Closed Joint-Stock Company
Minsk Transit Bank

Financial statements prepared in accordance with IFRS,
And Independent Auditors' Report
For the year ended 31 December 2018

Contents

Independent Auditors' Report

The financial statements

Notes to the financial statements

Independent Auditors' Report

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

Opinion

We have audited the financial statements of Closed Joint-Stock Company Minsk Transit Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for opinion

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

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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

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

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

— conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

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

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

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

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

Irina Vereschagina
Partner
Director of KPMG LLC

25 April 2019
Minsk

Republic of Belarus

Statement of Financial Position

As at 31 December 2018

(in thousands of Belarusian Roubles)

	Note	31 December 2018	31 December 2017 restated*
Assets			
Cash and cash equivalents	5	193 108	147 905
Amounts due from credit institutions	6	50 597	26 929
Derivative financial assets	7	65	32
Loans to customers	8	833 646	703 832
Investment securities	9	47 989	46 079
including those pledged under repurchase agreements	*9*	*42*	*3 499*
Investment property	10	-	3 628
Property and equipment	11	15 449	14 621
Intangible assets	12	22 758	19 353
Other assets	14	8 629	9 822
Total assets		**1 172 241**	**972 201**
Liabilities			
Amounts due to credit institutions	15	41 991	41 840
Derivative financial liabilities	7	84	6
Amounts due to customers	16	760 477	654 052
Debt securities issued	17	41 278	24 712
Other borrowings	18	30 562	11 257
Current income tax liabilities		7 104	2 622
Deferred income tax liabilities	13	16 181	18 786
Subordinated debt	19	38 460	34 997
Other liabilities	14	16 388	9 728
Total liabilities		**952 525**	**798 000**
Equity			
Share capital	20	57 134	57 134
Fair value reserve of investment securities	9	417	-
Retained earnings		162 165	117 067
Total equity		**219 716**	**174 201**
Total equity and liabilities		**1 172 241**	**972 201**

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

A.M. Titov — Acting Chairman of the Board

D.P. Shidlovich — Finance Director

25 April 2019

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Statement of Comprehensive Income

For the year ended 31 December 2018

(in thousands of Belarusian Roubles)

	Note	*2018*	*2017 restated**
Interest income calculated using effective interest rate method			
Loans to customers		144 356	142 461
Investment securities		7 007	6 379
Amounts due from credit institutions		1 875	2 112
		153 238	**150 952**
Other interest income		**2 786**	**1 513**
Interest expense			
Amounts due to customers		(27 509)	(26 988)
Debt securities issued		(3 491)	(2 261)
Other borrowings		(3 287)	(2 095)
Amounts due to credit institutions		(2 535)	(3 153)
Subordinated debt		(2 234)	(1 935)
		(39 056)	**(36 432)**
Net interest income before loss allowance of financial instruments		**116 968**	**116 033**
Loss allowance of financial instruments	5, 6, 8, 9, 14	(5 412)	(12 761)
Net interest income		**111 556**	**103 272**
Fee and commission income	24	61 314	52 470
Fee and commission expense	24	(28 206)	(21 206)
Net loss on investment securities at fair value through other comprehensive income (2017: investment securities available-for-sale)		-	(124)
Net loss on financial instruments at fair value through profit or loss		(98)	-
Net gain from foreign currency transactions	23	20 391	15 609
Gain from change in fair value of investment property	10	-	106
Gain on initial recognition of financial instruments at fair value	8, 15	547	600
Other income	25	20 762	15 305
Non-interest income		**74 710**	**62 760**
Personnel expenses	26	(40 309)	(37 167)
Depreciation and amortization	11, 12	(7 594)	(6 582)
Other operating expenses	26	(40 701)	(36 895)
Other impairment and provisions	14	(114)	(218)
Non-interest expense		**(88 718)**	**(80 862)**
Profit before income tax expense		**97 548**	**85 170**
Income tax expense	13	(22 814)	(21 264)
Profit for the year		**74 734**	**63 906**

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Statement of Comprehensive Income (continued)

For the year ended 31 December 2018

(in thousands of Belarusian Roubles)

	Note	*2018*	*2017 restated**
Profit for the year		**74 734**	**63 906**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Realized loss on investment securities reclassified to the statement of comprehensive income		98	124
Unrealized loss on investment securities (2017: investment securities available-for-sale)		(98)	(124)
Change in loss allowance of investment securities		90	-
Other net comprehensive loss to be reclassified to profit or loss in subsequent periods		**90**	**-**
Other comprehensive income for the year		**90**	**-**
Total comprehensive income for the year		**74 824**	**63 906**

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Statement of changes in equity

For the year ended 31 December 2018

(in thousands of Belarusian Roubles)

	Share capital	*Fair value reserve of investment securities*	*Retained earnings*	*Total*
Balance as at 1 January 2017	**57 134**	**-**	**61 980**	**119 114**
Comprehensive income for the year				
Profit for the year	–	-	63 906	**63 906**
Total comprehensive income for the year	**–**	**-**	**63 906**	**63 906**
Transactions with shareholders				
Dividends (Note 20)	–	-	(8 819)	**(8 819)**
Total transactions with shareholders	**–**	**-**	**(8 819)**	**(8 819)**
Balance as at 31 December 2017*	**57 134**	**-**	**117 067**	**174 201**
Effect of transition to IFRS 9 net of tax (see Note 3)	–	327	(5 024)	**(4 697)**
Restated balance as at 1 January 2018	**57 134**	**327**	**112 043**	**169 504**
Profit for the year	–	-	74 734	**74 734**
Other comprehensive income				
Changes in loss allowance of investment securities	-	90	-	**90**
Total comprehensive income for the year	**–**	**90**	**74 734**	**74 824**
Transactions with shareholders				
Dividends (Note 20)	–	-	(24 612)	(24 612)
Total transactions with shareholders	**–**	**-**	**(24 612)**	**(24 612)**
Balance as at 31 December 2018	**57 134**	**417**	**162 165**	**219 716**

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

Statement of Cash Flows

For the year ended 31 December 2018
(in thousands of Belarusian Roubles)

	Note	*2018*	*2017 restated**
Cash flows from operating activities			
Interest received		157 387	154 997
Interest paid		(37 423)	(36 423)
Fees and commissions received		61 726	51 208
Fees and commissions paid		(28 146)	(21 194)
Realized gain net of loss on foreign currency transactions		21 252	12 909
Other income received		20 107	15 297
Personnel expenses paid		(40 138)	(36 563)
Other operating expenses paid		(40 918)	(35 790)
Cash flows from operating activities before changes in operating assets and liabilities		**113 847**	**104 441**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(23 240)	(16 663)
Loans to customers		(128 248)	(194 928)
Other assets		964	(2 356)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		587	21 630
Amounts due to customers		84 459	117 435
Other liabilities		4 905	1 113
Net cash flows from operating activities before income tax		**53 274**	**30 672**
Income tax paid		(19 341)	(12 254)
Net cash from operating activities		**33 933**	**18 418**
Cash flows from investing activities			
Acquisition of investment securities (2017: investment securities available-for-sale)		(2 044 694)	(1 392 391)
Proceeds from sale and redemption of investment securities (2017: investment securities available-for-sale)		2 047 422	1 439 956
Proceeds from sale of investment property		4 601	392
Acquisition of property and equipment and intangible assets	11, 12	(13 111)	(9 747)
Proceeds from sale of property and equipment and intangible assets		189	153
Net cash from/(used in) investing activities		**(5 593)**	**38 363**
Cash flows from financing activities			
Proceeds from issue of debt securities		177 324	64 262
Redemption of debt securities issued		(160 975)	(55 620)
Repayment of other borrowings		(11 309)	(23 445)
Proceeds from other borrowings		29 565	-
Dividends paid	20	(24 612)	(8 819)
Net cash used in financing activities		**9 993**	**(23 622)**
Effect of movements in exchange rates on cash and cash equivalents		6 974	1 432
Net increase/(decrease) in cash and cash equivalents		**45 307**	**34 591**
Cash and cash equivalents at 1 January		147 905	113 314
Loss allowance	5	(104)	-
Cash and cash equivalents at 31 December	5	**193 108**	**147 905**

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

The accompanying notes on pages 11-83 form an integral part of these financial statements.

Statement of Cash Flows (continued)

For the year ended 31 December 2018
(in thousands of Belarusian Roubles)

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

		Cash flows		Non-monetary changes	Other changes		
	31 December 2017	Proceeds	Repayment	Exchange rate movements	Interest paid	Interest accrued	31 December 2018
Debt securities issued	24 712	177 324	(160 975)	23	(10 458)	10 652	41 278
Other borrowings	11 257	29 565	(11 309)	397	(2 057)	2 709	30 562
Subordinated debt	34 997	-	-	3 270	(1 823)	2 016	38 460
Total	**70 966**	**206 889**	**(172 284)**	**3 690**	**(14 338)**	**15 377**	**110 300**

		Cash flows		Non-monetary changes	Other changes		
	31 December 2016	Proceeds	Repayment	Exchange rate movements	Interest paid	Interest accrued	31 December 2017
Debt securities issued	15 609	64 262	(55 620)	122	(1 922)	2 261	24 712
Other borrowings	33 235	-	(23 445)	2 087	(2 715)	2 095	11 257
Subordinated debt	34 741	-	-	248	(1 927)	1 935	34 997
Total	**83 585**	**64 262**	**(79 065)**	**2 457**	**(6 564)**	**6 291**	**70 966**

*The Bank has initially applied IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated (see Note 3). As a result of adoption of IFRS 9 the Bank changed presentation of certain captions, comparative information is re-presented accordingly (see Note 3).

The accompanying notes on pages 11-83 form an integral part of these financial statements.

(in thousands of Belarusian Roubles)

1. Principal activities

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

The Bank accepts deposits from the public, grants loans and transfers cash within the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its corporate clients and individuals. The Bank's head office is located in Minsk. During the reporting period, the Bank didn't change its legal address. The legal address as at 31 December 2018 and 31 December 2017 was Minsk, Tolstogo Street, 10.

During 2018, the Bank opened 2 payment processing centres. As at 31 December 2018, the Bank had the following structure: the head office, 6 centers of banking services and 57 payment processing centres located in Minsk, Brest, Gomel, Grodno, Vitebsk, Mogilev, Soligorsk, Svetlogorsk, Molodechno, Zhodino, Bobruisk, Baranovichi and Lida, 56 remote work places, 5 portative centers of banking services.

As at 31 December 2018 and 31 December 2017, the Bank had neither subsidiaries nor associates.
As at 31 December 2018 and 31 December 2017, the Bank's outstanding share capital was owned by the following shareholders:

Shareholder	***31 December 2018***	***31 December 2017***
BELNEFTEGAZ ALC	51,000%	51,000%
MTB Investments Holdings Limited (Cyprus)	47,969%	47,969%
Other	1,031%	1,031%
	100,000%	**100,000%**

As at 31 December 2018 and 31 December 2017, the Bank's ultimate controlling owners were Alexei Ivanovich Oleksin and Inna Vladimirovna Oleksina.

2. Basis of preparation

General

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

This is the first package of the Bank's annual financial statements, during the preparation of which IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* have been applied. Changes in accounting policies are described in Note 3.

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

The financial statements have been prepared on a historical cost basis except for the estimate of non-monetary items recognized before 31 December 2014, which were accounted for in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* and items measured at fair value.

These financial statements are presented in thousands of Belarusian Roubles (hereinafter – "BYN thousand").

(in thousands of Belarusian Roubles)

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

Inflation accounting

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

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

The Bank operates in the Republic of Belarus. Consequently, the Bank is exposed to the economy and financial markets of the Republic of Belarus, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Belarus. The methods of monetary policy regulation, adopted by the National Bank of the Republic of Belarus, made it possible to reduce both the volatility of the Belarusian Rouble and the level of inflation over the past two years. Despite this, the period of depreciation of the Belarusian Rouble and the period of high inflation that followed stabilization, still lead to some uncertainty in the conditions of economic activity in the Republic of Belarus.

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

3. Significant accounting policies

Changes in accounting policies

The Bank has initially adopted IFRS 9 and IFRS 15 from 1 January 2018.

Changes in accounting policies resulting from the adoption of IFRS 9 have generally been applied retrospectively, except for the changes in the presentation of previous periods data. The Bank took an exemption, allowing not to restate comparative data for previous periods in terms of changes in the classification and assessment (including impairment) of financial instruments. Differences between the previous carrying amount of instruments and their carrying amount in accordance with IFRS 9 are generally recognized as retained earnings and provisions as at 1 January 2018.

A number of amendments to other standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognized on financial assets (see Note 3);
- additional disclosures related to IFRS 7 (see Notes 3 and 27); and
- additional disclosures related to IFRS 15 (see Note 24).

IFRS 9 Financial Instruments

IFRS 9 establishes requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 significantly differ from those of

(in thousands of Belarusian Roubles)

IAS 39. The new standard introduces fundamental changes in the accounting for financial assets and in some aspects of the accounting for financial liabilities.

As a result of the transition to IFRS 9, the Bank also applied amendments to IAS 1 Presentation of financial statements, according to which the interest income calculated using the effective interest rate method is required to be presented separately in the statement of comprehensive income. Previously, the Bank disclosed the amount of such income in the notes to the financial statements.

In addition, the Bank applied the relevant amendments to IFRS 7 Financial Instruments: Disclosures in respect of disclosures for 2018, these amendments were not applicable to comparative information.

The following is a summary of key changes in the Bank's accounting policies arising from the adoption of IFRS 9.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (hereinafter – "FVOCI") and fair value through profit or loss (hereinafter – "FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset and its contractual cash flows are managed. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts, which 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 3.

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

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognized earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 34.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except for the cases described below:

- Data for comparative periods were not restated. Differences between the previous carrying amount of financial assets and financial liabilities and their carrying amount in accordance with IFRS 9 as at 1 January 2018 are recognized in retained earnings and equity reserves. Accordingly, the information provided as at 31 December 2017 and for the year ended that date does not recognize the requirements of IFRS 9 and, therefore, is incompatible with the information provided in accordance with the requirements of IFRS 9 as at 31 December 2018 and for the year ended on the specified date.
- The Bank used the exemption not to restate data for 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 method as a separate line item in the statement of comprehensive income. The Bank has reclassified comparative interest income on finance leases to other interest income and changed the description of the line item to interest income calculated using the effective interest method.
- The determination of the business model within which a financial asset is held was made on the basis of the facts and circumstances that existed at the date of initial application.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 3.

(in thousands of Belarusian Roubles)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes core principles 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. The impact of IFRS 15 iss limited to the new disclosure requirements (see Note 24)

Effect of transition to IFRS 9

The effect of transition to IFRS 9 on certain items of the statement of financial position and retained earnings as at 1 January 2018 amounted to:

Financial assets	**Note**	**IAS 39/ IAS 37**		***Reclassi fication***	***Effect (ECL)***	***Effect (other)***	**IFRS 9**	
		Classifi cation	**Carrying amount**				**Classifi cation**	**Carrying amount**
Cash and cash equivalents	**5**	**LR**	147 905	**-**	-	**-**	**AC**	147 905
Amounts due from credit institutions	**6**	**LR**	26 929	**-**	(192)	**-**	**AC**	26 737
Loans to customers	**8**	**LR**	703 832	**-**	(4 125)	**-**	**AC**	699 707
Investments in securities available-for-sale	**9**	**AFS**	46 079	(46 079)	-	-		-
Investment securities	**9**		-	46 079	-	**-**	**FVOCI**	46 079
Other financial instruments	**15**	**LR**	5 906	**-**	(1 193)	**-**	**AC**	4 713
Total financial assets			**930 651**	**-**	**(5 510)**	**-**	**-**	**925 141**
Allowance for credit related commitments		N/a	-	-	(753)		N/a	(753)
Total financial liabilities			**-**	**-**	**(753)**			**(753)**
Deferred income tax liability		N/a	(18 786)	-	-	1 566	N/a	(17 220)
Fair value reserve of investment securities		N/a	-	-	(327)	-	N/a	(327)
Total effect					**(6 590)**	**1 566**		

LR – loans and receivables;
AFS – assets available-for-sale;
AC – assets measured at amortized cost;
FVOCI– assets measured at FVOCI.
N/a – not applicable.

