unallocated amounts" category.

The performance of these segments is presented in the form of management statements. The major part of these statements is represented by the financial result and figures with regard to the amount of assets and liabilities.

All income and expenses of the Bank recorded in accounting are analyzed and segmented to form the financial result. There are the following types of income and expenses depending on the applied method of segmentation:

-direct income and expenses that are allocated between the operating segments based on analytical indicators in the Bank's accounting systems;
-allocated income and expenses that are distributed between the operating segments taking into account the selected allocation rule allowing to ensure the maximum accuracy of the distribution with an acceptable level of work efforts;

-transfer income and expenses that are allocated between the operating segments as part of the transfer pricing system based on the funding matrix and internal transfer pricing rules.

Assets and liabilities of the operating segments are presented as a balance report with a breakdown by operating segments. All balance sheet accounts of the Bank are analyzed and segmented to form the balance by operating segments.

Information on profit and losses, assets and liabilities by operating segments for 2018 is presented below:

	31 December 2018	Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
PROFIT AND LOSS:					
Interest income calculated using the effective interest rate method*	342,322	199,688	106,719	35,915	-
Other interest income*	10,246	592	-	9,654	-
Interest expenses*	(171,963)	(80,220)	(48,229)	(43,514)	-
Net interest income before expected credit losses allowance for financial assets*	180,605	120,060	58,490	2,055	-
Recovery / (creation) of expected credit losses allowance for financial assets	33,899	39,175	(4,437)	(1,520)	681
NET INTEREST INCOME	**214,504**	**159,235**	**54,053**	**535**	**681**

31 December 2018		Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
Financial result for investment securities at FVOCI transferred to profit or loss	3,122	-	-	3,122	-
Net foreign exchange gain	50,624	12,191	17,547	20,886	-
Fee and commission income	62,403	19,702	42,628	73	-
Fee and commission expenses	(15,326)	(976)	(13,433)	(913)	(4)
Net loss on operations with precious metals	(9,720)	(1,804)	(7,916)	-	-
Net trading loss	(21,822)	(7,990)	(7,370)	(6,462)	-
Recovery /(creation) of expected credit losses allowance for contingent liabilities	1,258	1,884	(618)	(8)	-
Other income	5,228	30	2,940	1	2,257
NET NON-INTEREST INCOME	**75,767**	**23,037**	**33,778**	**16,699**	**2,253**
OPERATING INCOME	**290,271**	**182,272**	**87,831**	**17,234**	**2,934**
OPERATING EXPENSES	**(151,894)**	**(73,569)**	**(61,860)**	**(15,703)**	**(762)**
Profit before tax	138,377	108,703	25,971	1,531	2,172
Income tax expense	(34,468)	(25,509)	(7,503)	(1,229)	(227)
NET PROFIT	**103,909**	**83,194**	**18,468**	**302**	**1,945**
Assets	**4,542,438**	**2,524,915**	**556,753**	**1,174,981**	**285,789**
Liabilities	**4,542,438**	**1,430,196**	**1,353,707**	**894,435**	**864,100**

** Including transfer interest income and expenses*

Information on profit and losses, assets and liabilities by operating segments for 2017 is presented below:

	31 December 2017	Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
PROFIT AND LOSS:					
Interest income calculated using the effective interest rate method*	336,551	190,241	86,399	59,911	-
Other interest income	4,280	748	-	3,532	-
Interest expenses*	(176,721)	(89,661)	(39,806)	(47,254)	-
Net interest income before expected credit losses allowance for financial assets*	164,110	101,328	46,593	16,189	-
Recovery / (creation) of expected credit losses allowance for financial assets**	(13,627)	27	(12,907)	(747)	-
NET INTEREST INCOME	**150,483**	**101,355**	**33,686**	**15,442**	**-**
Financial result for investment securities at FVOCI transferred to profit or loss	4,701	-	-	4,701	-
Net foreign exchange gain	85,885	26,765	4,730	54,390	-
Fee and commission income	47,895	26,358	21,453	84	-
Fee and commission expenses	(9,121)	(461)	(7,168)	(1,476)	(16)
Net loss on operations with precious metals	(1,028)	(1,077)	49	-	-
Net trading loss	(42,859)	(201)	618	(43,276)	-
Recovery /(creation) of expected credit losses allowance for contingent liabilities**	37	37	-	-	-
Other income	4,732	946	1,517	133	2,136
NET NON-INTEREST INCOME	**90,242**	**52,367**	**21,199**	**14,556**	**2,120**
OPERATING INCOME	**240,725**	**153,722**	**54,885**	**29,998**	**2,120**
OPERATING EXPENSES	**(139,082)**	**(70,777)**	**(49,411)**	**(13,354)**	**(5,540)**
Profit before tax	101,643	82,945	5,474	16,644	(3,420)
Income tax expense	(16,899)	(13,342)	(880)	(2,677)	-
NET PROFIT	**84,744**	**69,603**	**4,594**	**13,967**	**(3,420)**
Assets	**4,297,768**	**2,287,109**	**410,258**	**1,331,525**	**268,876**
Liabilities	**4,297,768**	**1,744,596**	**1,117,013**	**574,160**	**861,999**

** Including transfer interest income and expenses*

*** Comparative data as at 31 December 2017 represent the amount of impairment allowance and reflect the measurement basis under IAS 39.*

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Loans to customers

Loans to customers have both floating and fixed interest rates.

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

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

Due to banks and other financial institutions

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

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

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

Customer accounts

Customer deposits have both floating and fixed interest rates.

