OJSC "Paritetbank"

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

For the year ended
31 December 2018

Our ref № 05-01/170 11 June 2019

Independent Auditors' Report

To the shareholders, Supervisory Board and Management Board of Open joint-stock company «Paritetbank»

Opinion

We have audited the financial statements of Open joint-stock company «Paritetbank» (OJSC «Paritetbank», Bank thereafter), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements on pages 11-71, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of OJSC «Paritetbank» 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» thereafter).

Basis for opinion

We conducted our audit in accordance with Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, International Standards on Auditing («ISAs» thereafter). Our responsibilities under those standards are further described in the section «Auditor's responsibilities for the audit of the financial statements» of this auditor's report.

We are independent of OJSC «Paritetbank» in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants («IESBA Code») and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. The below matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Allowance for expected credit losses on loans to customers in accordance with IFRS 9

We focused on this matter due to significance of loans to customers and significance of professional judgement and estimates required for calculation of expected credit losses in according with IFRS 9 «Financial Instruments».

The identification of impairment, significant increase in credit risk, determination of probability of default and loss given default, determination of the recoverable amount and forecast of macroeconomic variables require a high level of subjectivity.

Assessment of expected credit losses involves estimation techniques including internal credit ratings for calculation probability of default, historical data for determination of loss given default and forecasting of macroeconomic variables. Signs of significant increase in credit risk are also judgmental and are based on extent of downgrade in internal credit ratings, days overdue and other factors.

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The use of various models and assumptions in the calculation of expected credit losses can significantly affect the level of the allowance for expected credit losses on loans to customers.

Note 3 «Summary of significant accounting policies», Note 4 «Critical accounting estimates, and judgements in applying accounting policies», Note 11 «Loans to customers» and Note 25 «Risk management» included in the financial statements, provide detailed information on the allowance for expected credit losses and the Bank's management approach to assessing and managing risk.

During the audit we examined and assessed the methodologies of the Bank used for assessing the allowance for expected credit losses on loans to individuals and legal entities.

We assessed credit risk factors used by the Bank for determining significant increase in credit risk.

We analyzed rating models, key inputs and assumptions, model for assessing the probability of default, the level of recovery and macroeconomic forecast ratio, used for calculation of expected credit losses

We tested (on a sample basis) valuation models for selected loans. Our work included assessment if the models and inputs are appropriate, re-performance of selected calculations, and various analytical and other procedures.

We analyzed information related to the allowance for expected credit losses on loans, dislosed in the notes to the financial statements.

Responsibilities of management and those charged with governance for the financial statements

Management of OJSC «Paritetbank» is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs 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 ability of OJSC «Paritetbank» 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 OJSC «Paritetbank» or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of OJSC «Paritetbank».

Auditor's responsibilities for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, 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 Law of the Republic of Belarus of July 12, 2013 «On Auditing Activities» and the National Regulations on Auditing Activities, ISAs, we exercise professional judgment and maintain professional scepticism throughout the planning and performance of 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 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 OJSC «Paritetbank» ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause OJSC «Paritetbank» to cease to continue as a going concern.

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

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

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

Head of the audit organization:

Director A.G. Reneisky

Auditor in-charge N.A. Lagutkina

Auditors' opinion received on 11 June 2019

Audited entity

Joint-stock company «Belarusian currency and stock exchange» (JSC «BCSE»);

48a, room 35a, Surganova Street, Minsk, 220013, Republic of Belarus

Information on state registration: registered in the Unified State Register of Legal Entities and Individual Entrepreneurs under registration number 101541722.

Independent auditor

FBK-Bel LLC;

office 201, 22A Logoisky highway, Minsk, 220090, Republic of Belarus;

Information on state registration: registered by the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs on 06 February 2009 under registration number 690398039.

OJSC "PARITETBANK"

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian rubles)

	Notes	31 December 2018	31 December 2017
ASSETS:			
Cash and cash equivalents	7	72 735	39 500
Amounts due from financial institutions	8	653	243
Securities	9	129 851	99 464
Derivative financial assets	10	44	11
Mandatory reserves with the National bank of Belarus		4 106	2 660
Loans to customers	11	222 983	182 429
Long-term assets held for sale	12	111	216
Property and equipment	13	27 869	27 709
Intangible assets	14	954	1 227
Deferred income tax assets	15	820	795
Prepaid income tax		533	-
Other assets	16	1 808	11 582
TOTAL ASSETS		**462 467**	**365 836**
LIABILITIES AND EQUITY			
LIABILITIES:			
Amounts due to financial institutions	17	98 279	67 930
Derivative financial liabilities	10	25	1
Amounts due to customers	18	239 167	188 619
Debt securities issued	19	12 035	1 436
Current income tax liabilities		-	207
Other liabilities	16	2 012	773
TOTAL LIABILITIES		**351 518**	**258 966**
EQUITY:			
Share capital	20	153 754	153 754
Treasury shares		(136)	(136)
Revaluation reserve for investments measured at fair value through other comprehensive income		338	(26)
Accumulated loss		(43 007)	(46 722)
TOTAL EQUITY		**110 949**	**106 870**
TOTAL LIABILITIES AND EQUITY		**462 467**	**365 836**

Notes on pages 12 to 72 are an integral part of these financial statements.