The Bank's accounting policies for the classification of financial instruments in accordance with IFRS 9 are set out in Note 3 below.

The Bank's debt securities are intended to meet daily liquidity requirements. The Bank is looking for ways to minimize the liquidity management cost and for this purpose actively manages the portfolio income. Such income consists of payments received, stipulated by the contract, as well as profits and losses from the sale

(in thousands of Belarusian Roubles)

of financial assets. This investment strategy often leads to significant sales. The Bank believes that, in accordance with IFRS 9, these securities are held within the business model, the goal of which is achieved both through obtaining contractual cash flows and through the financial assets sale.

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements except for the changes described above.

Financial assets and financial liabilities

a) *Classification*

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortized cost FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for the following items that are recognized in profit or loss as well as financial assets measured at amortized cost:

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

Upon derecognition of a debt financial asset measured at FVOCI, accumulated profit or loss previously recognized as part of other comprehensive income is reclassified from equity to 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 OCI. This election is made on an investment-by-investment basis.

For such equity instruments, profits and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise 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 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 realizing 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 its strategy for how those risks are managed;

(in thousands of Belarusian Roubles)

- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its 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 flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are 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 of 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 at initial recognition. 'Interest' is defined as consideration for the time value of money and 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 profit margin.

In assessing whether the contractual cash flows are SPPI. The Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing on amount of contractual cash flows such that it would not meet this condition. In making 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 (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets measured at amortized cost are initially measured at fair value including additional direct transaction costs and subsequently measured at their amortized cost using the effective interest method.

Financial assets measured at fair value are initially measured at fair value plus, if the financial assets are not measured at FVTPL, the relevant transaction costs are subsequently recognized at fair value.

In regard to financial assets measured at FVOCI gains or losses are recognized at other comprehensive income less interest income calculated using effective interest method, expected credit losses and recovery of amounts written-off on losses and exchange rates, recognized in profit or loss.

Gains and losses on financial assets measured at FVTPL are recognized in profit or loss at subsequent restatement of a financial instrument.

<u>Financial assets – Policy applicable before 1 January 2018</u>

At initial recognition, financial instruments are measured at fair value, which is adjusted for directly related fees and costs in the case of instruments that are not measured at FVTPL.

The best evidence of the fair value of a financial instrument upon initial recognition is usually the transaction price. The Bank concludes that the fair value at initial recognition differs from the transaction price:

- if fair value is confirmed by active market quotes for an identical asset or liability (ie, Level 1 inputs) or based on a valuation technique that uses data from solely observable markets, the Bank recognizes the difference between the fair value at initial recognition and the transaction price as income or expense.

- In all other cases, the initial measurement of a financial instrument is adjusted to assign to future periods the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognizes the deferred difference as income or expense only if the original data becomes observable or the instrument is derecognized. Since the initial recognition, the Bank recognizes this deferred difference as income or expense only to the extent that it arises as a result of

(in thousands of Belarusian Roubles)

a change in a factor (including the temporary one) that market participants would take into account when setting the price of an asset or a liability.

The Bank classifies financial assets as one of the following categories.

Investments held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity if the Bank is willing and able to hold them until maturity. Investments that the Bank intends to hold for an indefinite period of time are not included in this category. Held-to-maturity investments are subsequently measured at amortized cost. Revenues and expenses are recognized in the statement of comprehensive income at impairment of investments, as well as in the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets that are not traded in an active market with fixed or determinable payments. They are not intended for immediate sale or sale in the near future, and are not classified as trading securities or investment securities available-for-sale. Such assets are measured at amortized cost using the effective interest method. Income and expenses on such assets are recognized in the statement of comprehensive income at disposal or depreciation of such assets, as well as in the amortization process.

Financial assets available-for-sale

Financial assets available-for-sale are non-derivative financial assets classified as available-for-sale or not included in any of the three above-mentioned categories. After initial recognition, financial assets available for sale are measured at fair value, with income and expenses reflected in other comprehensive income except for impairment losses and gains or losses from the transfer of foreign currency on debt financial instruments held available for sale, until retirement. On disposal, the accumulated income and expenses previously recognized in other comprehensive income are reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in the profit or loss.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in financial assets measured at FVTPL. Financial assets are classified as held-for-trading if they are purchased for the purpose of selling in the near future or form a part of financial instruments portfolio which are managed as a unitary group at initial recognition, the recent practice shows that financial instruments transactions were made with the purpose of obtaining short-term gains. Derivatives are also classified as held-for-trading, unless they are effective hedging instruments. Income and expenses on financial assets held-for-trading are recognized in the profir or loss.

Reclassifications

Management determines the appropriate classification of financial instruments in this category at initial recognition. Derivative financial instruments and financial instruments measured at FVTPL upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loans and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the Bank has an intention and ability to hold them for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Financial liabilities

The Bank classifies financial liabilities, other than financial guarantee contracts and loan commitments, as measured at amortized cost or at FVTPL.

Reclassification

The classification of financial liabilities after their initial recognition is not subject to change.

(in thousands of Belarusian Roubles)

b) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends to realize the asset and settle the liability simultaneously. The right to set-off should not be subject to an event in the future and should have legal force in all the following circumstances:

- in the ordinary course of business;
- in case of non-compliance with the obligation; and
- in the event of insolvency or bankruptcy of the entity or any of the counterparties.

These conditions are generally not met for master netting agreements, and the assets and liabilities are recognized in the statement of financial position in full.

c) Derecognition

Financial assets

The Bank derecognizes 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 derecognized) 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 recognized in other comprehensive income is recognized in profit or loss.

From 1 January 2018 any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognized 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 recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized. Examples of such transactions are securities lending 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 recognize 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.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

d) Modifications of financial assets and financial liabilities

Modification of financial assets, policy applicable from 1 January 2018

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized 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.

(in thousands of Belarusian Roubles)

Changes in cash flows on existing financial assets or financial liabilities are not considered modifications if they are a consequence of current contract terms, for example, changes in interest rates by the Bank due to changes in the refinancing rate of the National Bank of Belarus, if the corresponding loan agreement provides for the Bank to change interest rates.

The Bank conducts a quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows for the initial financial asset and cash flows on modified or replacing financial asset are significantly different. The Bank conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. If the cash flows differ significantly, it is considered that the rights to the contractual cash flows of the original financial asset have expired. In conducting this assessment, the Bank is guided by instructions regarding the derecognition of financial liabilities by analogy.

The Bank concludes that the modification is considered significant based on the following qualitative factors:

- change in the currency of a financial asset;
- change in the terms of a financial asset leading to SPPI discrepancy.

If cash flows are modified when the borrower has financial difficulties, then the objective of the modification is usually to maximize 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 (see below for write-off policy).This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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 assets and recognizes 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 a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For loans with a fixed interest rate, the terms of which stipulate the borrower's right to early repayment at nominal value without significant fines, the change in the interest rate to the market level in response to changing market conditions is taken into account by the Bank in the same way as for accounting instruments with a floating interest rate, i.e. the effective interest rate is revised prospectively.

<u>Modification of financial liabilities, policy applicable from 1 January 2018</u>

The Bank derecognizes 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 recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized 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 conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. The bank concludes that the modification is considered significant, based on the following qualitative factors:

- change in the currency of the financial liability;
- change in the type of collateral or other means of improving the quality of the asset;
- conversion condition;
- a change in the subordination of a financial liability.

For the purpose of quantification, conditions are considered to be significantly different if the present value of cash flows in accordance with new conditions, including payments of commissions less commissions received, discounted at the initial effective interest rate, differs by at least 10% of the discounted present value remaining cash flows from the original financial liability.

(in thousands of Belarusian Roubles)

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 recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or toss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized 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, policy applicable before 1 January 2018

If the terms of a financial asset were modified, then the Bank evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognized and a new financial asset was recognized at fair value.

The Bank seeks, as far as possible, to revise the terms of the loan agreements, for example, to extend the contractual payment dand to agree on new credit terms instead of foreclosure of the collateral.

The accounting treatment of such a modification is as follows:

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

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews the renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, and their recoverable amount is measured using the loan’s original or current effective interest rate.

Modification of financial liabilities, policy applicable before 1 January 2018

The Bank derecognized a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognized at fair value. The difference between the carrying amount of the financial liability extinguished and consideration paid was recognized in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognized 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.

e) Impairment

Policy applicable from 1 January 2018

The Bank recognizes 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 recognized on equity investments.

The Bank recognizes loss allowances in an amount equal to the lifetime expected credit losses, excluding financial instruments for which credit risk has not increased significantly since their initial recognition.

The Bank does not apply exemptions associated with low credit risk.

(in thousands of Belarusian Roubles)

12-month expected credit losses (12-month ECL) are the portion of ECL that result from default events on a financial instrument, possible within 12 months after the reporting date. Financial instruments and associated with them 12-month ECL are classified as “Stage 1” financial instruments.

Lifetime expected credit losses (lifetime ECL) are defined as ECL as a result of all possible events of default of the financial instrument throughout its expected duration. Financial instruments that are not purchased or originated credit-impaired assets and associated with them lifetime ECL are classified as “Stage 2” financial instruments (if the credit risk has increased significantly since its initial recognition, but is not credit-impaired) and “Stage 3” (in case if the financial instrument is credit-impaired).

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash insufficient receipts (i.e. the difference between the contractual cash flows due to the Bank and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as 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 due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If under the parties` mutual agreement 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 derecognized and ECL are measured as follows.

- If the expected restructuring will 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 will result 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, debt financial assets measured at FVOCI and financial guarantees, loan commitments, as well as 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 used by the Bank when analyzing borrowers is given in Note 27.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Purchased or originated credit-impaired financial assets (POCI-assets)

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

POCI-assets include the following assets of the Bank:

- new financial assets issued by the Bank in the framework of restructuring a credit-impaired asset (replacement of a credit-impaired asset by another asset with a similar level of credit risk)

(in thousands of Belarusian Roubles)

- an asset that arose when the financial asset was derecognized as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impaired financial assets;

- acquired credit-impaired financial assets.

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on purchased or originated credit-impaired financial assets, the expected cash flows are used, taking into account the initial assessment of the ECL for the entire period. The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity. The effective interest rate is adjusted for credit risk.

Upon initial recognition of POCI-assets (usually originated assets), the fair value of such loans is determined based on the expected cash flows as a result of cash flows and/or forced sale of collateral.

Subsequent estimation of ECL on POCI-assets is always made in the amount equal to lifetime ECL. ECL of such assets is the amount of changes in lifetime ECL from the day of the initial recognition of the asset. The amount reflecting positive changes in the amount of lifetime ECL is recognized as an impairment gain, even if the amount of these changes is greater than the amount previously recognized in profit or loss as an impairment loss.

Interest on POCI-assets is accrued at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: 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 ECL 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 for ECL is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance for ECL is disclosed and is recognized in the fair value reserve.

Write-offs

Loans and debt securities are written-off (either partially or in full) when there is no realistic prospect of recovery.

Reimbursement of previously written-off amounts is recognized in the “other income” item in the statement of comprehensive income.

In regard to written-off financial assets, the Bank may continue to carry out debt collection activities in accordance with its internal policies.

<u>Policy applicable before 1 January 2018</u>

Objective evidence of impairment

At each reporting date, the Bank assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a Bank of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;

(in thousands of Belarusian Roubles)

- breach of contract, for example, refusal or evasion from paying interest or principal amount of the debt;
- non-payment or delay in payment of interest and principal amount of the debt;
- indications that a borrower or issuer would enter bankruptcy or financial reorganization;
- the disappearance of an active market for a financial assets due to financial difficulties.

Amounts due from credit institutions and loans to customers

According to the amounts due from credit institutions and loans to customers that are measured at amortized cost, the Bank initially assesses an objective evidence of impairment of individually significant financial assets on an individual basis, or in the aggregate for financial assets that are not individually significant. If the Bank decides that there is no objective evidence of impairment for a financial asset assessed on an individual basis, regardless of whether it is significant, the Bank includes this asset in a Bank of financial assets with similar credit risk characteristics and assesses them on aggregate basis. Assets that are assessed on an individual basis, for which impairment losses are recognized, should not be evaluated for impairment on an aggregate basis.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is the difference between the carrying amount of the assets and the present value of estimated future cash flows (which does not take into account future expected losses on loans that have not yet been incurred). The carrying amount of an asset is reduced by using an allowance account, and the loss amount is recognized in the statement of comprehensive income. Interest income continues to be accrued at a reduced carrying amount based on the asset original effective interest rate.

Loans and the corresponding allowance are written-off by the decision of the Board of the Bank when there are no real prospects for their reimbursement in the future. If the amount of the estimated impairment losses increases or decreases next year due to an event that occurred after the impairment loss was recognized, the previously recognized impairment loss amount will be increased or decreased by adjusting the allowance account. If the write-off is later recovered, then the recovery amount is recognized in the statement of comprehensive income.

The present value of estimated future cash flows is discounted at the original effective interest rate of the financial asset. If a loan is granted at a floating interest rate, then the discount rate for estimating impairment losses will be the current effective interest rate. The calculation of the present value of expected future cash flows of financial assets provided as collateral recognizes cash that can be received in case of foreclosure, less the costs of obtaining and implementing collateral, regardless of the availability of foreclosure.

For the purpose of aggregate assessment of whether there are indicators of impairment, financial assets are divided into Banks based on the Bank’s internal credit rating system, taking into account credit risk characteristics, such as type of product, industry, timeliness of payments and other factors.

Future cash flows for a Bank of financial assets that are assessed for impairment on an aggregate basis are determined based on historical information regarding losses on assets whose credit risk characteristics are similar to those assets of a Bank. Historical information on losses is adjusted on the basis of current information in the observable market in order to reflect the influence of existing conditions that did not affect those years for which historical information on losses is available and to exclude the influence of conditions during a historical period that does not currently exist. Estimates of changes in future cash flows reflect and correspond to changes in relevant information in the observable market for each year (for example, changes in the unemployment rate, real estate prices, commodity prices, payment status, or other factors indicating losses incurred by the Bank). The methodology and assumptions used to estimate future cash flows are regularly reviewed to reduce the discrepancy between loss estimates and actual results.

Financial investments available-for-sale

At each reporting date, the Bank assesses whether there is objective evidence of impairment for a financial investment or a Bank of investments available-for-sale.

For equity investments classified as available-for-sale, objective evidence of impairment also includes a significant or prolonged decrease in fair value of the investment below its initial value. If there is evidence of impairment, the cumulative loss (defined as the difference between the acquisition cost and the current fair value, less any impairment losses on the investment previously recognized in profit or loss) is reclassified from other comprehensive income to profit or loss.

Impairment losses on equity instruments are not recovered through profit or loss; the increase in fair value after impairment is recognized in other comprehensive income.

For debt instruments classified as available-for-sale, the assessment of impairment indicators is made according to the same principles as for financial assets measured at amortized cost. Interest income is accrued based on the reduced carrying amount, using the interest rate used to discount future cash flows in order to estimate impairment losses. Interest income is recognized in the statement of comprehensive income. If the fair value of a debt instrument increases next year, and this increase is objectively related to an event that occurred after the impairment losses were recognized in profit or loss, then the impairment losses will be recovered and recognized in profit or loss.

f) Measurement of fair values

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

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

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

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

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

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

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

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

Cash and cash equivalents

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

(in thousands of Belarusian Roubles)

Repurchase and reverse repurchase agreements and securities lending

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

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

Derivative financial instruments

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

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

Leases

i. Finance lease – Bank as a lessor

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

ii. Operating lease − Bank as a lessee

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

Taxation

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

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

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

(in thousands of Belarusian Roubles)

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

Property and equipment

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

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

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

	Years
Buildings	20-100
Computers and office equipment	1-14
Vehicles	6-9
Furniture and fixtures	2-50

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

Intangible assets

Intangible assets include software and licenses for software and activities that should be licensed.