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

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

Debt securities issued

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

Subordinated loans

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

The following table shows the carrying value of subordinated loans and their fair value:

	Level of the fair value hierarchy	31 December 2018		31 December 2017	
		Carrying amount	Fair value	Carrying amount	Fair value
Subordinated loans	Level 3	158,446	152,664	351,599	349,552

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

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

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2018	31 December 2017				
Derivative financial instruments (assets) (Note 17)	371	96	Level 2	Discounted cash flows. Future cash flows are estimated using the interest rates parity model. The rates for short-term interbank placements nominated in the relevant currency and with relevant maturity periods are applied as rates for the model.	Not applicable	Not applicable
Precious metals derivatives (assets) (Note 17)	4,152	50	Level 2	The net result between the discounted fair value of the claim for cash / precious metals and obligations to supply / payment for precious metals / cash. The fair value of claims / liabilities for precious metals is the accounting price of the respective precious metal set by the National Bank of the Republic of Belarus. Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.	Not applicable	Not applicable
Securities at fair value through profit or loss (Note 16)	233,686	70,748	Level 2	Buyer's quotes in an inactive market.	Not applicable	Not applicable
Investment securities net of equity investments quoted in the domestic market (Note 20)	350,557	608,510	Level 2	Discounted cash flows. Rates are defined as the rates for financial instruments with similar level of risk nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable
Derivative financial instruments (liabilities) (Note 17)	-	94	Level 2	Discounted cash flows. Future cash flows are estimated using the interest rates parity model. Rates are defined as the sovereign risk rates for financial instruments nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2018	**31 December 2017**				
Precious metals derivatives (liabilities) (Note 17)	1,709	864	Level 2	The net result between the discounted fair value of the claim for cash / precious metals and obligations to supply / payment for precious metals / cash. The fair value of claims / liabilities for precious metals is the accounting price of the respective precious metal set by the National Bank of the Republic of Belarus. Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.	Not applicable	Not applicable
Derivatives with securities (liabilities) (Note 17)	-	4	Level 2	The net result between the discounted fair value of the claim for the cash/securities and obligations for supply/payment of securities/cash. Discounted cash flows are taken as the fair value of claims/ liabilities for the securities. Rates are defined as the rates for financial instruments with similar level of risk nominated in the relevant currency and with relevant maturity periods. Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.	Not applicable	Not applicable

36. CAPITAL MANAGEMENT

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

	31 December 2018	31 December 2017
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	535,944	377,140
Retained earnings	134,889	104,676
Total Tier 1 capital	**670,833**	**481,816**
Subordinated loan	96,720	240,908
Investment securities revaluation reserve	7,980	8,857
Total regulatory capital	**775,533**	**731,581**
Risk weighted assets	4,699,523	4,412,823
Capital adequacy ratios:		
Tier 1 capital	14%	11%
Total capital	17%	17%

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

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

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

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

Ratio of Tier 1 fixed capital to risk weighted assets - 4.5% (6.375% taking into account the conservation buffer; 6.375% taking into account the conservation and countercyclical buffers; 7.125% taking into account the conservation, countercyclical and systemic importance buffers).
Ratio of Tier 1 capital to risk weighted assets - 6%;
Ratio of regulatory capital of the Bank to risk weighted assets - 10% (11.875% taking into account the conservation buffer);

** the countercyclical buffer is set by the National Bank of the Republic of Belarus within the range from 0 to 2.5%; as at 31 December 2018 and throughout the reporting year this figure was 0 %.*

As at 31 December 2018 and 31 December 2017, the Bank ensured compliance with all external regulatory requirements in relation to capital.

37. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's business. The Bank manages risks in the course of an ongoing process of identification, assessment and monitoring as well as through establishing risk limits and other internal control measures. The Bank is subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as stock prices. The Bank is also subject to operational risks and other non-financial risks (risk of business reputation and strategic risk).

Risk management structure

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

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

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

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

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

Risk assessment and reporting systems

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

A system of limits is in place in the Bank to monitor and control risks. The Bank’s system of limits is multilevel and includes limits for specific counterparties, portfolios, groups of assets and operations of the Bank recognized both in and off the balance sheet, limits on transactions with certain financial instruments, limits on the amount of loss, as well as limits on authorities and structural limitations.

The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum risk appetite, which should not exceed the equity of the Bank.

The management bodies of the Bank make decisions aimed at optimization of risk levels and also set limits on maximum risk for particular activities. They also set maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits for divisions of the Bank on certain active and passive operations, interest rate level associated with them, limits on active operations with financial institutions, limits on operations with securities, industry limits of credit risk. Credit Committees approve aggregate limits and sub-limits on certain types of active transactions with corporate clients, limits on the amount of borrowers financing and the terms for financing.

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

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

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

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

Excessive concentration of credit risks

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

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

Credit risk

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

Credit risk is managed in three directions: transactions with corporate clients, transactions with retail customers, transactions with financial institutions.

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

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

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

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

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

The Bank estimates the amount of loss allowance for loans to corporate customers based on its past loss experience for portfolios of loans, current situation and expectations (2017: based on an analysis of the future cash flows for loans with individual signs of impairment and based on its past loss experience for portfolios of loans for which no individual signs of impairment has been identified).
In determining the impairment allowance for loans, the management made the following key assumptions:

For 2018:

- annual actual loss rate calculated using the historical loss rate without taking into account collateral is 3.5% on average for the corporate clients portfolio and 1.5% on average for individuals;
- decrease in the fair value of collateral in the form of real estate is 20-50% in case the pledged property is sold.