Intangible assets acquired separately are initially measured at cost adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets have finite useful lives and are amortized over the periods of 1 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment property

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

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

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

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

(in thousands of Belarusian Roubles)

Amounts due to customers, debt securities issued and subordinated debt

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value less relevant transaction costs and subsequently at their amortized cost using the effective interest method.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position, and information about them is disclosed in the financial statements, apart from cases where the disposal of resources due to their redemption is unlikely. Contingent assets are not recognized in the statement of financial position, and information about them is disclosed in the financial statements in cases where it is probable that the economic benefits associated with them will be received.

Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- from 1 January 2018: at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15; and
- before 1 January 2018: at the higher of the amount defined in accordance with IAS 37 and the amount initially recognized less, when appropriate, the cumulative amount of amortization and depreciation, recognized in accordance with IAS 18.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments:

- from 1 January 2018: the Bank recognizes a loss allowance;
- before 1 January 2018: the Bank recognized a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Provisions

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

Retirement and other employee benefit obligations

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

Share capital

Share capital

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

(in thousands of Belarusian Roubles)

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

Dividends

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

a) Interest and similar income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognized 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:

- the gross carrying amount of the financial asset; or
- the 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 ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate on financial assets except for those measured at FVTPL includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial 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 amortization 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).

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the 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. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become 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 the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(in thousands of Belarusian Roubles)

Presentation

Interest income calculated using the effective interest method presented in the statement of comprehensive income includes:
- interest on financial assets measured at amortized cost;
- interest on debt instruments measured at FVOCI.

Other interest income presented in the statement of comprehensive income includes interest income on net finance leases.

Interest expense presented in the statement of comprehensive income includes financial liabilities measured at amortized cost.

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognized 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 includes transaction costs and fees and bonuses paid or received that form an integral part of the effective interest rate on financial instruments except for those measured at FVTPL. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income presented in the statement of comprehensive income includes:
- interest on financial assets measured at amortized cost;
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of comprehensive income includes financial liabilities measured at amortized cost.

b) Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS15. 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.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

c) Net trading income

'Net trading income' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

(in thousands of Belarusian Roubles)

d) Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the National Bank on the date of the transaction are included in gains less losses from transactions in foreign currencies. Prior to 1 January 2018 if the difference has arisen due to impairment, exchange rates recognized in other comprehensive income, are recognized in profit or loss.

The official exchange rate applied in the preparation of the financial statements as of 31 December 2018 and 2017 is as follows:

	31 December 2018	***31 December 2017***
USD/BYN	2,1598	1,9727
EUR/BYN	2,4734	2,3553
RUR/BYN	0,031128	0,034279

Comparative data presentation

As a result of the transition to IFRS 9 and IFRS 15, the Bank changed the presentation of certain items in the financial statements. The comparative data presentation has also changed in accordance with the procedure for presenting information in the current period.

The impact of the main changes on data presentation in the statement of comprehensive income for the year ended 31 December 2017 is as follows:

- Interest income presentation was changed in such a way that interest income on net investments in finance leases are presented separately in the “Other interest income” item;
- The presentation of impairment losses has been modified so that impairment losses on debt financial assets (including net investments in finance leases), impairment losses on loan commitments and financial guarantee contracts and impairment losses on other assets are presented in “Loss allowance of financial instruments”;
- The Bank's liabilities on loyalty programs to customers are presented as a decrease in revenue as part of the Bank's fee and commission income.

The impact of the abovementioned changes on the data presentation in the statement of comprehensive income is summarized in the table below:

thousands of Roubles	**Previously reported data**	**Reclassification effect**	**According to the new classification**
Interest income on loans to customers	143 974	(1 513)	142 461
Other interest income	-	1 513	1 513
Fee and commission income	58 505	(6 035)	52 470
Other operating expenses	(42 930)	6 035	(36 895)
Loss allowance of financial instruments	(11 653)	(1 108)	(12 761)
Other impairment expenses	(1 326)	1 108	(218)

The impact of the abovementioned changes on the data presentation in the statement of cash flows is summarized in the table below:

(in thousands of Belarusian Roubles)

thousands of Roubles	**Previously reported data**	**Reclassification effect**	**According to the new classification**
Cash flows for operating activities:			
Fee and commission income	57 243	(6 035)	51 208
Other operating expenses paid	(41 825)	6 035	(35 790)

The effect of changes on presentation in the statement of financial position as at 31 December 2017 is as follows:

- The presentation procedure was changed in such a way that investments in securities available-for-sale were reflected in the section “Investment securities”.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application if permitted. However, the Bank has not early adopted the following new or amended standards in the preparing these financial statements.

IFRS 16 Leases

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

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

The Bank commenced an initial assessment of the possible impact of applying IFRS 16 to its financial statements. To date, the most significant identified impact is the need for the Bank to recognize assets and liabilities under operating lease agreements regarding premises. In addition, the nature of the costs recognized for these contracts will change, because, in accordance with IFRS 16, instead of the lease expenses that are evenly recognized over the life of the contract, the Bank will have to reflect the cost of depreciation of assets in the form of the right to use and interest expenses related to the lease obligations. The Bank has not yet decided whether it will use optional simplifications

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

- retrospective approach; or

- modified retrospective approach with optional practical expedients.

The lessee applies the chosen approach consistently to all of its leases. Currently, The Bank plans to apply IFRS 16 initially on 1 January 2019. The Bank has not yet selected the type of transition.

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

The Bank has not yet quantified the impact of IFRS 16 on its assets and liabilities. The quantitative effect will depend, in particular, on which method of transition to the new standard will be chosen, the extent to which the Bank will use practical simplification and exemption from recognition, as well as which new lease agreements will be entered into by the Bank. The Bank plans to disclose information on the selected transition option and quantitative information before applying the standard.

(in thousands of Belarusian Roubles)

Other standards

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

- IFRIC 23 Uncertainty over Income Tax Treatments;
- Amendments to IAS 28 Investments in Associates and Joint Ventures;
- Amendments to the plan, its reduction or settlement of obligations under it (amendments to IAS 19);
- Annual Improvements to IFRSs 2015-2017 Cycle – various standards;
- Amendments to references in IFRS standards to the Conceptual framework for the presentation of financial statements;
- IFRS 17 Insurance Contracts.

4. Critical accounting judgments and estimates

In preparing these financial statements, the management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the reporting period in which the respective estimates were revised and in any subsequent periods that they affect.

Judgements

Information about assumptions used in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is disclosed in the following notes:

Applicable to 2018 only:

- Classification of financial assets: assessment of the business-model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding – Note 3.

- Establishing the criteria for determining whether credit risk on the financial assets 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 – Note 27.

Applicable to 2018 and 2017:

- for the purpose of determining the levels of the fair value hierarchy, the Bank applies judgment in regard to the active market definition. Description of the valuation methods and key inputs on financial instruments measured at fair value is given in Note 28.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended 31 December 2018 is disclosed in the following notes:

Applicable to 2018 only:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 27.

Applicable to 2018 and 2017:

- impairment of financial instruments – Notes 5, 6, 8, 9, 14.
- fair value measurement of financial assets and financial liabilities – Note 28.

(in thousands of Belarusian Roubles)

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2018	*31 December 2017*
Cash on hand	62 286	44 724
Current accounts with the National Bank of the Republic of Belarus	63 297	57 457
Current accounts with other credit institutions	44 421	45 724
Term deposits with credit institutions up to 90 days	23 208	-
Total cash and cash equivalents	**193 212**	**147 905**
Net of loss allowance	(104)	-
Cash and cash equivalents	**193 108**	**147 905**

As at 31 December 2018, current accounts with credit institutions include BYN 18 365 thousand (2017: BYN 16 373 thousand) placed with 5 banks (2017: 5 banks) in the member countries of the Organization for Economic Co-operation and Development (hereinafter − "OECD").

Movement in the loss allowance are presented in the table below. Comparative data for 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.

	Stage 1	*Total 2018*	*Total 2017*
Loss allowance as at 1 January	**-**	**-**	**-**
Originated or purchased financial assets	104	**104**	**-**
Balance as at 31 December	**104**	**104**	**-**

Movement in loss allowance is associated with the changes in amount of funds placed on current accounts in credit institutions and short-term deposits:

	Stage 1	*Total 2018*
Cash and cash equivalents as at 1 January	**103 181**	**103 181**
Originated or purchased financial assets	52 716	**52 716**
Repayment	(26 752)	**(26 752)**
Foreign exchange rates and other changes	1 781	**1 781**
Cash and cash equivalents as at 31 December	**130 926**	**130 926**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2018	*31 December 2017*
Term deposits placed for more than 90 days	43 194	21 631
Obligatory reserves with the National Bank of the Republic of Belarus	7 638	5 332
Total amounts due from credit institutions	**50 832**	**26 963**
Net of loss allowance*	(235)	(34)
Amounts due from credit institutions	**50 597**	**26 929**

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

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

(in thousands of Belarusian Roubles)

As at 31 December 2018, 49% (2017 - 28%) of the fixed deposits placed for a period exceeding 90 days were placed in one Belarusian bank.

As at 31 December 2018, the amounts due from credit institutions included BYN 9 627 thousand placed as collateral for obligations under settlements using payment cards and international payment systems (as at 31 December 2017: BYN 7 103 thousand).

Movement in the loss allowance are presented in the table below. Comparative data for 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.

	Stage 1	*Stage 3*	*Total 2018*	*Total 2017*
Loss allowance as at 1 January	**192**	**34**	**226**	**30**
Net remeasurement in loss allowance	(127)	-	**(127)**	**3**
New financial assets originated or purchased	165	-	**165**	
Write-offs	-	(36)	**(36)**	**-**
Foreign exchange rates and other changes	5	2	**7**	**1**
Balance as at 31 December	**235**	**-**	**235**	**34**

Movement in loss allowance is associated with the changes in amount due from credit institutions:

	Stage 1	*Stage 3*	*Total 2018*
Amounts due from credit institutions as at 1 January	**26 929**	**34**	**26 963**
New financial assets originated or purchased	39 702	**-**	**39 702**
Repayment	(16 287)	**-**	**(16 287)**
Write-offs	-	**(36)**	**(36)**
Foreign exchange rates and other changes	488	**2**	**490**
Amounts due from credit institutions as at 31 December	**50 832**	**-**	**50 832**

7. Derivative financial instruments

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

	31 December 2018			*31 December 2017*		
	Notional amount, equivalent	*Fair value*		*Notional amount, equivalent*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Forwards - foreign contracts	35 114	30	(1)	15 827	7	-
Forwards - domestic contracts	64 348	35	(83)	17 127	25	(6)
Total derivative assets/(liabilities)	**99 462**	**65**	**(84)**	**32 954**	**32**	**(6)**

Foreign contracts are contracts concluded with non-residents of the Republic of Belarus, whereas domestic contracts are contracts concluded with residents of the Republic of Belarus represented in the table above.

As of 31 December 2018 and 31 December 2017, the Bank has positions in the following types of derivatives:

(in thousands of Belarusian Roubles)

Forwards

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

8. Loans to customers

Loans to customers comprise:

	31 December 2018	***31 December 2017***
Loans to legal entities	416 063	335 699
Loans to individuals	391 640	359 987
Financial leases	34 689	18 221
Total loans to customers	**842 392**	**713 907**
Net of loss allowance *	(8 746)	(10 075)
Loans to customers	**833 646**	**703 832**

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

The comparison of loss allowance of loans to customers is presented below. Comparative data as at 31 December 2017 represent the amount of the allowance for impairment and reflect the basis of measurement in accordance with IAS 39.

	Stage 1	***Stage 2***	***Stage 3***	***2018***	***2017***
Loss allowance of loans to individuals as at 1 January					
Balance as at 1 January	2 294	774	2 757	**5 825**	**8 383**
Transfer to Stage 1	538	(487)	(51)	**-**	
Transfer to Stage 2	(709)	713	(4)	**-**	
Transfer to Stage 3	-	(572)	572	**-**	
Net remeasurment of loss allowance	(683)	271	5 765	**5 353**	**7 559**
New financial assets originated or purchased	756	-	-	**756**	
Unwinding of discount			75	75	
Write-offs			(6 860)	**(6 860)**	**(10 316)**
Loss allowance of loans to individuals as at 31 December	**2 196**	**699**	**2 254**	**5 149**	**5 626**

If the net present value of the estimated cash flows changed by plus / minus one percent, the amount of the loss allowance of loans to individuals as at 31 December 2018 would be BYN 515 thousand lower / higher (31 December 2017: BYN 563 thousand).

(in thousands of Belarusian Roubles)

	Stage 1	Stage 2	Stage 3	2018	2017
Loss allowance of loans to legal entities as at 1 January					
Balance as at 1 January	4 560	949	2 245	**7 754**	**6 284**
Transfer to Stage 1	580	(471)	(109)	**-**	
Transfer to Stage 2	(759)	892	(133)	**-**	
Transfer to Stage 3	-	(403)	403	**-**	
Net remeasurment of loss allowance	(4 443)	(539)	1 986	**(2 996)**	**3 799**
New financial assets originated or purchased	1 764	-	-	**1 764**	
Write-offs	-	-	(3 490)	**(3 490)**	**(5 977)**
Unwinding of discount			137	**137**	
Foreign exchange rates and other changes	87	-	-	**87**	**197**
Loss allowance of loans to legal entities as at 31 December	**1 789**	**428**	**1 039**	**3 256**	**4 303**

If the net present value of the estimated cash flows changed by plus / minus one percent, the amount of the loss alowance of loans to individuals as at 31 December 2018 would be BYN 326 thousand lower / higher (31 December 2017: BYN 430 thousand).

Movement in loss allowance is associated with the changes in gross carrying amount of loans to individuals:

	Stage 1	Stage 2	Stage 3	Total 2018
Loans to individuals as at 1 January				
Balance as at 1 January	350 353	4 434	5 200	**359 987**
Transfer to Stage 1	3 009	(2 899)	(110)	
Transfer to Stage 2	(16 010)	16 018	(8)	
Transfer to Stage 3	-	(12 378)	12 378	
New financial assets originated or purchased	194 588	-	-	**194 588**
Repayment	(148 439)	(1 550)	(6 164)	**(156 153)**
Unwinding of discount			75	**75**
Write-offs			(6 860)	**(6 860)**
Loans to individuals as at 31 December	**383 501**	**3 625**	**4 512**	**391 638**

As at 31 December 2018, the amount of loans written-off, for which debt collection continues, amounted to BYN 10 317 thousand.

Movement in loss allowance is associated with the changes in gross carrying amount of loans to legal entities:

	Stage 1	Stage 2	Stage 3	Total 2018
Loans to legal entities as at 1 January				
Balance as at 1 January	319 554	11 728	4 415	**335 697**
Transfer to Stage 1	6 077	(5 830)	(247)	
Transfer to Stage 2	(19 881)	20 118	(237)	
Transfer to Stage 3	-	(10 423)	10 423	
New financial assets originated or purchased	312 630	-	-	**312 630**
Repayment	(215 983)	(5 231)	(7 697)	**(228 911)**
Unwinding of discount			137	**137**
Write-offs			(3 490)	**(3 490)**
Loans to legal entities as at 31 December	**402 397**	**10 362**	**3 304**	**416 063**

As at 31 December 2018, the amount of loans written-off, for which debt collection continues, amounted to BYN 3 406 thousand.

(in thousands of Belarusian Roubles)

The allowance for impairment in the tables above includes expected credit losses on certain loan commitments to customers, such as credit cards, overdrafts, since the Bank can't determine the expected credit losses on the uncalled component of loan commitments separately from those related to loans already issued within the loan commitments.

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

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions – cash or securities;
- for commercial lending – pledge of real estate, inventory and accounts receivable;
- for car lending – pledge of car.

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

The information in regard to loans to customers as at 31 December in the context of collateral types is presented below. Information is based on the loans carrying amount, rather than the fair value of the collateral.