For 2017:

- annual actual loss rate calculated using the historical loss rate assessed on a collective basis is 2.1% on average for the corporate clients portfolio and 4.1% on average for individuals;
- decrease in the fair value of the main types of collateral in case the property pledged is sold is 20-50% for real estate, vehicles and equipment.

Changes in these estimates could affect the loss allowance for loans to customers. For example, to the extent that the net present value of the estimated cash flows differs by one percent, the loss allowance on loans to customers as at 31 December 2018 would be BYN 30,697 thousand lower/higher (31 December 2017: BYN 26,817 thousand).

Maximum credit risk exposure

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

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

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

	31 December 2018	**31 December 2017**
Cash and cash equivalents (excluding cash on hand)	514,040	572,007
Securities at fair value through profit or loss	233,686	70,748
Derivative financial instruments	4,523	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	75,186	76,942
Loans to customers	3,069,654	2,681,656
Investment securities (excluding unquoted equity investments)	350,557	608,510
Other financial assets	13,511	15,862
Financial guarantees issued and similar commitments	89,190	71,154
Letters of credit not covered by cash	12,211	29,451
Total	**4,362,558**	**4,126,476**

As at 31 December 2017, financial assets are graded according to the current credit ratings they have been assigned internationally recognized agencies. The highest possible rating is AAA.

In 2017, Standard & Poor’s increased the long-term sovereign credit rating of the Republic of Belarus for foreign currency liabilities to “B” (earlier, since 2011 – “B-”), with he “stable” outlook.

The following table presents Bank’s financial assets by counterparties’ credit ratings given by internationally recognized agencies Standard & Poor’s and Fitch (for government bodies – by country sovereign credit ratings) as at 31 December 2017 according to IAS 39:

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

When measuring credit risk and expected credit losses the Bank assesses whether the credit risk of a financial asset has increased significantly since initial recognition.

Significant increase in credit risk

When determining whether the credit risk on a financial asset has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs, which manifests in a decrease of the rating, and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure of a financial asset has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Bank recognizes a significant increase of credit risk using the following list of qualitative characteristics:

- internal rating of the debtor since initial recognition of a credit liability has decreased by 2 or more levels of the internal credit rating;
- seizure of the debtor's current accounts (suspension of operations) as at the reporting date;
- existence of overdue amounts payable as at the last reporting quarter date exceeding revenue as at the respective date;
- occurrence of force majeure circumstances stipulated in the contract and other circumstances that have not resulted in the termination of the debtor's operations but leading to doubts with regard to the debtor's ability to meet its obligations;
- imposition of sanctions on a counterparty bank by controlling authorities and regulators.

As a backstop evidencing a significant increase of credit risk for a financial asset since initial recognition, the Bank considers an overdue period for the asset of over 30 days, or 7 days for assets with counterparty banks and of security issuers. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Impairment of financial instruments

Impairment events include the following factors:

- existence as at reporting date of principal and/or interest amounts payable to the Bank under a contract that are overdue by 90 or more days;
- non-compliance by a counterparty bank with capital requirements, including capital adequacy requirements established by a regulator;
- loss of a counterparty bank recognized as at two or more quarter dates in a row amounting to more than 25% of the capital as at the last quarter date;
- decrease of the debtor's internal rating to "D" grade;
- restructuring of the debt under a financial asset related to a deteriorated financial position of the debtor;
- the debtor has been recognized as insolvent (bankrupt);
- a claim has been filed to recognize the debtor as insolvent (bankrupt), and the court rendered a decision to initiate legal proceedings on the claim;
- an authorized body of the Bank has decided to early collect the debtor's debt;
- and other.

Definition of default

The Bank considers a financial asset to be in default when:

- the customer has been recognized as insolvent (bankrupt);

- a claim has been filed to recognize the customer as insolvent (bankrupt), and the court rendered a decision to initiate legal proceedings on the claim;
- an authorized body of the Bank has decided to early collect the customer’s debt;
- the customer fails to fulfill its obligations to pay the principal and/or interest amounts to the Bank during more than 90 calendar days as at the rating calculation date, and during more than 15 days for assets with counterparty banks and of security issuers;
- an authorized body of the Bank has decided to perform a forced restructuring of the customer's debt due to a write-off of a significant portion of the debt or provision of a grace period for repaying the principal and interest amounts, after which, based on a reasoned conclusion of the authorized body agreed with the risk management department, a decrease of the customer’s liabilities under the loan transaction towards the Bank is expected.

Expected credit losses model

For the purpose of creating an allowance for the Bank’s financial assets, the Bank applies the expected credit losses model to record changes in credit quality of a financial asset since initial recognition taking into account reasonable and appropriate historical information, factors specific to the debtor, current conditions and future economic situation.

Allowance for credit losses calculated using the expected credit losses model are measured as follows:
- based on 12-months ECL (12-month ECL are the portion of the lifetime ECL that represents expected credit losses arising due to default events related to a financial asset that are possible within 12 months after the reporting date); or
- based on lifetime expected credit losses in case of a significant increase of credit risk for the instrument since its initial recognition, as well as in case of its impairment.