	31 December 2018	***31 December 2017***
Real estate	163 564	173 446
Goods for sale	87 369	65 111
Fixed assets	56 163	55 168
Cash	30 990	36 413
Right to receive accounts receivable	4 594	3 760
Other	64 497	964
Unsecured	435 215	379 045
Loans to customers	**842 392**	**713 907**

The table above excludes the cost of overcollateralization.

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

Since the Bank focuses on the creditworthiness of borrowers, the Bank, as a rule, does not revise the estimated value of collateral, unless the credit risk on a loan has increased significantly and the loan is monitored closely. Accordingly, the Bank does not regularly revise the estimated value of collateral accepted for all loans to customers. For loans for which an evidence of impairment has been identified, the Bank typically revises the estimated value of collateral. As at 31 December 2018, the fair value of collateral for credit-impaired debt to legal entities amounted to BYN 9 598 thousand (as at 31 December 2017: BYN 6 277 thousand).

As at 31 December 2018, 99,88% of the loan portfolio of individuals, or BYN 391 168 thousand. (as at 31 December 2017: 99,85%, or BYN 359 458 thousand) is represented by unsecured loans.

As at 31 December 2018, loans secured by guarantee deposits amounted to BYN 30 990 thousand (31 December 2017: BYN 36 413 thousand).

Concentration of loans to customers

As at 31 December 2018, the concentration of loans issued by the Bank to ten largest independent borrowers amounted to BYN 190 913 thousand or 23% of gross loan portfolio. A loss allowance was charged for the loans in the amount of BYN 689 thousand. As at 31 December 2017, the concentration of loans issued by the Bank to ten largest independent borrowers made up BYN 147 180 thousand or 21% of gross loan portfolio. An allowance for impairment was charged for the loans in the amount of BYN 1 828 thousand. The amount due from one of the largest borrowers made up BYN 31 067 thousand (as at 31 December 2017:

(in thousands of Belarusian Roubles)

BYN 32 371 thousand) and is fully covered by the guarantee deposit in the amount BYN 29 387 thousand (as at 31 December 2017: BYN 29 566 thousand) (Notes 16, 30).

Structure of loan portfolio by the types of customers is as follows:

	31 December 2018	*31 December 2017*
Private companies	444 228	347 600
Individuals	391 640	359 987
State organizations	6 524	6 320
Loans to customers	**842 392**	**713 907**

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

	31 December 2018	*31 December 2017*
Individuals	391 640	359 987
Wholesale and retail trade	237 414	171 696
Manufacturing	48 505	60 105
Real estate	56 645	41 050
Transport	42 106	27 571
Construction	33 184	19 957
Food industry	3 221	6 609
Other	29 677	26 932
Loans to customers	**842 392**	**713 907**

In 2018, the Bank financed start-up companies in the framework of a joint program with OJSC Development Bank of the Republic of Belarus. The interest rate on loans issued under this program as at 31 December 2018 made up from 8% to 9,5%. Losses on initial recognition of financial instruments at fair value for 2018 amounted to BYN 549 thousand (2017: BYN 62 thousand). Balances under these loan agreements amounted to BYN 7 258 thousand as at 31 December 2018, BYN 3 775 thousand as at 31 December 2017.

Finance lease receivables

The analysis of finance lease receivables as at 31 December 2018 is as follows:

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2018*
Gross investments in finance leases	27 254	11 997	**39 251**
Unearned future finance income on finance leases	(3 276)	(1 286)	**(4 562)**
Net investments in finance leases	**23 978**	**10 711**	**34 689**

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

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2017*
Gross investments in finance leases	14 145	6 990	**21 135**
Unearned future finance income on finance leases	(2 027)	(886)	**(2 913)**
Net investments in finance leases	**12 118**	**6 104**	**18 222**

(in thousands of Belarusian Roubles)

The information due to the loss allowance of finance lease receivables as at 31 December is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*2018*	*2017*
Balance as at 1 January	280	74	267	**621**	**324**
Transfer to Stage 1	55	(55)	-	**-**	
Transfer to Stage 2	(35)	50	(15)	**-**	
Transfer to Stage 3	-	(19)	19	**-**	
Net remeasurment of loss allowance	(303)	(18)	(124)	**(445)**	**292**
New financial assets originated or purchased	165	-	-	**165**	
Write-offs	-	-	-	**-**	**(470)**
Balance as at 31 December	**162**	**32**	**147**	**341**	**146**

If the net present value of the estimated cash flows changed by plus / minus one percent, the amount of the loss allowance of investment in finance lease as at 31 December 2018 would be BYN 34 thousand lower / higher (31 December 2017: BYN 15 thousand).

The change in allowance for impairment is associated with changes in the finance lease receivables:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Finance leases as at 1 January				
Balance as at 1 January	16 522	1 104	596	**18 222**
Transfer to Stage 1	754	(754)	-	
Transfer to Stage 2	(972)	1 006	(34)	
Transfer to Stage 3	-	(337)	337	
New financial assets originated or purchased	29 166	-	-	**29 166**
Repayment	(11 872)	(460)	(367)	**(12 699)**
Finance leases as at 31 December	**33 598**	**559**	**532**	**34 689**

9. Investment securities

Investment securities measured at FVOCI are presented as follows:

	31 December 2018	*31 December 2017 restated**
Securities measured at FVOCI	36 288	31 733
Securities measured at FVOCI pledged under repurchase agreements	42	3 499
Securities measured at FVOCI pledged under other agreements	11 088	10 331
Equity investments	571	516
Total investment securities	**47 989**	**46 079**

** Comparative data as at 31 December 2017 represent the amount of investment securities classifies as available for sale in accordance with IAS 39*

As at 1 January 2018, the Bank on its own classified certain investments set in the table below as equity securities measured at FVOCI. In 2017, these investments were classified as securities available-for-sale and measured at initial cost. According to the Bank's expectations, these investments will be held in the long-term perspective in order to achieve the objectives set, that's why the Bank reclassified them into securities measured at FVOCI.

As at 31 December 2018, the following financial assets were transferred as collateral for funds borrowed from banks (Note 15): government long-term bonds of the Ministry of Finance of the Republic of Belarus of 233 issue in quantity of 5 000 items amounting to BYN 11 087 thousand; government long-term bonds of the Ministry of Finance of the Republic of Belarus of 250 issue in quantity of 20 items amounting to BYN 43 thousand.

(in thousands of Belarusian Roubles)

As at 31 December 2017, the following financial assets were transferred as collateral for funds borrowed from banks (Note 15): government long-term bonds of the Ministry of Finance of the Republic of Belarus of 233 issue in quantity of 5 000 items amounting to BYN 10 127 thousand; long-term bonds of the National Bank of the Republic of Belarus of 21 issue in quantity of 1 058 items amounting to BYN 2 060 thousand and long-term bonds of the National Bank of the Republic of Belarus of 34 issue in quantity of 848 items amounting to BYN 1 643 thousand.

	Fair value as at 31 December 2018	**Fair value as at 31 December 2017**
OJSC Non-bank financial institution Single Settlement and Information Space (SSIS)	483	483
SWIFT	87	24
Other	1	9
Total investments in equity securities measured at FVOCI	**571**	**516**

Investment securities measured at FVOCI but not pledged are presented by the following instruments:

	31 December 2018	***31 December 2017***
Bonds issued by the National Bank	26 967	17 440
Bonds issued by republican authorities	2 285	3 433
Bonds issued by local banks	7 036	10 860
Total investment securities measured at FVOCI	**36 288**	**31 733**
Loss allowance	(417)	-
Carrying amount is a fair value of securities measured at FVOCI*	**36 288**	**31 733**

** Debt investment securities that are measured at fair value through other comprehensive income are stated at fair value, while the loss allowance is recognized in other comprehensive income.*

As at 31 December 2018 there are certain financial assets pledged as collateral for the funds borrowed from the banks (Note 15). Securities measured at FVOCI pledged under repurchase and other agreements are represented by the following instruments:

	31 December 2018	***31 December 2017***
Bonds issued by republican authorities	11 130	13 830
Total securities measured at FVOCI pledged under repurchase agreements and other agreements	**11 130**	**13 830**

Movement in loss allowance of securities measured at FVOCI is presented below:

	Stage 1	***2018***
Investment securities		
Balance as at 1 January	327	**327**
New financial assets originated or purchased	257	**257**
Financial assets that have been derecognized	(181)	**(181)**
Foreign exchange rates and other changes	14	**14**
Balance as at 31 December	**417**	**417**

(in thousands of Belarusian Roubles)

The change in loss allowance for securities measured at FVOCI is associated with a change in the debt for which the allowance is formed:

	Stage 1	*2018*
Securities measured at FVOCI as at 1 January		
Balance as at 1 January	45 563	**45 563**
New financial assets originated or purchased	36 331	**36 331**
Repayment	(35 436)	**(35 436)**
Foreign exchange rates and other changes	960	**960**
Securities measured at FVOCI as at 31 December	**47 418**	**47 418**

The abovementioned movement has been complied for the purpose of justifying a change in the value of expected credit losses during the year and does not reflect movements if the acquisition and sale of investment securities occurred within one year.

10. Investment property

Movements in investment property are presented in the table below:

	31 December 2018	*31 December 2017*
Balance as at 1 January	**3 628**	**3 914**
Additions	–	–
Disposals	(3 628)	(392)
Change in fair value	–	106
Balance as at 31 December	**–**	**3 628**

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

	2018	*2017*
Rental income derived from investment property (Note 25)	11	248
Direct operating expenses (including repairs and maintenance) related to investment property that generated rental income	(4)	(6)
Total	**7**	**242**

As at 31 December 2017, the Bank had a permanent structure at the following address: Minsk, Alibegova St. 15, with an area of 2 788,90 m^2, the fair value of which was BYN 3 628 thousand. The fair value as at 31 December 2017 was measured by a professional independent appraiser using income and market valuation methods. The income method is based on future cash flows discounting from the use of investment property. The market method is a valuation method that uses prices and other relevant information based on results related to identical or comparable (that is, similar) assets.

This permanent structure is a pledged property under agreement concluded between the Bank and Open Joint-Stock Company Development Bank of the Republic of Belarus.

(in thousands of Belarusian Roubles)

11. Property and equipment

Movements in property and equipment are as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Construction in progress*	*Total*
Cost						
As at 1 January 2018	**4 878**	**15 048**	**752**	**8 136**	**162**	**28 976**
Additions	-	2 427	89	1 121	492	**4 129**
Disposals	(75)	(1 333)	(161)	(406)	-	**(1 975)**
As at 31 December 2018	**4 803**	**16 142**	**680**	**8 851**	**654**	**31 130**
Accumulated depreciation						
As at 1 January 2018	**(1 145)**	**(8 715)**	**(486)**	**(4 009)**	**-**	**(14 355)**
Depreciation	(115)	(1 947)	(101)	(864)	-	**(3 027)**
Disposals	64	1 207	123	307	-	**1 701**
As at 31 December 2018	**(1 196)**	**(9 455)**	**(464)**	**(4 566)**	**-**	**(15 681)**
Net book value						
As at 1 January 2018	**3 733**	**6 333**	**266**	**4 127**	**162**	**14 621**
As at 31 December 2018	**3 607**	**6 687**	**216**	**4 285**	**654**	**15 449**

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

As at 31 December 2018 and 31 December 2017, the cost of fully depreciated property and equipment made up BYN 7 394 thousand and BYN 5 892 thousand, respectively. As at 31 December 2018 and 31 December 2017, the Bank had no impairment of property and equipment.

(in thousands of Belarusian Roubles)

12. Intangible assets

Movements in intangible assets are as follows:

	31 December 2018	*31 December 2017*
Cost		
As at 1 January	**30 506**	**23 390**
Additions	8 284	7 377
Disposals	(317)	(261)
As at 31 December	**38 473**	**30 506**
Accumulated amortization		
As at 1 January	**(11 153)**	**(7 503)**
Amortization	(4 567)	(3 806)
Disposals	5	156
As at 31 December	**(15 715)**	**(11 153)**
Net book value		
As at 1 January	**19 353**	**15 887**
As at 31 December	**22 758**	**19 353**

As at 31 December 2018 and 31 December 2017, the cost of fully amortized intangible assets amounted to BYN 4 733 thousand and BYN 1 195 thousand, respectively.

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

13. Taxation

Income tax expense comprises:

	2018	*2017*
Current income tax charge	23 853	14 059
Deferred tax charge − origination and reversal of temporary differences	(1 039)	7 205
Income tax expense	**22 814**	**21 264**

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

The Bank calculates deferred tax assets and liabilities as at 31 December 2018 and 31 December 2017 using 25% tax rate.

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

	2018	*2017*
Profit before tax	**97 548**	**85 170**
Statutory tax rate	25%	25%
Estimated income tax expense at statutory rate	**24 387**	**21 293**
Securities tax credits	(1 892)	(1 655)
Capital investment tax credits	(125)	(74)
Non-deductible expenditures	444	1 700
Income tax expense	**22 814**	**21 264**

(in thousands of Belarusian Roubles)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years are presented in the table below:

	31 December 2016	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2017*	*Effect of IFRS 9 adoption as at 1 January 2018*	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2018*
Tax effect of deductible temporary differences						
Cash and cash equivalents	–	–	**–**	–	26	**26**
Derivative financial assets	15	(14)	**1**	–	11	**12**
Derivative financial liabilities	3	(3)	**–**	–	–	**–**
Investment property	297	(81)	**216**	–	(216)	**–**
Property and equipment	62	(62)	**–**	–	17	**17**
Debt securities issued	–	41	**41**	–	(41)	**–**
Amounts due to customers	–	343	**343**	–	(343)	**–**
Other assets	903	(487)	**416**	298	1 159	**1 873**
Other liabilities	87	99	**186**	–	1 290	**1 476**
Tax effect of taxable temporary differences						
Amounts due from credit institutions	(158)	(107)	**(265)**	48	179	**(38)**
Derivative financial assets	–	–	**–**	–	(4)	**(4)**
Loans to customers	(10 005)	(6 248)	**(16 253)**	1 031	(2 719)	**(17 941)**
Investment securities	(237)	221	**(16)**	(16)	5	**(11)**
Property and equipment	–	(37)	**(37)**	–	37	**–**
Intangible assets	(82)	34	**(48)**	–	18	**(30)**
Amounts due to credit institutions	(85)	(178)	**(263)**	–	(97)	**(360)**
Amounts due to customers	(46)	46	**–**	–	(15)	**(15)**
Derivative financial liabilities	–	(3)	**(3)**	–	(1)	**(4)**
Debt securities issued	(1)	1	**–**	–	(40)	**(40)**
Other borrowings	(42)	26	**(16)**	–	(10)	**(26)**
Other liabilities	(2 154)	(787)	**(2 941)**	189	1 746	**(1 006)**
Subordinated debt	(138)	(9)	**(147)**	–	37	**(110)**
Deferred tax liabilities, net	**(11 581)**	**(7 205)**	**(18 786)**	**1 566**	**1 039**	**(16 181)**

(in thousands of Belarusian Roubles)

14. Other assets and liabilities

Other assets are set in the table below:

	31 December 2018	*31 December 2017*
Banking operations accounts receivable	925	2 118
Accrued fee and commission income	880	3 660
Accounts receivable	682	3 110
Total financial assets	**2 487**	**8 888**
Prepaid taxes, other than income tax	2 207	1 241
Prepayment and other debtors	2 174	1 208
Prepaid expenses	1 295	1 009
Inventory	794	458
Total non-financial assets	**6 470**	**3 916**
Net of loss allowance of other financial assets	(328)	(2 982)
Other assets	**8 629**	**9 822**

As at 31 December 2018, prepayments and other debtors include prepayment for property and equipment in the amount of BYN 1 341 thousand (2017: BYN 389 thousand). In 2018, an inventory impairment in the amount of BYN 114 thousand was recognized (2017: BYN 218 thousand).

Other liabilities are set in the table below:

	31 December 2018	*31 December 2017*
Banking operations accounts payable	2 369	1 284
Property and equipment and intangible assets accounts payable	1 357	1 057
Accounts payable to suppliers (contractors)	945	564
Allowance for expected credit losses on contingent liabilities (Note 22)	676	-
Accrued liabilities on loyalty programs	631	516
Accrued fee and and commission expenses	42	8
Other	211	498
Total financial liabilities	**6 231**	**3 927**
Deferred revenue on annual card service commission	3 666	-
Personnel commitments	3 079	2 982
Taxes payable, other than income tax	2 338	1 664
Deposit Insurance Agency accounts payable	577	440
Deferred income	20	49
Other expenses	477	666
Total non-financial liabilities	**10 157**	**5 801**
Other liabilities	**16 388**	**9 728**

(in thousands of Belarusian Roubles)

Movement in loss allowance of other financial assets is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*	*Total 2017*
Loss allowance of other assets as at 1 January	**-**	**-**	**4 175**	**4 175**	**1 881**
Transfer to Stage 1	-		-	**-**	
Transfer to Stage 2	(194)	194	-	**-**	
Transfer to Stage 3	-	(194)	194	**-**	
Net remeasurment of loss allowance	-	-	481	**481**	**1 108**
New financial assets originated or purchased	194	-	-	**194**	
Write-offs	-	-	(4 522)	**(4 522)**	**(7)**
Loss allowance of other assets as at 31 December	**-**	**-**	**328**	**328**	**2 982**

The change in loss allowance for other financial assets is associated with a change in the debt for which the allowance is formed:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Other financial assets debt as at 1 January				
Balance as at 1 January	**4 005**	**-**	**4 883**	**8 888**
Transfer to Stage 2	(363)	363	-	
Transfer to Stage 3	-	(363)	363	**-**
New financial assets originated or purchased	363	-	-	**363**
Repayment	(2 131)	-	(111)	**(2 242)**
Write-offs	-	-	(4 522)	**(4 522)**
Other financial assets debt as at 1 January	**1 874**	**-**	**613**	**2 487**

15. Amounts due to credit institutions

Amounts due to credit institutions are presented in the table below:

	31 December 2018	*31 December 2017*
Term deposits and loans from local banks	24 528	40 053
Term deposits and loans from foreign banks	16 976	–
Current accounts	487	1 787
Amounts due to credit institutions	**41 991**	**41 840**

As at 31 December 2018, amounts due to credit institutions of BYN 24 528 thousand (58%) were due to seven banks.

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

As at 31 December 2018 amounts due to credit institutions include funds attracted through repurchase transactions, in the amount of BYN 42 thousand (31 December 2017: BYN 3 499 thousand), which securities held in the Bank's portfolio were pledged as collateral (Note 9).

As at 31 December 2018, amounts due to credit institutions include funds in the amount of BYN 11 088 thousand. (as at 31 December 2017: BYN 10 331 thousand), which securities held in the Bank's portfolio were pledged as collateral (Note 9).

(in thousands of Belarusian Roubles)

Gain on initial recognition of loans

In 2018 the Bank financed start-up companies as part of a joint program with OJSC Development Bank of the Republic of Belarus (Note 8). As at 31 December 2018, the amount of funds attracted under this program was BYN 12 190 thousand (2017: BYN 7 144 thousand). Gain on initial recognition of financial instruments at fair value for 2018 was BYN 1 096 thousand (2017: BYN 662 thousand).

16. Amounts due to customers

Amounts due to customers comprise:

	31 December 2018	*31 December 2017*
Term deposits	389 484	351 703
Current customer accounts	370 993	302 349
Amounts due to customers	**760 477**	**654 052**
Including cash held as security against the letters of credit	**10 883**	**1 817**

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

As at 31 December 2018, amounts due to customers in the amount of BYN 120 627 thousand (16%) were due to ten largest customers (2017: BYN 139 187 thousand (21%). As at 31 December 2018, the amount of debt on the guarantee deposit of the largest of these clients was BYN 29 387 thousand (31 December 2017: BYN 29 566 thousand) and represented collateral for the loan (Note 8).

Term deposits include deposits of individuals in the amount of BYN 206 712 thousand (2016: BYN 173 344 thousand).

The following categories of clients are presented in the table below:

	31 December 2018	*31 December 2017*
Private companies	367 002	346 193
Individuals	386 683	296 960
State organizations	6 792	10 899
Amounts due to customers	**760 477**	**654 052**

Breakdown of customer accounts by economic sector is as follows:

	31 December 2018	*31 December 2017*
Individuals	386 683	296 960
Trade	122 748	90 606
Transport	67 909	67 047
Construction	47 947	68 435
Insurance	30 504	18 782
Individual entrepreneurs	22 417	23 695
Entertainment services	15 865	11 513
Manufacturing	10 830	12 369
Education	5 790	1 334
Software development and information technologies	4 202	2 330
Financial services	1 688	2 132
Publishing activities	1 485	4 746
Government bodies	114	538
Non-profit organizations	44	39
Other	42 251	53 526
Amounts due to customers	**760 477**	**654 052**

(in thousands of Belarusian Roubles)

17. Debt securities issued

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

	31 December 2018	*Maturity*	*Effective interest rate*	*31 December 2018*	*Maturity*	*Effective interest rate*
Interest-bearing bonds in BYN	41 278	2019 г.	9,5-24%	23 602	2018 – 2019 гг.	7-24%
Interest-bearing bonds in USD	-			918	2018 г.	5,5%
Interest-bearing bonds in EUR	-			192	2018 г.	5,5%
Debt securities issued	**41 278**			**24 712**		

Interest bonds in Belarusian Roubles include securities issues of 2014-2018.

In 2018 and 2017, the Bank timely and fully fulfilled obligations on securities issued.

18. Other borrowings

Other borrowings are presented as follows:

	Currency	*Type of interest rate*	*Attraction year*	*Maturity year*	*31 December 2018*	*31 December 2017*
Creditor 1	BYN	fixed	2018	2020	30 562	-
Creditor 1	EUR	floating	2014	2018	-	2 399
Creditor 2	EUR	fixed	2016	2018	-	4 849
Creditor 3	USD	fixed	2016	2018	-	2 004
Creditor 4	USD	fixed	2016	2018	-	2 005
Other borrowings					**30 562**	**11 257**

19. Subordinated debt

Subordinated debt comprises the following:

	Attraction date	*Maturity date*	*Interest rate*	*31 December 2018*	*31 December 2017*
Subordinated loan 1 in USD	8 April 2010	8 April 2028	6%	9 935	9 074
Subordinated loan 2 in USD	29 April 2010	29 April 2028	6%	10 313	9 420
Subordinated loan 3 in BYN	23 July 2014	23 July 2023	5%	217	160
Subordinated loan 4 in BYN	17 October 2014	27 October 2023	5%	500	364
Subordinated loan 5 in USD	19 June 2015	19 June 2025	6%	4 320	3 945
Subordinated loan 6 in USD	30 September 2015	30 September 2025	6%	2 160	1 973
Subordinated loan 7 in USD	15 September 2016	15 September 2026	5%	11 015	10 061
Subordinated debt				**38 460**	**34 997**

In 2018 and 2017 the Bank timely and fully fulfilled obligations on subordinated debt.

20. Equity

As at 31 December 2018 and 31 December 2017, the authorized, issued and fully paid-in share capital of the Bank amounted to 141 448 ordinary shares with a par value of BYN 87,00 as at 31 December 2018 and BYN 87,00 as at 31 December 2017. All shares have the same par value and carry one vote.

There were no movements in authorized, issued and fully paid-in shares in 2018 and 2017, the capital structure is presented below:

(in thousands of Belarusian Roubles)

	Number of ordinary shares	*Par value of ordinary shares*	*Inflation adjustment*	*Total*
As at 31 December 2018	141 448	12 306	44 828	**57 134**
As at 31 December 2017	141 448	12 306	44 828	**57 134**

At the shareholders' meeting held on 20 April 2018, the Bank declared dividends totaling to BYN 11 761 thousand for ordinary shares (BYN 83,1 per share). At the shareholders' meeting held on 25 July 2018, the Bank declared dividends totaling to BYN 12 851 thousand for ordinary shares (BYN 90,9 per share). Thus, the total amount of dividends declared in 2018 amounted to BYN 24 612 thousand.

At the shareholders' meeting held on 20 April 2017, the Bank declared dividends totaling to BYN 6 309 thousand for ordinary shares (BYN 44,6 per share). At the shareholders' meeting held on 7 July 2017, the Bank declared dividends totaling to BYN 693 thousand for ordinary shares (BYN 4,9 per share). At the shareholders' meeting held on 18 December 2017, the Bank declared dividends totaling to BYN 1 817 thousand for ordinary shares (BYN 12,8 per share). Thus, the total amount of dividends declared in 2017 amounted to BYN 8 819 thousand.

In accordance with Belarusian legislation, only accumulated retained and unreserved earnings may be distributed between the Bank's shareholders as dividends according to the Bank's financial statements prepared in accordance with the legislation of the Republic of Belarus. The Bank had retained and unreserved earnings amounted to BYN 85 539 thousand as at 31 December 2018 in accordance with the legislation of the Republic of Belarus (2017: BYN 56 011 thousand).

There were no changes in share capital in 2018 and 2017.

21. Commitments and contingencies

Legal issues

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

Taxation

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

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

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

Insurance

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

Commitments

The Bank had no significant commitments under non-cancellable operating leases agreements as at 31 December 2018 and 31 December 2017.

The Bank had no significant capital expenditure commitments as at 31 December 2018 and 31 December 2017.

(in thousands of Belarusian Roubles)

22. Credit related contingencies

As at 31 December 2018 and 31 December 2017, the Bank's commitments and contingencies comprised the following:

	31 December 2018	*31 December 2017*
Credit related contingencies		
Loan commitments	713 212	583 645
Guaranties	62 574	42 738
Letters of credit	16 946	4 551
	792 732	**630 934**
Net of cash held as security against letters of credit (Note 16)	(10 883)	(1 817)
Loss allowance	(676)	-
Commitments and contingencies	**781 173**	**629 117**

In accordance with the Bank's adopted accounting policy (Note 3), loss allowance on certain loan commitments, such as credit cards, overdrafts, are included in the loss allowance on loans to customers (Note 8), since the Bank can't determine the expected credit losses on the uncalled component of loan commitments separately from those related to loans already issued within the loan commitments.

The movement of loss allowance on financial guarantees and unsecured letters of credit is set in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*	*Total 2017*
Loss allowance as at 1 January	**494**	**255**	**4**	**753**	**-**
Transfer to Stage 1	145	(145)	-	**-**	**-**
Net remeasurment of loss allowance	(427)	(100)	-	**(527)**	
New financial assets originated or purchased	450	-	-	**450**	
Loss allowance as at 31 December	**662**	**10**	**4**	**676**	**-**

In accordance with the terms of loan agreements, the Bank reserves the right to waive the loan commitments on an unilateral basis.

23. Net gain from foreign currency transactions

	2018	*2017*
Trading transactions	20 948	13 032
Expenses on derivative financial instruments transactions	259	(50)
Revaluation of currency accounts	(816)	2 627
Net gain from foreign currency transactions	**20 391**	**15 609**

(in thousands of Belarusian Roubles)

24. Net fee and commission income

	2018	*2017 *restated*
Commissions on transactions with payment cards	41 456	34 052
Cash desk services	16 023	15 107
Documentary transactions	1 453	1 158
Securities	195	279
Foreign exchange transactions	120	258
Other	2 067	1 616
Fee and commission income	**61 314**	**52 470**
Commissions on transactions with payment cards	(21 845)	(14 967)
Transactions with banks	(4 913)	(5 006)
Foreign exchange transactions	(322)	(250)
Documentary transactions	(267)	(220)
Securities	(205)	(148)
Other	(654)	(615)
Fee and commission expense	**(28 206)**	**(21 206)**
Net fee and commission income	**33 108**	**31 264**

The aforementioned fee and commission income represents revenue from contracts with customers in the scope of IFRS 15, broken down by main types of fee and commission income.

Commission income includes income in the amount of BYN 43 104 thousand (2017: BYN 35 489 thousand) and expenses in the amount of BYN 22 317 thousand (2017: BYN 15 335 thousand) related to financial assets and financial liabilities not fair value through profit or loss. These amounts exclude amounts taken into account when determining the effective interest rate on such financial assets and financial liabilities.

Contractual assets and liabilities

The following table shows information on receivables and liabilities on contracts with customers.

thousands of Roubles	**2018**	**2017**
Receivables included in “other assets”.	2 487	8 888
Contractual assets, which are included in the "other assets"	2 174	1 208
Contractual liabilities, which are included in the "other liabilities"	(3 666)	-

Contractual obligations mainly relate to non-refundable amounts of prepaid fees received from customers for annual card services (Note 14). Revenue recognition is carried out throughout the year during which the customer is expected to continue to use plastic cards.

Performance obligations and revenue recognition policy

Commission incomes on contracts with customers are estimated based on the compensation specified in the agreement. The Bank recognizes revenue when it transfers control over the service to the customer.

The following table contains information on the nature and timing of the obligations to be fulfilled under contracts with customers, including significant payment terms and the relevant accounting policies for revenue recognition.

(in thousands of Belarusian Roubles)

Services	The nature and timing of the performance of duties to the execution, including the essential terms of payment	Revenue recognition in accordance with IFRS 15 (applicable from 1 January 2018)
Retail and Corporate Banking	The Bank provides banking services to retail and corporate clients, including services for the maintenance of accounts, the provision of overdrafts, foreign currency transactions, the processing and issuance of credit cards and the maintenance of accounts. The commission for servicing accounts is charged by debiting the corresponding amounts from the client's account on a monthly basis. The Bank sets tariffs separately for retail and corporate banking customers on an annual basis. The commission for currency exchange operations, foreign currency transactions and the provision of overdrafts is charged by debiting the corresponding amounts from the client's account during the transaction. The commission for current maintenance is charged monthly based on fixed rates, which are annually reviewed by the Bank.	The commission for servicing accounts is recognized over time as the services are rendered. Remuneration for the operation is recognized at the time of the transaction.
Investment Banking	The Bank provides services related to the implementation of client operations with currency and the underwriting of securities. Remuneration for transactions and underwriting of securities is charged at the time of the transaction.	Amounts due to customers as at 31 December are recognized as trade receivables. Remuneration for transactions is recognized at the time of the relevant operations.

25. Other income

	2018	*2017*
Proceeds from debts previously written off	15 183	13 117
Royalty	3 388	187
Fines and penalties received	1 135	1 311
Net income from sale of property and equipment, intangible assets and investment property	617	41
Rental income	11	248
Other	428	401
Total other income	**20 762**	**15 305**

(in thousands of Belarusian Roubles)

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	***2017***
Salaries and bonuses	(29 253)	(27 018)
Social security contributions	(9 460)	(8 423)
Remuneration to the members of Supervisory Board	(1 035)	(1 203)
Other personnel expenses	(561)	(523)
Personnel expenses	**(40 309)**	**(37 167)**
Marketing and advertising	(11 178)	(10 288)
Rental payments	(8 641)	(7 399)
Expenses on maintenance of banking software	(4 175)	(2 862)
Communication services	(3 531)	(2 621)
Utilities	(2 276)	(2 071)
Payments to the Deposit Insurance Agency	(2 147)	(1 697)
Postal and courier services	(1 359)	(1 139)
Professional services	(710)	(788)
Security expenses	(673)	(538)
Repair and maintenance of vehicles and fuel expenses	(656)	(592)
Expenses on Bank plastic cards	(624)	(909)
Entertainment expenses	(617)	(631)
Taxes, other than income tax	(593)	(783)
Stationery and other office expenses	(559)	(729)
Repair and maintenance of property and equipment	(426)	(1 664)
Other expenses	(2 536)	(2 184)
Other operating expenses	**(40 701)**	**(36 895)**

27. Risk management

Introduction

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

Risk management structure

The risk management system has a four level organizational structure, which includes:
1. Level 1 – the Bank’s collegial bodies;
2. Level 2 – risk-management officer;
3. Level 3 – the Bank’s risk-management and analytical divisions;
4. Level 4 – other Bank’s divisions (except for the analytical ones).