The Bank defines the following stages depending on the degree of credit risk change since initial recognition:

Stage 1 – “Satisfactory assets” – includes assets that are exposed to credit risk with no indicators of a significant increase in credit risk and impairment (12-months expected credit losses are calculated);

Stage 2 – “Assets with a significant increase in credit risk” – includes assets that are exposed to credit risk and with indicators of a significant increase in credit risk and with no indicators of impairment (lifetime expected credit losses are calculated). A financial asset is reclassified into Stage 1 in future periods if there are no indicators of impairment and a significant increase in credit risk. 12-Months ECL are recognized in case of such reclassification.

Stage 3 – “Impaired assets” – includes assets that are exposed to credit risk and with indicators of impairment (lifetime expected credit losses are calculated).

In future reporting periods, migration of financial assets from Stage 3 into Stage 2 or Stage 1 attributable to the restoration of financial assets credit quality is subject to certain restoration criteria, provided there are no indicators of impairment as at the reporting date, and indicators of a significant increase of credit risk exist (for Stage 2) or are absent (for Stage 1).

Measurement of ECLs

The calculation of expected credit losses allowance is made based on the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

The following groups of financial instruments are distinguished when measuring expected credit losses:
- loans (to corporate clients and individuals);
- due from financial institutions;
- credit related commitments (financial guarantees, letters of credit, undrawn loan facilities etc.);
- accounts receivable;
- claims to sovereign and sub-sovereign debtors

Loans to individuals

Expected credit losses for loans to individuals are calculated on a portfolio basis. The annual PD for loans to individuals is determined by multiplying month migration matrices developed for a period of at least 12 months preceding the reporting date. For the purpose of calculating PD profiles for multiple years mathematical extrapolation methods are used.

To calculate the amount of default for loans to individuals the calculation of the loan collectibility ratio is used. The collectibility of loans after default is calculated by comparing the principal amounts under defaulted loans with the principal amount as at the default date for the period of at least 3 years and, based on this comparison, the determination of the repayment cash flow for the loan for a year, which is compared to the principal amount upon default after being discounted using the effective interest rate. Based on the data obtained, the average level of cash recovery for defaulted loans is calculated.

EAD represents the expected credit risk exposure upon default included account the Bank's balance of liabilities to provide cash to debtors as at the default date. For overdraft loans the Bank calculates the loan conversion ratio based on statistical information on the average ratio of the customers' debt to the overdraft limit for the period of at least 3 years. After that, the ratio is applied to the overdraft limit to calculate EAD.

Loans to corporate customers

The Bank measures expected credit losses for corporate clients' debt through a collective assessment based on credit debt quality categories.

The collective assessment based on credit debt quality categories is based on the analysis of credit debt servicing quality, as well as on the credit history and other information about the debtor's business, which is available without undue cost or effort, and includes:

- analysis of the credit debt servicing discipline;
- distribution between stages depending on the degree of the credit risk change;
- analysis of property specified as collateral under the loan agreement (property that, according to the expectations of a responsible department employee, is hard to sell in case of the debtor's default is not accepted as collateral);
- forming a professional judgement as to whether a low credit rating for a financial asset can be recognized;
- forming professional judgement as to a rebuttable assumption of a 30 days delay;
- application of professional judgement redistributing financial assets between stages;
- discounting cash flows at the reporting date using a rate that is equal to the effective interest rate for a financial asset;
- calculation of allowance according to the expected credit losses model.

The annual PD is determined based on debtors risk class migration matrices using historical information for at least 1 year, including:

- grouping internal ratings into 5 risk classes: A, B, C, E, D;
- development of matrices for the amount of transfers between the risk classes within 1 year with a breakdown by quarters to calculate the annual PD;
- calculation of the annual PD by dividing the actual amount of transfers for a particular risk class by the total amount for this risk class.

For the purpose of calculating PD profiles for multiple years mathematical extrapolation methods are used.
The grouping of internal ratings into the five risk classes of A, B, C, E, D is performed by the Bank using a compatability table:

Risk class	Debtor's internal rating
A	AAA, AA+, AA, AA-, A
B	A-, BBB+, BBB
C	BBB-, BB+, BB, BB-, B+, B
E	B-, CCC, CC, C
D	D

Where the Bank cannot determine the internal rating of a debtor (due to a lack of financial information about the debtor), PD calculated using overdue amounts migration matrices are used to calculate expected credit losses.

The internal rating of a debtor is determined in accordance with internal methods of the Bank and falls into 20 categories. The rating is determined by comparing the estimated value indicating the possibility of a debt being classified into the “Bad” category, which is calculated by using a model with fixed possibility intervals determined using the following scale for the respective rating grades assigned based on available information.

Discrete value indicating the possibility of a debt being classified into the “Bad” category	Possibility of a debt being classified into the “Bad” category		Internal rating grade	
	Low end	Upper end	Numerical value	Letter identifier
0.09%	0.00%	0.15%	20	AAA
0.21%	0.15%	0.34%	19	AA+
0.46%	0.34%	0.75%	18	AA
1.04%	0.75%	1.68%	17	AA-
2.32%	1.68%	2.58%	16	A+
2.83%	2.58%	3.14%	15	A
3.45%	3.14%	3.83%	14	A-
4.22%	3.83%	4.68%	13	BBB+
5.14%	4.68%	5.71%	12	BBB
6.28%	5.71%	6.97%	11	BBB-
7.66%	6.97%	8.50%	10	BB+
9.35%	8.50%	10.38%	9	BB
11.40%	10.38%	12.66%	8	BB-
13.92%	12.66%	15.45%	7	B+
16.98%	15.45%	18.85%	6	B
20.72%	18.85%	23.00%	5	B-
25.28%	23.00%	28.07%	4	CCC
30.85%	28.07%	34.25%	3	CC
37.65%	34.25%	100.00%	2	C
100.00%	100.00%	100.00%	1	D

The approach towards the calculation of the total amount of LGD for a single financial asset is represented by assessing the portion of the asset unrecovered through the expected cash compensation and compensation through the available collateral.