Supervisory Board

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

(in thousands of Belarusian Roubles)

Management Board

The management Board is responsible for monitoring the risk management process in the Bank, for developing the risk management structure, approves the local regulatory legal acts of the Bank, developed in pursuance of the risk management strategy and regulatory policies, methods and procedures for risk management.

Risk Committee

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

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

\- credit policy;
\- organizational structure of the risk management system, taking into account the requirements for exclusion of conflict of interest;
\- delegation of authority in the areas of risk management;
\- sufficiency of staffing and provision of necessary information systems and software and hardware;

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

Credit Committee

The Credit Committee is responsible for making optimal decisions related to the Bank’s active transactions under its authority.

Risk Management

The Risk Management Unit is responsible for:
\- developing and ensuring an effective risk management system functioning, increasing the Bank’s activities efficiency;
\- keeping risks inherent in the Bank's activities at the acceptable;
\- assistance in ensuring and enhancing the image characteristics of the Bank’s financial reliability.

Credit risk management (CRM)

The main responsibilities of CRM are:
\- monitoring and managing the quality of the corporate and retail loan portfolio in order to maintain safe and acceptable level of credit risk, ensuring maximum profitability for the Bank;
\- providing the Bank’s management and shareholders with the necessary analytical and statistical data on the risk profile of the corporate and retail loan portfolio of the Bank;
\- implementing the methodological support of the system for assessing the creditworthiness of legal entities, individual entrepreneurs and individuals.

(in thousands of Belarusian Roubles)

Financial and economic department (FED)

FED is responsible for:
- analyzing and planning the Bank's activities;
- organization of the process of strategic planning and budgeting at the Bank;
- ensuring compliance with the regulatory requirements of the National Bank of the Republic of Belarus (prudential standards).

Audit Committee

The functions of the Audit Committee include:
- internal monitoring of the financial, prudential and other reporting procedures;
- assessment of the internal control system effectiveness;
- assessment of the effectiveness (including quality) of the Internal Audit Department's activities;
- submission for consideration of the Supervisory Board of recommendations on internal control and internal audit issues, proposals for improving the internal control system, including on the basis of consideration of the results of audits of the Internal Audit Department, External Independent Auditor, Audit Commission, the National Bank and other state (regulatory) bodies;
- making decisions regarding internal control and internal audit on behalf of the Supervisory Board within the limits of authority determined by the Supervisory Board.

Internal Audit Department

Internal Audit Department evaluates an effectiveness of the risk management system, including checking the completeness of the application and correctness of the methodology for assessing banking risks and bank risk management procedures.
Internal Audit Department makes its proposals to improve the efficiency of the Bank, including risk management.

Other business units

- participate in the planning and maintain the planned and controlled indicators (indicators of volume, price, structure, risk limits);
- make management decisions within the framework of the authorities granted.

Risk assessment and risk communication system

The Bank's risk management is based on requirements of the National Bank of the Republic of Belarus and the Basel Committee on Banking Supervision.

CJSC MTBank developed a hierarchical system of bylaws, including high-level documents – Risk Management Strategy and Risk Management Policies, as well as bylaws in regard to managing certain types of risks and those managing the organizational structure and distribution of the employees' authorities by risk management. The abovementioned bylaws define risk management goals, objectives, principles, identify key risk indicators, the Bank's tolerance to inherent risks, risks identification, monitoring, controlling and limiting, the functions of business units, the authorities of the Bank's employees to manage the risks inherent to the Bank.

The Bank identifies the following risks inherent in its activities:
Strategic risk;
Credit risk (including the country one within the framework of interbank transactions with non-resident banks;
Liquidity risk;
Operational risk (including compliance risk and cyber risk);
Risk of loss of business reputation;
Market risk (in terms of currency and commodity risks);
Interest rate risk;
Concentration risk;
Financial sustainability risk.

(in thousands of Belarusian Roubles)

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

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

Measures to prevent risk are compliance with a given tolerance for strategic risk and other risks inherent in the Bank's operations, development of a risk management system.

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

Financial sustainability risk – the risk of a lack of adequacy of regulatory capital to cover the main types of risks assumed by the Bank.

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

The measures to correct the adequacy of regulatory capital are determined based on the results of retrospective factor analysis (forecast, stress-testing) of changes in its level. These measures may include changes in the size and/or structure of the loan portfolio, market risk exposure, changes in the Banks' share capital.

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

In order to manage this risk, the Bank performs the following measures:
- in case of secured lending, the financial reliability of the client is assessed by the degree of its creditworthiness;
- in case of unsecured lending, the financial reliability of the client is assessed by the degree of its solvency;
- the larger the loan, the stricter the requirements for the financial reliability of the borrower;
- the reliability of investment in large loan transactions is evaluated on an individual basis according to the conclusion of underwriter on the financial reliability of the client, massive and small types of loan transactions are assessed based on the results of scoring of the creditworthiness of the borrower or in accordance with a fully formalized rules of borrower's creditworthiness analysis and making decisions on financing (product delivery) within the certain private banking products;
- the project on issue of foreign currency loan to a corporate client in is obligatory subject to stress testing of currency risk;
- changes in the Bank's Credit policies in the area of loans to corporate customers are made after a preliminary review by the Risk Committee of the Bank's Supervisory Board;
- changes in the approaches used by the Bank, algorithms and methods for assessing the financial condition, solvency of borrowers, exposure to currency risk factors, approaches to the assessment and monitoring of collateral are carried out with the preliminary review by the Risk Committee of the Bank's Supervisory Board.

Risk preventive measures are the following:
- risk limits management;
- definition of standard requirements to the borrowers' financial reliability and, if necessary, tightening them;
- price management;

(in thousands of Belarusian Roubles)

- testing of new loan products in small volumes;
- determination of credit policies based on ratings of financial reliability and efficiency of borrowers.

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

The limits for active transactions of the Bank with counterparty banks are calculated and approved on a monthly basis by the Financial Committee and the Management Board of the Bank in the form of loans and deposits in the interbank market. Monthly changes in the financial position of all counterparty banks are analyzed and monitored. As at 31 December 2018, the limits for active transactions with 49 counterparty banks have been opened. During 2018, the limits on active transactions with 5 counterparty banks were closed (during the previous year – 5 limit lines were closed), 4 new limit lines to the banks were opened (during the previous year – 4 limit lines).

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

Key risk management rules:
- performance of liquidity accumulation strategy;
- division of liquid assets into liquid assets of the first and the second stages. Determining the necessary sufficiency of liquid assets at the Bank's operation routinely (liquidity of the first stage) and emergently (liquidity of the first and the second stage);
- division of the Bank's liquidity management into operational and strategic. Operational management is a combination of rules and regulations that ensure sufficient liquidity within the Bank's operating day. Strategic management is a combination of rules and regulations that ensure sufficient liquidity in the long term;
- organizational separation of operational and strategic liquidity management;
- Implementation of a system of limits aimed at ensuring strategic liquidity, which determine the "point of no return", when in violation of these limits, the Bank's liquidity recovery on its own is likely to be impossible.

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

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

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

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

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

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

(in thousands of Belarusian Roubles)

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

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

In order to manage this risk, the Bank performs the following measures:
- the sufficiency of financing to update the software, purchase of information and technical equipment, employment of highly qualified specialists;
- time sufficiency for testing of the systems during the introduction of new products of the Bank;
- creation of backup communication lines;
- sufficient provision of self-contained power supply sources;
- implementation of adequate personnel policies (recruitment, adaptation and training of personnel, motivation for effective work, formation of personnel reserve, retention of key personnel);
- improvement of the fraud-scoring system.
- ensuring the effectiveness of the risk management system, taking into account the characteristics of risk sources.

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

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

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

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

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

Market risk is the risk of the Bank's losses, non-receipt of planned revenues from changes in the balance sheet and off-balance sheet items related to the trading portfolio, as well as items denominated in foreign currencies, and goods due to changes in market prices for financial instruments and goods caused by changes in foreign exchange rates, market interest rates and other factors.

Currency risk is the risk of the Bank's losses, non-receipt of the planned income from changes in the value of balance sheet and off-balance sheet items denominated in foreign currency due to changes in foreign exchange rates.

The basic rule of risk management is the constant maintenance of a currency position in accordance with indicators of tolerance.

In order to manage this risk, the Bank performs the following measures:
- managing the open position size;
- taking into account the possibilities of risks fair distribution when completing loan and deposit agreements;

(in thousands of Belarusian Roubles)

- mandatory stress-testing of the financial reliability of customers considered for purposes or conducting operations with the Bank related to credit risk in foreign currency.

Measures to regulate (recover) the risk at an acceptable level are adjustment of risk limit policy, the improvement of analysis models.
Commodity risk – the probability of the Bank's losses incurring due to non-receipt of the planned income from changes in cost of goods.

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

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

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

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

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

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

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

Measures to recover the necessary liquidity sufficiency, in case of its loss due to the realization of the risk of concentration, are determined in accordance with the Bank’s bylaws.

Adoption of IFRS 9: Credit risk. ECL model and the main principles of provisioning.

The Bank applies the model of expected credit losses for the purpose of financial instruments provisioning, the key principle of which is the timely reflection of deterioration or enhancement of the credit quality of financial instruments, taking into account current and forward-looking information. The amount of expected credit losses recognized as an estimated allowance for impairment depends on the degree of deterioration of credit quality since the initial recognition of a financial instrument.

Depending on the change in credit quality since initial recognition, the Bank classifies financial instruments to one of the following stages:
• “12-month ECL” (Stage 1) - financial instruments for which no significant increase in credit risk was observed, and for which 12-month expected credit losses are calculated.
• “Lifetime ECL – not credit-impaired assets” (Stage 2) –financial instruments with a significant increase in credit risk, but not credit-impaired, for which expected credit losses are calculated over the entire lifetime of the financial instrument.
• “Lifetime ECL – credit-impaired assets” (Stage 3) – credit-impaired financial instruments.

(in thousands of Belarusian Roubles)

For purchased or issued impaired financial assets, the allowance for impairment is formed in the amount of accumulated changes in the value of expected credit losses over the entire life of the instrument from the moment of purchase or provision.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument 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 objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria to determine whether there is a significant increase in credit risk:

- for corporate borrowers:

- financial assets for which there is a deterioration in more than 1 grade from the moment of initial recognition in accordance with the internal gradation of credit quality;
- financial assets with overdue debts from 31 to 90 days.

- for individuals:

- financial assets with arrears from 31 to 90 days.

- for financial insitutions, government bodies:

- debt on counterparties, which international credit rating has deceased by 2 grades in comparison with the grade on the initial regognition (except when after deacrese the debt is classified in Ca and lower grade by Moody's International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- debt with a duration of more than 7 days overdue.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data

The following quality grades are determined:

- loans to corporate borrowers

The Bank estimates the expected credit losses for corporate clients' debts by group valuation based on the quality categories of credit debts.

Group valuation based on the quality categories of credit debt is based on an analysis of the quality of servicing the credit debt of debtors, as well as credit history and other information about the business of debtors, which is available without undue cost and effort.

The annual probability of default is determined on the basis of the debtor quality grades migration matrices using historical information for a period of at least 1 year and assumes:

- distribution of debtors to five quality grades: standard, watch, sub-standard, non-performing, loss (based on financial and non-financial information on financial position, the borrower's solvency, and quality of debt service);

(in thousands of Belarusian Roubles)

- quarterly construction of matrices of the number of transitions in quality categories for 1 year to calculate the annual probability of default;

- calculation of the annual probability of default by the ratio (division) of the actual number of transitions in this quality category to the total amount of this quality category.

For the purpose of calculating the multi-year profiles of the probability of default, mathematical extrapolation methods are used.

- financial institutions and government bodies

For banks that have an international rating, the classification is carried out according to this rating. Ratings set using Moody's, S&P and Fitch methodology are taken into account. For counterparties for which no international rating has been established, the Bank conducts an internal gradation in terms of quality based on factors, taken into account by international; rating agencies when determining ratings. Quality grades on financial institutions and government bodies are determined as follows:

- "Standard" group – international ratings from AAA to B+ or comparable internal ones.

- "Sub-standard" group – international ratings from B to CCC or comparable internal ones.

For government agencies, quality categories are determined based on the sovereign rating set by international rating agencies.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the type of borrower. What is considered significant differs for different types of lending, in particular between corporate and individual.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for securities and amounts due from banks, more than 7 days past due. 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.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1 and lifetime PD (Stage 2).

(in thousands of Belarusian Roubles)

Definition of default

The financial asset is classified by the Bank to financial assets for which an event of default had occurred, in the following cases:

- for corporate borrowers:

- the borrower is classified as “loss” in the credit quality grade based on internal assessment of qualitative and quantitative parameters;
- alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions;
- a legal insolvency (bankruptcy) case is open against a legal entity;
- there is an administrative intervention of the state, which significantly complicates further activities: depriving or not extending the license for certain types of activities and other interventions in regard to a legal entity;
- individual entrepreneur’s debt, for which the debtor was arrested, died or disappeared without a trace;
- debtor’s debt, due to force majeure that caused material damage, but did not cause the termination of its activities;
- the debtor’s debt in respect of which the interim manager was introduced (if there is a high probability (“yes rather than no”) of the discovery of the liquidation proceedings against the debtor).

- for individuals:

- debt on loans with a duration of more than 90 days overdue, as well as involving objective reasons indicating that the loan cannot be repaid, for example, the borrower’s death;
- alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions.

- for financial institutions, government bodies:

- debt is classified in Ca and lower grade by Moody’s International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- debt with a duration of more than 30 days overdue.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information both to the assessment for a significant increase in credit risk since the initial recognition of the financial instrument and to the assessment of expected credit losses. The Bank uses three economic scenarios: the baseline scenario, the probability of which is 90%, and two less likely scenarios – the optimistic and worst-case scenarios, the probability of each of the scenarios is 5%. The baseline scenario is based on information used by the Bank in strategic planning and budgeting. External information taken into account include economic data and forecasts published by government bodies and monetary authorities in countries in which the Bank operates, such as the National Bank of the Republic of Belarus, the National Statistical Committee, as well as other individual and scientific forecasts.

The Bank has identified and documented a list of the main factors affecting the assessment of credit risk and credit losses for each portfolio of financial instruments and, using historical data analysis, assessed the correlation between macroeconomic variables, credit risk and credit losses.

The key factor are an average salary level and interest rates.

(in thousands of Belarusian Roubles)

The projected ratios between the key indicator and default and the levels of losses for various portfolios of financial assets were developed based on the analysis of historical data for the last 1-3 years.

The credit risk grade is subject to continuous monitoring in order to ensure compliance with the loan limits and creditworthiness in accordance with the Bank's risk management policy.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition. The determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD, Stage 2 – by multiplying marginal PD by LGD and EAD, stated for the first and each next periods. As for Stage 3, the Bank estimates expected cash flows in order to determine the recoverable amount of the financial assets.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and based on external information – in regard to financial institutions and government bodies.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which

(in thousands of Belarusian Roubles)

are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- product.

The Groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Amounts due from banks	50 832	Moody's default study	S&P recovery studies
Securities	47 418	Moody's default study	S&P recovery studies

Credit quality analysis

The following table provides information about the credit quality of financial assets measured at amortized cost, debt instruments measured at FVOCI as at 31 December 2018 and debt assets available-for-sale as at 31 December 2017. Unless otherwise indicated, the amounts in the table recognize gross carrying amount of financial assets. According to loan commitments and financial guarantee contracts, the amounts in the table recognize the amounts of commitments made and guarantees issued, respectively.