Due from financial institutions

For banks that have been assigned an international rating, the classification is based on such rating. Ratings that were assigned using Moody’s, S&P and Fitch methodologies are taken into account.

Other financial assets

When measuring the impairment of claims towards sovereign debtors, the annual PD value of S&P is used, which corresponds to the rating assigned to the sovereign debtor. In case a debtor is not rated by S&P, the most recent rating of other international agencies is used after being adjusted to the S&P international rating using the compatability table.

To calculate LGD the Bank uses information from official external sources on the degree of failed obligations after default for the principal amount, for debt securities of financial institutions and sovereigns that is available for the Bank as at the reporting date.

Incorporation of forward-looking information

If necessary, the Bank uses expert judgment to assess forward-looking information from external sources. External sources of information include economic data and forecasts published by state authorities, international organizations, as well as other information sources with a high degree of credibility.

The Bank has determined and documented the list of key factors affecting the credit risk and credit losses assessment for each portfolio of financial assets and, through the analysis of historical data, has analyzed the relationship between macroeconomic variables, credit risk and credit losses.

The key factors include:

- for loans to corporate customers and amounts due from financial institutions: GDP growth projections;
- for loans to individuals: average annual salary amount projections.

To prepare a scenario for macroeconomic indicators, macroeconomic projections data from several sources is used, assigning a specific weight to each of those sources and “optimistic” (30%), “basic” (50%), “negative” (20%) statuses to record expert expectations regarding macroeconomic projections.

Data provided by the European Bank for Reconstruction and Development (“optimistic”), International Monetary Fund (“negative”) and the National Statistical Committee of the Republic of Belarus (“basic”) is used as the major source of the macroeconomic projections scenario modelling. The respective weight of the statuses and the sources can be changed by the Bank based on a reasoned judgment.

Taking into account that the credit risk of the Bank is concentrated in the Republic of Belarus, the economic scenarios of the GDP growth and the annual average salary used as at 31 December 2018 included the following values for the Republic of Belarus:

	Value, %	**Scenario, %**
GDP growth rate for 2019	1.7	negative, 10
	2.4	Basic, 50
	3.9	Optimistic, 40

	Value, BYN	**Scenario, %**
Annual average salary for 2019	878,7	negative, 20
	999,7	Basic, 50
	1,025	Optimistic, 30

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 1-3 years.

Credit risk degree is constantly monitored to ensure the compliance with credit and creditworthiness limits in accordance with the approved risk management policy of the Bank.

Collateral

A major portion of loans is either collateralized or secured with guarantees from institutions or individuals. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are regularly updated regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 19.

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

Offsetting of financial assets and liabilities

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

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

The tables below contain financial assets and liabilities that are subject to legally effective master netting agreements or similar agreements as at 31 December 2018 and 2017:

Types of financial assets/financial liabilities	31 December 2018 Full amounts of recognized financial assets/financial liabilities	Amounts that were not off set in the Balance Sheet	Net amount	31 December 2017 Full amounts of recognized financial assets / financial liabilities	Amounts that were not off set in the Balance Sheet	Net amount
Reverse repurchase agreements, agreements on securities borrowing or similar agreements	43,698	(43,698)	-	37,043	(37,043)	-
Total financial assets	**43,698**	**(43,698)**	**-**	**37,043**	**(37,043)**	**-**
Repurchase agreements, agreements on securities lending or similar agreements	(23,847)	23,847	-	(22,527)	22,527	-
Total financial liabilities	**(23,847)**	**23,847**	**-**	**(22,527)**	**22,527**	**-**

Geographical concentration

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

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

	Belarus	CIS	OECD countries	Other countries	31 December 2018 Total
FINANCIAL ASSETS					
Cash and cash equivalents	466,977	24,495	101,831	7	593,310
Securities at fair value through profit or loss	49,689	130,289	53,708	-	233,686
Derivative financial instruments, assets	4,054	453	16	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	73,131	-	1,947	108	75,186
Loans to customers	3,069,407	30	18	199	3,069,654
Investment securities	351,256	-	4	-	351,260
Other financial assets	11,565	852	1,094	-	13,511
TOTAL FINANCIAL ASSETS	**4,026,079**	**156,119**	**158,618**	**314**	**4,341,130**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	1,599	110	-	-	1,709
Due to banks and other financial institutions	123,788	631,558	138,871	-	894,217
Customer accounts	2,567,457	59,868	97,067	2,332	2,726,724
Debt securities issued	50,229	-	-	-	50,229
Other financial liabilities	9,100	4,421	148	1	13,670
Subordinated loans	-	158,446	-	-	158,446
TOTAL FINANCIAL LIABILITIES	**2,752,173**	**854,403**	**236,086**	**2,333**	**3,844,995**
OPEN POSITION	**1,273,906**	**(698,284)**	**(77,468)**	**(2,019)**	

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

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.
A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization system and appointed officers responsible for certain stages of risk management.

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

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

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

	Up to 1 month	1-3 months	3 months – 1 year	1 year – 5 years	More than 5 years	31 December 2018
FINANCIAL LIABILITIES						
Interest bearing financial liabilities						
Due to banks and other financial institutions	(92,394)	(80,185)	(199,799)	(564,187)	(1,743)	(938,308)
Customer accounts	(895,863)	(142,474)	(730,583)	(568,907)	(73,633)	(2,411,460)
Debt securities issued	(802)	(63)	(29,718)	(17,283)	-	(47,866)
Subordinated loans	(4,383)	(1,517)	(4,831)	(181,055)	-	(191,786)
Total interest bearing financial liabilities	**(993,442)**	**(224,239)**	**(964,931)**	**(1,331,432)**	**(75,376)**	**(3,589,420)**

	Up to 1 month	1-3 months	3 months – 1 year	1 year – 5 years	More than 5 years	31 December 2018
Non-interest bearing financial liabilities						
Due to banks	(14,082)	-	(1,097)	-	-	(15,179)
Customer accounts	(254,225)	(38,924)	(97,857)	(7,460)	-	(398,466)
Debt securities issued	(3,858)	-	-	-	-	(3,858)
Other financial liabilities	(13,585)	(22)	(63)	-	-	(13,670)
Financial guarantees and similar labilities	(89,190)	-	-	-	-	(89,190)
Letters of credit not covered by cash	(4,914)	(612)	-	(6,685)	-	(12,211)
Total non-interest bearing financial liabilities	**(379,854)**	**(39,558)**	**(99,017)**	**(14,145)**	**-**	**(532,574)**
TOTAL FINANCIAL LIABILITIES	**(1,373,296)**	**(263,797)**	**(1,063,948)**	**(1,345,577)**	**(75,376)**	**(4,121,994)**
Derivative financial liabilities						**(1,709)**
Inflow	4,159	3,931	9,227	7,631	-	24,948
Outflow	(4,384)	(4,254)	(9,893)	(8,454)	-	(26,985)
Total net cash flows from derivatives	**(225)**	**(323)**	**(666)**	**(823)**	**-**	**(2,037)**

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

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

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
FINANCIAL ASSETS								
Interest bearing financial assets								
Cash and cash equivalents	31,751	-	-	-	-	-	-	31,751
Securities at fair value through profit or loss	233,686	-	-	-	-	-	-	233,686
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	29,197	14,501	-	-	-	-	-	43,698
Loans to customers	115,275	494,924	462,145	1,623,779	361,782	11,749	-	3,069,654
Investment securities	87,605	5,862	43,245	108,055	105,790	-	-	350,557

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
Total interest bearing financial assets	**497,514**	**515,287**	**505,390**	**1,731,834**	**467,572**	**11,749**	**-**	**3,729,346**
Non-interest bearing financial assets								
Cash and cash equivalents	561,559	-	-	-	-	-	-	561,559
Derivative financial instruments, assets	934	1,659	1,930	-	-	-	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	31,488	31,488
Investment securities	-	-	-	-	-	-	703	703
Other financial assets	12,293	256	16	74	-	153	719	13,511
Total non-interest bearing financial assets	**574,786**	**1,915**	**1,946**	**74**	**-**	**153**	**32,910**	**611,784**
TOTAL FINANCIAL ASSETS	**1,072,300**	**517,202**	**507,336**	**1,731,908**	**467,572**	**11,902**	**32,910**	**4,341,130**
FINANCIAL LIABILITIES								
Interest bearing financial liabilities								
Due to banks and other financial institutions	92,207	74,930	178,684	531,794	1,423	-	-	879,038
Customer accounts	599,607	135,146	707,753	526,368	68,164	-	291,220	2,328,258
Debt securities issued	802	36	28,935	16,598	-	-	-	46,371
Subordinated loans	4,132	-	-	154,314	-	-	-	158,446
Total interest bearing financial liabilities	**696,748**	**210,112**	**915,372**	**1,229,074**	**69,587**	**-**	**291,220**	**3,412,113**
Non-interest bearing financial liabilities								
Due to banks and other financial institutions	14,082	-	1,097	-	-	-	-	15,179
Customer accounts	77,551	38,924	97,857	7,460	-	-	176,674	398,466
Debt securities issued	3,858	-	-	-	-	-	-	3,858
Derivative financial instruments, liabilities	223	311	529	646	-	-	-	1,709
Other financial liabilities	13,250	22	63	-	-	-	335	13,670
Total non-interest bearing financial liabilities	**108,964**	**39,257**	**99,546**	**8,106**	**-**	**-**	**177,009**	**432,882**
TOTAL FINANCIAL LIABILITIES	**805,712**	**249,369**	**1,014,918**	**1,237,180**	**69,587**	**-**	**468,229**	**3,844,995**
Liquidity gap	266,588	267,833	(507,582)	494,728	397,985			
Interest sensitivity gap	(199,234)	305,175	(409,982)	502,760	397,985			
Cumulative interest sensitivity gap	(199,234)	105,941	(304,041)	198,719	596,704			
Cumulative interest sensitivity gap as a percentage of total financial assets	(4.6%)	2.4%	(7.0%)	4.6%	13.7%			

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2017 Total
FINANCIAL ASSETS								
Interest bearing financial assets								
Cash and cash equivalents	250,559	-	-	-	-	-	-	250,559
Securities at fair value through profit or loss	70,748	-	-	-	-	-	-	70,748
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	6,624	42,256	-	-	-	-	1,747	50,627
Loans to customers	95,431	440,646	650,587	1,277,338	208,495	9,159	-	2,681,656
Investment securities	91,560	105,976	231,990	155,967	23,017	-	-	608,510