	31 December 2018	
	Stage 1	**Total**
Cash and cash equivalents		
Rated:		
from A- to A+	767	**767**
BBB	8 727	**8 727**
from BB- to BB+	5 142	**5 142**
From B to B+	18 171	**18 171**
Without international rating:		
Standard	71 170	**71 170**
Sub-standard	26 949	**26 949**
	130 926	**130 926**
Loss allowance	**(104)**	**(104)**
Carrying amount	**130 822**	**130 822**

(in thousands of Belarusian Roubles)

	31 December 2018 Stage 1	Total
Amounts due from credit institutions		
Rated:		
from A- to A+	5 822	**5 822**
Without international rating:		
Standard	14 534	**14 534**
Sub-standard	30 476	**30 476**
	50 832	**50 832**
Loss allowance	**(235)**	**(235)**
Carrying amount	**50 597**	**50 597**

	31 December 2018 Stage 1	Total
Equity investments		
Rated:		
B	40 382	**40 382**
Without international rating:		
Sub-standard	7 036	**7 036**
Carrying amount	**47 418**	**47 418**

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Without international rating:				
Standard	239 783	-	-	239 783
Watch	133 611	-	-	133 611
Sub-standard	28 290	9 418	-	37 708
Non-performing	713	944	-	1 657
Loss	-	-	3 304	3 304
	402 397	**10 362**	**3 304**	**416 063**
Loss allowance	**(1 789)**	**(428)**	**(1 039)**	**(3 256)**
Carrying amount	**400 608**	**9 934**	**2 265**	**412 807**

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Net investments in finance leases				
Without international rating:				
Standard	32 351	-	-	32 351
Watch	1 071	-	-	1 071
Sub-standard	179	307	-	486
Non-performing	-	249	-	249
Loss	-	-	532	532
	33 601	**556**	**532**	**34 689**
Loss allowance	**(162)**	**(32)**	**(147)**	**(341)**
Carrying amount	**33 439**	**524**	**385**	**34 348**

(in thousands of Belarusian Roubles)

The following table provides information about the overdue loans to customers, in terms of credit quality stages.

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to legal entities				
Undue	401 846	9 412	366	411 624
Overdue:				
from 1 to 30 days	510	68	267	845
from 31-60 days	24	148	19	191
from 61-90 days	17	734	27	778
over 90 days	-	-	2 625	2 625
Carrying amount	**402 397**	**10 362**	**3 304**	**416 063**

	31 December 2017
	Total
Loans to legal entities	
Undue	330 965
Overdue:	
from 1 to 30 days	1 060
from 31-60 days	796
from 61-90 days	600
over 90 days	2 276
Gross carrying amount	**335 697**

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Net investments in finance leases				
Undue	33 575	302	503	34 380
Overdue:				
from 1 to 30 days	23	180	-	203
from 31-60 days	-	77	-	77
from 61-90 days	-	-	-	-
over 90 days	-	-	29	29
Gross carrying amount	**33 598**	**559**	**532**	**34 689**

	31 December 2017
	Total
Net investments in finance leases	
Undue	17 451
Overdue:	
from 1 to 30 days	115
from 31-60 days	31
from 61-90 days	41
over 90 days	584
Gross carrying amount	**18 222**

(in thousands of Belarusian Roubles)

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals				
Undue	375 445	-	-	**375 445**
Overdue:				
from 1 to 30 days	8 056	-	5	**8 061**
from 31-60 days	-	2 285	-	**2 285**
from 61-90 days	-	1 340	-	**1 340**
over 90 days	-	-	4 507	**4 507**
	383 501	**3 625**	**4 512**	**391 638**

	31 December 2017
	Total
Loans to individuals	
Undue	341 111
Overdue:	
from 1 to 30 days	9 456
from 31-60 days	2 809
from 61-90 days	1 673
over 90 days	4 938
	359 987

	31 December 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other financial assets				
Undue	1 874	-	-	**1 874**
Overdue:				
from 1 to 30 days	-	-	-	-
from 31-60 days	-	-	-	-
from 61-90 days	-	-	-	-
over 90 days	-	-	613	**613**
Gross carrying amount	**1 874**	**-**	**613**	**2 487**

	31 December 2017
	Total
Other financial assets	
Undue	**4 005**
Overdue:	
from 1 to 30 days	-
from 31-60 days	-
from 61-90 days	-
over 90 days	**4 883**
Carrying amount	**8 888**

Notes disclosing the credit quality on IAS 39 as of 31 December 2017

The bank manages the credit quality of financial assets using the classification of financial assets contained in the instructions of the National Bank. In accordance with this classification, the credit rating system is based on 5 groups of credit risk. When classifying financial assets as a particular risk group, such criteria as financial indicators, debt service, as well as the cost and sufficiency of collateral are taken into account.

(in thousands of Belarusian Roubles)

The table below presents an analysis of the credit quality in terms of asset classes for credit-related balance sheet items based on the Bank's credit rating system.

In the table below, loans to banks and customers that have been assigned a standard rating (the first group in the classification of the National Bank) include loans with minimal credit risk and good collateral. Loans without individual signs of impairment granted to borrowers with a less stable financial position and worse debt service were assigned a rating below the standard.

		Neither past due nor individually impaired				
	Notes	***Standard grade 2017***	***Sub-standard Grade 2017***	***Past due but not individually impaired 2017***	***Individually impaired 2017***	***Total 2017***
Cash and cash equivalents less cash on hand	5	103 181	–	–	–	**103 181**
Amounts due from credit institutions	6	26 963	–	–	–	**26 963**
Loans to customers	8					
Loans to legal entities		130 701	192 717	2 642	27 860	**353 920**
Loans to individuals		340 864	-	19 123	-	**359 987**
		471 565	**192 717**	**21 765**	**27 860**	**713 907**
Investment securities available-for-sale	9	45 563	–	–	–	**45 563**
Other financial assets	15	5 906	–	–	2 982	**8 888**
Total		**653 178**	**192 717**	**23 901**	**28 706**	**898 502**

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

2017	***Less 30 days***	***31-60 days***	***61-90 days***	***Over 90 days***	***Total***
Loans to customers					
Loans to legal entities	1 176	826	640	-	**2 642**
Loans to individuals	9 173	2 729	1 598	5 623	**19 123**
Total	**10 349**	**3 555**	**2 238**	**5 623**	**21 765**

Loans to individuals are assessed for impairment on a collective basis. The Bank considers loans that are overdue by more than 90 days to be impaired.

Loans to legal entities that are overdue, but without individual signs of impairment, are assessed for impairment on a collective basis. The Bank considers loans that are overdue by more than 90 days to be impaired.

The main factors that are taken into account when assessing loans for impairment are the following: whether interest payments are overdue and principal payments by more than 90 days; are you aware of the financial difficulties of counterparties, a decrease in their credit rating, or violations of the original terms of the contract. The Bank tests for impairment at two levels - allowances estimated on an individual basis and allowances estimated on a cumulative basis.

The Bank determines the reserves, the creation of which is necessary for each individually significant loan, on an individual basis. In determining the amount of reserves, the following circumstances are taken into account: the existence of a business plan and the stability of the business of the counterparty; its ability to improve performance when financial difficulties arise; projected receivables and expected dividend payments in the event of bankruptcy; the possibility of attracting financial assistance; cost of collateral implementation; and the timing of the expected cash flows. Impairment losses are assessed at each reporting date or more often if unforeseen circumstances require more careful attention.

Allowances for impairment of loans to customers that are not individually significant (including loans to individuals), as well as provisions for individually significant loans for which there are no objective signs of

(in thousands of Belarusian Roubles)

individual impairment, are estimated on collective basis. Provisions are assessed at each reporting date, with each loan portfolio being tested separately.

When estimanted on a collective basis, a portfolio impairment is determined, which may occur even in the absence of objective evidence of individual impairment. Impairment losses are determined on the basis of the following information: losses on a portfolio for past periods, current economic conditions, an approximate period of time from the moment of probable loss of a loss to the time of establishing that it requires the creation of an individually assessed impairment allowance, and recovery of value after impairment of an asset. Then the allowance for impairment is checked by the management of the Bank's credit business-unit for its compliance with the Bank's general policy.

Financial guarantees and letters of credit are also estimated for impairment, and allowance is established for them in the same way as for loans.

Offsetting of financial assets and financial liabilities

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

Similar financial instruments include repurchase transactions, agreements on issue of securities.

The tables below present the financial liabilities that are the subject to legally enforceable general netting agreements and similar agreements as at 31 December 2018 and 31 December 2017.

	31 December 2018				**31 December 2017**			
	The full amounts of recognized financial of assets/ (liabilities)	**Amounts that have not been offset in the statement of financial position**			**The full amounts of recognized financial of assets/ (liabilities)**	**Amounts that have not been offset in the statement of financial position**		
Types of financial assets/financial liabilities		**Financial instruments**	**Cash collateral received**	**Net income**		**Financial instruments**	**Cash collateral received**	**Net income**
Repurchase transactions, agreements on issue of securities	(42)	42	-	-	(3 499)	3 499	-	-

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

	2018				***2017***			
	Belarus	***OECD***	***CIS and other countries***	***Total***	***Belarus***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	167 941	18 364	6 803	**193 108**	124 933	16 373	6 599	**147 905**
Amounts due from credit institutions	38 342	12 255	-	**50 597**	20 105	4 997	1 827	**26 929**
Derivative financial assets	35	2	28	**65**	25	–	7	**32**
Loans to customers	833 646			**833 646**	703 832	–	–	**703 832**
Investment securities	47 989	–	–	**47 989**	46 079	–	–	**46 079**
Other financial assets	2 159	–	–	**2 159**	5 906	–	–	**5 906**
	1 090 112	**30 621**	**6 831**	**1 127 564**	**900 880**	**21 370**	**8 433**	**930 683**

(in thousands of Belarusian Roubles)

	2018				2017			
	Belarus	*OECD*	*CIS and other countries*	*Total*	*Belarus*	*OECD*	*CIS and other countries*	*Total*
Liabilities								
Amounts due to credit institutions	(24 985)	(12 760)	(4 246)	**(41 991)**	(41 175)	(664)	(1)	**(41 840)**
Derivative financial liabilities	(84)	-	-	**(84)**	(6)	–	–	**(6)**
Amounts due to customers	(737 892)	(4 236)	(18 349)	**(760 477)**	(643 863)	(1 400)	(8 789)	**(654 052)**
Debt securities issued	(41 278)	-	-	**(41 278)**	(24 712)	-	-	**(24 712)**
Other borrowings	-	(30 562)	-	**(30 562)**	–	(11 257)	–	**(11 257)**
Allowance for impairment	(676)	-	-	**(676)**	-	-	-	**-**
Other financial liabilities	(5 555)	-	-	**(5 555)**	(3 927)	-	-	**(3 927)**
Subordinated debt	(13 892)	-	(24 568)	**(38 460)**	(11 947)	–	(23 050)	**(34 997)**
	(824 362)	**(47 558)**	**(47 163)**	**(919 083)**	**(725 630)**	**(13 321)**	**(31 840)**	**(770 791)**
Net assets/(liabilities)	**265 750**	**(16 937)**	**(40 332)**	**208 481**	**175 250**	**8 049**	**(23 407)**	**159 892**

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

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

The Bank's liquidity position is also assessed in terms of fulfilment of liquidity ratios established by the National Bank of the Republic of Belarus.

Liquidity ratio	***Ratio***	***31 December 2018***
Liquidity ratio	100%	129,6%
Net standing funding ratio	100%	127,4%

Liquidity ratios as at 31 December 2017:

	Ratio	***31 December 2017***
"Instant Liquidity Ratio" (assets receivable or realizable within one day/liabilities repayable on demand and overdue)	Min 20%	135%
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/liabilities repayable within 30 days)	Min 70%	146%
"Short-Term Liquidity Ratio" (assets receivable or realizable within one year/liabilities repayable within one year)	Min 1	1.2

(in thousands of Belarusian Roubles)

Analysis of financial liabilities by remaining contractual maturities

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

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 year*	*More than 5 years*	*Total*
As at 31 December 2018					
Amounts due to credit institutions	969	2 563	43 868	-	**47 400**
Amounts due to customers	469 098	207 669	92 648	6 958	**776 373**
Debt securities issued	-	46 375	-	-	**46 375**
Other borrowings	1 935	2 122	32 234	-	**36 291**
Other liabilities	6 231	-	-	-	**6 231**
Subordinated debt	560	1616	8618	45106	**55 900**
Total undiscounted financial liabilities	**478 793**	**260 345**	**177 368**	**52 064**	**968 570**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	99 462	-	-	-	**99 462**
- Amounts receivable under agreements	(99 457)	-	-	-	**(99 457)**
Total cash flows from derivative financial liabilities	**5**	**-**	**-**	**-**	**5**

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 year*	*More than 5 years*	*Total*
As at 31 December 2017					
Amounts due to credit institutions	28 538	1 172	16 609	–	**46 319**
Amounts due to customers	465 090	179 584	12 494	3 171	**660 339**
Debt securities issued	1 160	27 438	–	–	**28 598**
Other borrowings	7 498	4 172	–	-	**11 670**
Other liabilities	3 927	–	–	–	**3 927**
Subordinated debt	512	1 476	7 871	37 618	**47 477**
Total undiscounted financial liabilities	**506 725**	**213 842**	**36 974**	**40 789**	**798 330**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	32 954	–	–	–	**32 954**
- Amounts receivable under agreements	(32 947)	–	–	–	**(32 947)**
Total cash flows from derivative financial liabilities	**7**	**–**	**–**	**–**	**7**

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

(in thousands of Belarusian Roubles)

	Less than 3 months	3 to 12 months	1 to 5 year	More than 5 years	Total
As at 31 December 2018	792 732	–	–	–	**792 732**
As at 31 December 2017	630 934	–	–	–	**630 934**

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

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

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

Interest rate risk

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

Currency	Increase in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
BYN	1 500	3 370	2 528
EUR	25	1	1
USD	50	12	9

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

Currency	Decrease in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
BYN	500	(1 123)	(842)
EUR	25	(1)	(1)
USD	12	(3)	(2)

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

The following table presents a sensitivity analysis of the risk of changes in fair value carried out on the basis of changes which were reasonably possible in respect of investment securities with fixed interest rate. The extent of these changes is determined by management. The sensitivity analysis represents the effect of a 5% increase, a 5% decrease in interest rates effective at the reporting date, on the Bank's capital, assuming

(in thousands of Belarusian Roubles)

that the changes occur at the beginning of the financial year, after which the rates remain unchanged throughout the reporting period, all other factors being considered unchanged.