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2017 Total
Total interest bearing financial assets	**514,922**	**588,878**	**882,577**	**1,433,305**	**231,512**	**9,159**	**1,747**	**3,662,100**
Non-interest bearing financial assets								
Cash and cash equivalents	384,768	-	-	-	-	-	-	384,768
Derivative financial instruments, assets	128	1	17	-	-	-	-	146
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	-	-	-	-	26,315	26,315
Investment securities	-	-	-	-	-	-	611	611
Other financial assets	8,922	96	53	20	-	1,560	5,211	15,862
Total non-interest bearing financial assets	**393,818**	**97**	**70**	**20**	**-**	**1,560**	**32,137**	**427,702**
TOTAL FINANCIAL ASSETS	**908,740**	**588,975**	**882,647**	**1,433,325**	**231,512**	**10,719**	**33,884**	**4,089,802**
FINANCIAL LIABILITIES								
Interest bearing financial liabilities								
Due to banks and other financial institutions	117,550	41,337	148,367	234,040	-	-	-	541,294
Customer accounts	533,634	192,170	820,976	476,988	72,072	-	466,675	2,562,515
Debt securities issued	10,762	2,015	38,017	26,763	-	-	-	77,557
Subordinated loans	11,731	-	-	339,868	-	-	-	351,599
Total interest bearing financial liabilities	**673,677**	**235,522**	**1,007,360**	**1,077,659**	**72,072**	**-**	**466,675**	**3,532,965**
Non-interest bearing financial liabilities								
Due to banks and other financial institutions	11,825	-	-	-	-	-	-	11,825
Customer accounts	96,476	3,275	29,858	10,004	-	-	97,059	236,672
Derivative financial instruments, liabilities	184	52	380	346	-	-	-	962
Other financial liabilities	4,087	13	56	-	-	-	770	4,926
Total non-interest bearing financial liabilities	**112,572**	**3,340**	**30,294**	**10,350**	**-**	**-**	**97,829**	**254,385**
TOTAL FINANCIAL LIABILITIES	**786 249**	**238,862**	**1,037,654**	**1,088,009**	**72,072**	**-**	**564,504**	**3,787,350**
Liquidity gap	122,491	350,113	(155,007)	345,316	159,440			
Interest sensitivity gap	(158,755)	353,356	(124,783)	355,646	159,440			
Cumulative interest sensitivity gap	(158,755)	194,601	69,818	425,464	584,904			
Cumulative interest sensitivity gap as a percentage of total financial assets	(3.9%)	4.8%	1.7%	10.4%	14.3%			

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

Securities at fair value through profit and loss – the expected period of sale of the securities at fair value through profit and loss reported as at 31 December 2018 was determined by the management as less than 1 month since there is an active market where these securities may be sold within a short period of time.

Customer accounts – the Bank's liquidity risk management includes estimation of the minimum balance of current (settlement) accounts of customers, i.e. the amounts raised considering stable relationships with customers, which is determined using statistical methods based on historical data of fluctuations in customer accounts balances during 365 days before the reporting date, thus, such minimum balances are included in the "Without maturity" category.

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2018 and 2017:

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
Securities at fair value through profit or loss, interest bearing	-	2,750	42,928	138,770	49,238	-	-	233,686
Customer accounts, interest bearing	890,696	135,146	707,753	526,368	68,164	-	131	2,328,258
Customer accounts, non-interest bearing	254,225	38,924	97,857	7,460	-	-	-	398,466
Liquidity gap, considering contractual maturity	(434,861)	270,583	(464,654)	633,498	447,223			

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2017 Total
Securities at fair value through profit or loss, interest bearing	51,926	-	-	18,822	-	-	-	70,748
Customer accounts, interest bearing	1,000,309	192,170	820,976	476,988	72,072	-	-	2,562,515
Customer accounts, non-interest bearing	193,535	3,275	29,858	10,004	-	-	-	236,672
Liquidity gap, considering contractual maturity	(511,991)	350,113	(155,007)	364,138	159,440			

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

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

Market risk

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

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

Interest rate risk

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

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

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

	31 December 2018		**31 December 2017**	
	Interest rate/discount rate 1%	**Interest rate/discount rate -1%**	**Interest rate/discount rate 1%**	**Interest rate/discount rate -1%**
Impact on profit before tax				
Assets				
Cash and cash equivalents	305	(305)	2,402	(2,402)
Securities at fair value through profit or loss	(7,026)	7,026	68	(68)
including:				
effect on interest income	*108*	*(108)*	*479*	*(479)*
effect on change in fair value	*(7,134)*	*7,134*	*(411)*	*411*
Derivative financial instruments, assets, impact on fair value of discount rate change	488	(362)	35	(11)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	400	(400)	416	(416)
Loans to customers	18,738	(18,738)	17,802	(17,802)
Investment securities	1,086	(1,086)	2,979	(2,979)
Liabilities				
Derivative financial instruments, liabilities, impact on fair value of discount rate change	167	(303)	336	(367)
Due to banks and other financial institutions	(3,022)	3,022	(2,731)	2,731
Customer accounts	(13,782)	13,782	(14,915)	14,915
Debt securities issued	(229)	229	(164)	164
Impact on profit before tax	(2,875)	2,865	6,228	(6,235)
Impact on other comprehensive income:				
Investment securities, impact on fair value of discount rate change	(9,768)	10,388	(8,604)	9,297
Impact on comprehensive income after taxation	(13,145)	13,758	(2,849)	3,537

Currency risk

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

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

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

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

	BYN	USD 1USD= BYN 2.1598	EUR 1EUR= BYN 2.4734	RUB 1RUB= BYN 0.031128	Other currencies	31 December 2018 Total
FINANCIAL ASSETS						
Cash and cash equivalents	308,263	85,959	178,588	19,223	1,277	593,310
Securities at fair value through profit or loss	-	196,671	-	37,015	-	233,686
Derivative financial instruments, assets	4,523	-	-	-	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	29,433	2,055	43,698	-	-	75,186
Loans to customers	1,059,719	579,928	1,179,844	250,163	-	3,069,654
Investment securities	15,594	302,636	33,030	-	-	351,260
Other financial assets	8,214	1,150	3,911	236	-	13,511
TOTAL FINANCIAL ASSETS	**1,425,746**	**1,168,399**	**1,439,071**	**306,637**	**1,277**	**4,341,130**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	1,709	-	-	-	-	1,709
Due to banks and other financial institutions	117,097	70,749	631,466	74,905	-	894,217
Customer accounts	760,831	1,363,960	389,063	38,781	174,089	2,726,724
Debt securities issued	-	31,830	18,399	-	-	50,229
Other financial liabilities	6,931	307	4,985	1,433	14	13,670
Subordinated loans	-	-	-	158,446	-	158,446
TOTAL FINANCIAL LIABILITIES	**886,568**	**1,466,846**	**1,043,913**	**273,565**	**174,103**	**3,844,995**
CURRENCY POSITION	**539,178**	**(298,447)**	**395,158**	**33,072**	**(172,826)**	

Derivative financial instruments and spot contracts with foreign currency

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

	BYN	USD 1USD= BYN 2.1598	EUR 1EUR= BYN 2.4734	RUB 1RUB= BYN 0.031128	Other currencies	31 December 2018 Total
Claims on derivative financial instruments and spot contracts	-	393,915	-	-	173,659	567,574
Liabilities on derivative financial instruments and spot contracts	(14,735)	(135,219)	(415,660)	-	-	(565,614)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**(14,735)**	**258,696**	**(415,660)**	**-**	**173,659**	
TOTAL CURRENCY POSITION	**524,443**	**(39,751)**	**(20,502)**	**33,072**	**833**	

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

Derivative financial instruments and spot contracts with foreign currency

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

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

Currency risk sensitivity

The degree of influence of changes in the main foreign currencies exchange rates on the Bank's financial result is used by the Bank when preparing reports on the currency risk for key management personnel considering changes in risk variables.

The following tables detail the Bank's sensitivity to a decrease by 20% and increase by 10% of USD, EUR and RUB against the national currency as at 31 December 2018 and 2017. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency amounts as at the period end that were translated as at the period end using the rates adjusted for the expected amount as compared to the effective rates.

	As at 31 December 2018		As at 31 December 2017	
	BYN/USD	**BYN/USD**	**BYN/USD**	**BYN/USD**
	20%	**-10%**	**20%**	**-10%**
Effect on profit before tax	(7,854)	3,927	(1,361)	680
Effect on comprehensive income after taxation	(5,891)	2,945	(1,021)	510
	As at 31 December 2018		**As at 31 December 2017**	
	BYN/EUR	**BYN/EUR**	**BYN/EUR**	**BYN/EUR**
	20%	**-10%**	**20%**	**-10%**
Effect on profit before tax	(4,095)	2,048	(4,137)	2,068
Effect on comprehensive income after taxation	(3,071)	1,536	(3,103)	1,551
	As at 31 December 2018		**As at 31 December 2017**	
	BYN/RUB	**BYN/RUB**	**BYN/RUB**	**BYN/RUB**
	20%	**-10%**	**20%**	**-10%**
Effect on profit before tax	6,614	(3,307)	(4,802)	2,401
Effect on comprehensive income after taxation	4,961	(2,480)	(3,602)	1,801

Limitations of sensitivity analysis

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

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary depending on changes in the market. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative price fluctuations in the securities market, management actions could include selling investments, changing investment portfolio composition and taking other protective actions Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets held at market value on the balance sheet may be affected significantly. In these circumstances, different measurement bases for liabilities and assets may lead to significant volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty. The assumption that all interest rates change similarly also constitutes a limitation.

Operational risk

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

To collect information on operational risk events the Bank maintains a corresponding database. It reflects data on operational loss nature and amount with a breakdown by the Bank's activities, certain banking operations (processes), circumstances for occurrence and detection thereof.

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

Proactive methods of operational risk management in the Bank include maintaining of operational risks register and use of key operational risk indicators system, usage of self-assessment and risk-audit procedures, usage of operational risk escalation procedures.

The Bank places special emphasis on ensuring business continuity and planning its operations in case of unexpected situations. To increase the reliability and resilience of the Bank's business processes and underlying resources to emergencies in the reporting year, the Bank continued to develop a system ensuring continuity of business in line with the nature and scope of business and the approved development strategy of the Bank.

Operational risk realization can result not only in financial losses, but can also damage the Bank's reputation and negatively affect employees' performance.

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

38. SUBSEQUENT EVENTS

According to the National Bank of the Republic of Belarus, the basic year-on-year inflation in February 2019 amounted to 6.2%.

In January 2019, Fitch Ratings confirmed its long-term issuer default ratings (IDR) for Belarus in foreign and national currencies at the level "B" with a "Stable" outlook.