	31 December 2018		**31 December 2017**	
	Interest rate +5%	**Interest rate -5%**	**Interest rate +5%**	**Interest rate -5%**
Investment securities	(1 778)	1 778	(1 709)	1 709
Net effect on equity	**(1 778)**	**1 778**	**(1 709)**	**1 709**

Currency risk

The Management Board has set limits on foreign currency items based on the regulations of the National Bank of the Republic of Belarus. Items are monitored on a daily basis.
The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYN	***USD***	***EUR***	***RUB***	***Other currencies***	***Total***
Financial assets as at 31 December 2018						
Cash and cash equivalents	84 105	59 808	38 625	9 780	790	**193 108**
Amounts due from credit institutions	7 699	13 172	29 726	-	-	**50 597**
Loans to customers	626 311	108 935	83 139	15 261	-	**833 646**
Investment securities	7 574	39 681	734	-	-	**47 989**
Other financial assets	900	307	946	6	-	**2 159**
Total financial assets	**726 589**	**221 903**	**153 170**	**25 047**	**790**	**1 127 499**
Financial liabilities as at 31 December 2018						
Amounts due to credit institutions	(24 755)	(213)	(12 611)	(4 412)	-	**(41 991)**
Amounts due to customers	(420 029)	(236 608)	(89 569)	(13 784)	(487)	**(760 477)**
Debt securities issued	(41 278)	-	-	-	-	**(41 278)**
Other borrowings	(30 562)	-	-	-	-	**(30 562)**
Other financial liabilities	(4 547)	(344)	(1 294)	(44)	(2)	**(6 231)**
Subordinated debt	(717)	(37 743)	-	-	-	**(38 460)**
Total financial liabilities	**(521 888)**	**(274 908)**	**(103 474)**	**(18 240)**	**(489)**	**(918 999)**
Claims on derivative financial instruments and currency trading	1 080	77 906	1 969	18 507	-	**99 462**
Obligations on derivative financial instruments and currency trading	(2 169)	(18 556)	(53 376)	(25 356)	-	**(99 457)**
Total currency position as at 31 December 2018	**203 612**	**6 345**	**(1 711)**	**(42)**	**301**	**208 505**

(in thousands of Belarusian Roubles)

	BYN	USD	EUR	RUB	Other currencies	Total
Financial assets as at 31 December 2017						
Cash and cash equivalents	73 978	52 406	11 354	9 299	868	**147 905**
Amounts due from credit institutions	11 382	15 205	342	–	–	**26 929**
Loans to customers	511 880	120 371	60 701	10 880	–	**703 832**
Investment securities	516	45 563	–	–	–	**46 079**
Other financial assets	4 077	1 760	59	10	-	**5 906**
Total financial assets	**601 833**	**235 305**	**72 456**	**20 189**	**868**	**930 651**
Financial liabilities as at 31 December 2017						
Amounts due to credit institutions	(28 229)	(12 919)	(535)	(157)	–	**(41 840)**
Amounts due to customers	(395 154)	(201 035)	(46 168)	(11 144)	(551)	**(654 052)**
Debt securities issued	(23 602)	(918)	(192)	–	–	**(24 712)**
Other borrowings	–	(4 009)	(7 248)	–	–	**(11 257)**
Other financial liabilities	(2 453)	(340)	(1 108)	(26)	–	**(3 927)**
Subordinated debt	(524)	(34 473)	–	–	–	**(34 997)**
Total financial liabilities	**(449 962)**	**(253 694)**	**(55 251)**	**(11 327)**	**(551)**	**(770 785)**
Claims on derivative financial instruments	–	28 722	2 355	1 877	–	**32 954**
Obligations on derivative financial instruments	–	(4 235)	(19 721)	(8 991)	–	**(32 947)**
Total currency position as at 31 December 2017	**151 871**	**6 098**	**(161)**	**1 748**	**317**	**159 873**

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

Currency	*Reasonable higher threshold of change in currency rate 2018*	*Effect on profit before tax 2018*	*Effect on equity after tax 2018*
USD	40%	2 538	1 904
EUR	40%	(684)	(513)
RUB	40%	(17)	(13)

Currency	*Reasonable lower threshold of change in currency rate 2018*	*Effect on profit before tax 2018*	*Effect on equity after tax 2018*
USD	20%	(1 269)	(952)
EUR	20%	342	257
RUB	20%	8	6

(in thousands of Belarusian Roubles)

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

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

Prepayment risk

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

The Bank assesses prepayment risk to be insignificant as at 31 December 2018 and 31 December 2017 and does not project significant fall in interest rates in the following 12 months.

28. Fair value determination

Fair value measurement procedures

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

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

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

(in thousands of Belarusian Roubles)

Fair value hierarchy

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

	Fair value measurement using			
As at 31 December 2018	***Quoted prices in active markets Level 1***	***Significant observable inputs Level 2***	***Significant unobservable inputs Level 3***	***Total***
Assets measured at fair value				
Derivative financial assets	-	-	65	**65**
Investment securities	-	47 989	-	**47 989**
Assets which fair value is disclosed				
Amounts due from credit institutions	-	50 597	-	**50 597**
Loans to customers	-	-	839 540	**839 540**
Liabilities measured at fair value				
Derivative financial instruments	-	-	84	**84**
Liabilities which fair value is disclosed				
Amounts due to credit institutions	-	41 991	-	**41 991**
Amounts due from customers	-	370 993	391 767	**762 760**
Debt securities issued	-	43 421	-	**43 421**
Other borrowings	-	-	30 562	**30 562**
Subordinated debt	-	-	40 448	**40 448**

	Fair value measurement using			
As at 31 December 2017	***Quoted prices in active markets Level 1***	***Significant observable inputs Level 2***	***Significant unobservable inputs Level 3***	***Total***
Assets measured at fair value	–	–	–	**–**
Derivative financial assets	–		32	**32**
Investment securities	–	46 079	–	**46 079**
Investment property	–	-	3 628	**3 628**
Assets which fair value is disclosed				
Amounts due from credit institutions	–	26 929	–	**26 929**
Loans to customers	–	302 349	353 449	**655 798**
Liabilities measured at fair value				
Derivative financial instruments	–	–	6	**6**
Liabilities which fair value is disclosed				
Amounts due to credit institutions	–	41 840	–	**41 840**
Amounts due from customers	–	–	655 798	**655 798**
Debt securities issued	–	27 106	–	**27 106**
Other borrowings	–	–	11 257	**11 257**
Subordinated debt	–	–	36 438	**36 438**

(in thousands of Belarusian Roubles)

Movements in Level 3 financial instruments measured at fair value

The following table presents a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are measured at fair value as at the end of 2018:

	As at 1 January 2018	*Gains recognized in the statement of profit or loss*	*Repayments*	*As at 31 December 2018*
Financial assets				
Derivative financial instruments	32	6	27	65
Financial liabilities				
Derivative financial instruments	6	(5)	83	84
Total Level 3 financial assets/liabilities, net	**26**	**11**	**(56)**	**(19)**

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

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

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

	Carrying amount 2018	*Fair value 2018*	*Carrying amount 2017*	*Fair value 2017*
Financial assets				
Cash and cash equivalents	193 108	193 108	147 905	147 905
Amounts due from credit institutions	50 597	50 597	26 929	26 929
Loans to customers	833 646	835 901	703 832	703 315
Other financial assets	2 159	2 159	5 906	5 906
Financial liabilities				
Amounts due to credit institutions	41 991	41 991	41 840	41 840
Amounts due to customers	760 477	762 760	654 052	655 798
Debt securities issued	41 278	43 421	24 712	27 106
Other borrowings	30 562	30 562	11 257	11 257
Other financial liabilities	6 231	6 231	3 927	3 927
Subordinated debt	38 460	40 448	34 997	36 438

Measurement techniques and assumptions

The techniques and assumptions used to determine fair values of those financial instruments, which are not recognized at fair value in the financial statements, are described below.

Assets whose fair value is approximately equal to their carrying amount

For liquid financial assets and financial liabilities and those having a short-term maturity (less than three months) it is assumed that their carrying amount is approximately equal to their fair value. This assumption is also applicable to demand deposits and deposit accounts without a specific maturity.

(in thousands of Belarusian Roubles)

Financial instruments with fixed and floating rates

The fair value of unquoted debt instruments is measured by discounting future cash flows using current interest rates taking into account the remaining maturities for debt instruments with similar terms and credit risk.

29. Maturity analysis of assets and liabilities

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

	2018			***2017***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	193 108	-	**193 108**	147 905	–	**147 905**
Amounts due from credit institutions	30 475	20 122	**50 597**	14 494	12 435	**26 929**
Derivative financial assets	65	–	**65**	32	-	**32**
Loans to customers	557 887	275 759	**833 646**	468 242	235 590	**703 832**
Investment securities	34 004	13 985	**47 989**	32 003	14 076	**46 079**
Investment property	–	–	**–**	–	3 628	**3 628**
Property and equipment	–	15 449	**15 449**	–	14 621	**14 621**
Intangible assets	–	22 758	**22 758**	–	19 353	**19 353**
Other assets	1 194	7 435	**8 629**	2 759	7 063	**9 822**
Total	**816 733**	**355 508**	**1 172 241**	**665 435**	**306 766**	**972 201**
Amounts due to credit institutions	(24 595)	(17 396)	**(41 991)**	(31 774)	(10 066)	**(41 840)**
Derivative financial liabilities	(84)	–	**(84)**	(6)	-	**(6)**
Amounts due to customers	(342 356)	(418 121)	**(760 477)**	(389 525)	(264 527)	**(654 052)**
Debt securities issued	(41 278)	-	**(41 278)**	(24 712)	–	**(24 712)**
Other borrowings	(1 093)	(29 469)	**(30 562)**	(11 257)	–	**(11 257)**
Current income tax liabilities	(7 104)	–	**(7 104)**	(2 622)	–	**(2 622)**
Deferred income tax liabilities	–	(16 181)	**(16 181)**	–	(18 786)	**(18 786)**
Other liabilities	(15 692)	(696)	**(16 388)**	(9 679)	(49)	**(9 728)**
Subordinated debt	(267)	(38 193)	**(38 460)**	(97)	(34 900)	**(34 997)**
Total	**(432 469)**	**(520 056)**	**(952 525)**	**(469 672)**	**(328 328)**	**(798 000)**
Net position	**384 264**	**(164 548)**	**219 716**	**195 763**	**(21 562)**	**174 201**

An overdue amount of loan in the amount of BYN 6 392 thousand as at 31 December 2018 (31 December 2017: BYN 4 712 thousand) was included in the loans to customers with a maturity of more than one year.

The Bank expects that not all contingent or contractual obligations will require performance before the expiration date. The Bank's management believes that in case of early repayment of amounts due to customers, the Bank will be able to dispose its liquid assets to make the necessary payments. Management also believes that in case of decrease in financing from counterparty banks, the Bank will be supported by shareholders by increasing the size of liquidity maintenance credit lines. The Bank also has access to constantly operating instruments for regulating liquidity on behalf of the regulator.

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

Customer accounts - the Bank’s liquidity management includes an assessment of the minimum required balance on current (settlement) customer accounts, that is, the funds attracted in an amount that takes into account stable relationships with customers, which is determined using statistical methods applied to historical data on fluctuations in customer account balances for at least 360 days prior to the date of analysis. In this regard, the semi-constant balance in the amount of BYN 324 923 thousand (2017: BYN 249 506 thousand) is included in the maturity of more than one year.

(in thousands of Belarusian Roubles)

30. Related party disclosures

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

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

The outstanding balances of related party transactions are as follows:

	2018			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers as at 1 January	**29 566**	**2 805**	**47**	**22**
Issued during the year	60 428	13 688	133	156
Repaid during the year	(60 607)	(14 925)	(152)	(143)
Currency revaluation	-	-	(8)	(1)
Other movements	-	112	-	-
Loans to customers as at 31 December	**29 387**	**1 680**	**20**	**34**
Allowance for impairment	(16)	(13)	-	-
Loans to customers net of allowance for impairment	**29 371**	**1 667**	**20**	**34**
Term deposits as at 1 January	**51 464**	**216**	**2 018**	**359**
Attracted during the year	903 274	42 744	528	519
Repaid during the year	(902 146)	(34 691)	(657)	(500)
Currency revaluation	4 129	184	5	-
Other movements	(1)	135	(1 557)	(257)
Term deposits as at 31 December	**56 720**	**8 588**	**337**	**121**
Current customer accounts as at 31 December	**967**	**872**	**2 598**	**252**

(in thousands of Belarusian Roubles)

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

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 1 January 2018	**34 997**	**-**	**-**	**-**
Interest income accrued	2 016	-	-	-
Interest repaid during the year	(1 970)	-	-	-
Currency revaluation and other movements	3 417	-	-	-
Subordinated debt as at 31 December 2018	**38 460**	**-**	**-**	**-**
Loan commitments as at 31 December	2 100	13 195	125	104
Guarantees as at 31 December	21 588	-	-	-
Allowance of financial guarantees	(142)	-	-	-
Other liabilities – accrual of unused vacation liabilities	-	-	344	5

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 1 January 2017	34 741	–	–	–
Issued during the year	–	–	–	–
Repaid during the year	–	–	–	–
Currency revaluation and other movements	256	–	–	–
Subordinated debt as at 31 December 2017	**34 997**	–	–	–
Loan commitments as at 31 December	343	201	137	73
Guarantees as at 31 December	18 588	–	–	–
Other liabilities – accrual of unused vacation liabilities	–	–	292	2

(in thousands of Belarusian Roubles)

The average-weighted contract rate on loans in 2018 was 11,84% (in 2017 – 14,95%). In general, loans are represented by long-term revolving credit lines, mainly denominated in Belarusian Roubles. The average-weighted contract rate on deposits in 2018 was 2,31% (in 2017 – 3,04%). During the reporting period, the Bank mainly attracted short-term deposits, commonly denominated in foreign currency.

As at 31 December 2018 and 31 December 2017, the guarantees issued are represented by long-term guarantees in the national currency.

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

	2018			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	3 120	187	1	2
Interest expense on subordinated debt	(2 010)			
Interest expense on amounts due to customers	(3 216)	(77)	(24)	(14)
Recovery of loss allowance	65	90	-	-
Fee and commission income	328	60	8	6
Gains from foreign currency transactions	31	15	-	-
Personnel expenses	-	-	5 586	-

	2017			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	4 421	281	6	3
Interest expense on subordinated debt	(1 907)	–	–	–
Interest expense on amounts due to customers	(3 197)	(19)	(67)	(24)
Recovery of loss allowance	143	136	1	(2)
Fee and commission income	251	29	7	4
Gains from foreign currency transactions	12	2	–	–
Personnel expenses	–	–	5 254	–

Key management personnel remuneration includes the following items:

	2018	***2017***
Salaries and other short-term payments to employees	4 760	4 521
Social insurance contributions	826	733
Total key management personnel remuneration	**5 586**	**5 254**

31. Capital adequacy

The Bank actively manages the capital base to cover risks inherent in its business. The Bank's capital adequacy is monitored using the ratios established by the Basel Capital Accord dated 1988 and the ratios established by the National Bank when observing the Bank.

As at 31 December 2018 and 31 December 2017, the Bank fully complied with all external capital requirements except for the Tier 1 capital adequacy ratio calculated on the basis of the conservation buffer, as at 31 December 2017.

(in thousands of Belarusian Roubles)

As at 31 December 2018, the Bank did not comply with the Tier 1 capital adequacy ratio, calculated on the basis of the conservation buffer. In accordance with paragraph 1.2.1. of Decree of the Board of the National Bank of the Republic of Belarus dated 1 December 2012 № 641 “On Additional Requirements for the National Bank of the Republic of Belarus to Apply Supervisory Response Measures and Criteria for Making Decisions on Applying them” that violation leads to the decision of the National Bank of the Republic of Belarus on applying supervisory response measure in the form of imposing a ban on the profit distribution among shareholders of the Bank by announcing and (or) paying dividends until the violation is eliminated. According to the Decree of the Board of the National Bank of the Republic of Belarus dated 18 May 2017 № 180, the Tier 1 capital adequacy ratio taking into account the conservation buffer for banks has been canceled as at 1 January 2018.

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

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

Capital adequacy ratio established by the National Bank

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio at 10% of risk-weighted assets, calculated on the basis of BAS. As at 31 December 2018 and 31 December 2017, the Bank’s capital adequacy ratio calculated on the abovementioned basis was as follows:

	2018	***2017***
Core capital	113 603	74 131
Additional capital	85 478	70 168
Total capital	**199 081**	**144 299**
Risk-weighted assets	**1 196 508**	**921 211**
Capital adequacy ratio	16,64%	15,70%

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2018 and 31 December 2017, The Bank’s capital adequacy ratio, calculated in accordance with the Basel Capital Accord dated 1988 using a standardized approach and taking into account subsequent amendments related to including market risks, comprised:

	2018	***2017***
Tier 1 capital	196 541	154 848
including Share capital	*57 134*	*57 134*
retained earnings	*162 165*	*117 067*
intangible assets	*(22 758)*	*(19 353)*
Tier 2 capital	38 842	34 997
including Subordinated debt, taken into account in the calculation of capital	*38 425*	*34 997*
fair value reserve of investment securities	*417*	*-*
Total capital	**235 383**	**189 845**
Risk-weighted assets	**1 165 955**	**968 491**
Tier 1 capital ratio	16,86%	16,00%
Total capital ratio	20,19%	19,60%

(in thousands of Belarusian Roubles)

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

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

32. Subsequent events

According to the National Bank of the Republic of Belarus, core inflation was 4,9 percent in annual terms in March 2019.

In January 2019, the Fitch Ratings (International Rating Agency) approved the long-term issuer default ratings (IDRs) of Belarus in foreign and national currency at the “B” level with a “Stable” outlook.