Chairman of the Management Board
I.V. Katibnikov

10 June 2019
Minsk

Deputy Chief Accountant
E.M. Skriba

10 June 2019
Minsk

OJSC "PARITETBANK"

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Belarusian rubles)

	Notes	2018 г.	2017 г.
INTEREST INCOME			
Interest income on financial assets at amortised cost			
Loans to customers		20 614	23 988
Amounts due from financial institutions		740	345
Securities		205	-
Interest income on financial assets at fair value through other comprehensive income			
Securities		5 028	6 399
Interest income on financial assets at fair value through profit or loss			
Securities		1 731	565
INTEREST EXPENSE			
Interest expense on financial liabilities at amortised cost			
Amounts due to customers		(4 707)	(7 332)
Amounts due to financial institutions		(5 409)	(2 697)
Debt securities issued		(569)	(239)
NET INTEREST INCOME		17 633	21 029
Allowance for loans impairment	11	(1 493)	(3 649)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOANS IMPAIRMENT		16 140	17 380
Net fee and commission income	22	3 540	3 471
Net gains from securities		(1 705)	1 097
Net gains from foreign currency transactions:			
- dealing		3 402	2 615
- transaction differences		1 052	1 044
Net gains from derivative financial instruments transactions		(15)	47
Other income	23	4 757	6 112
NON-INTEREST INCOME		11 031	14 386
Personnel expenses	24	(9 815)	(8 853)
Depreciation and amortization	13, 14	(1 601)	(1 462)
Other operating expenses	24	(11 859)	(7 925)
Other reversal/(expenses) of impairment and provisions	7, 8,12,16	(373)	(124)
NON-INTEREST EXPENSE		(23 648)	(18 364)
PROFIT BEFORE INCOME TAX EXPENSE		3 523	13 402
Income tax charge	15	(353)	(1 000)
PROFIT FOR THE YEAR		3 170	12 402

Notes on pages 12 to 72 are an integral part of these financial statements.

Chairman of the Management Board
F.V. Katibnikov

10 June 2019
Minsk

Deputy Chief Accountant
E.M. Skriba

10 June 2019
Minsk

Translation from original in Russian language

OJSC "PARITETBANK"

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

	Notes	2018 г.	2017 г.
PROFIT FOR THE YEAR		3 170	12 402
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of financial assets		(147)	(4)
Change in deferred income tax recognised in equity		37	8
Change in allowance for securities at fair value through other comprehensive income		107	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3 167	12 406

Notes on pages 12 to 72 are an integral part of these financial statements.

Chairman of the Management Board
I. V. Katibnikov

10 June 2019
Minsk

Deputy Chief Accountant

E.M. Skriba

10 June 2019
Minsk

OJSC "PARITETBANK"

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

	Notes	Share capital	Treasury shares	Accumulated loss	Revaluation reserve for investments measured at fair value through other comprehensive income	Total equity
31 December 2016		**153 754**	**(136)**	**(57 295)**	**(30)**	**96 293**
Comprehensive income						
Profit for the year		-	-	12 402	-	**12 402**
Other comprehensive income for the year		-	-	-	4	**4**
Total comprehensive income for the year		-	-	12 402	4	**12 406**
Transactions with shareholders						
Dividends declared	20	-	-	(1 829)	-	**(1 829)**
31 December 2017		**153 754**	**(136)**	**(46 722)**	**(26)**	**106 870**
Effect of first-time adoption of IFRS 9 at 1 January 2018		-	-	548	367	**915**
Restated balance at 1 January 2018		**153 754**	**(136)**	**(46 174)**	**341**	**107 785**
Comprehensive income						
Profit for the year		-	-	3 170	-	**3 170**
Other comprehensive income for the year		-	-	-	(3)	**(3)**
Total comprehensive income for the year		-	-	3 170	(3)	**3 167**
Transactions with shareholders						
Dividends declared	20	-	-	(3)	-	**(3)**
31 December 2018		**153 754**	**(136)**	**(43 007)**	**338**	**110 949**

Notes on pages 12 to 72 are an integral part of these financial statements.

Chairman of the Management Board
I. V. Katibnikov

10 June 2019
Minsk

Deputy Chief Accountant
E.M. Skriba

10 June 2019
Minsk

Открытое акционерное общество «ПАРИТЕТБАНК» Республика Беларусь Минск

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OJSC "PARITETBANK"

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

	Notes	2018 г.	2017 г.
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expense	15	3 523	13 402
Adjustments for:			
Depreciation and amortisation	13, 14	1 601	1 462
Allowance for loans impairment	11	1 493	3 649
Charge/(release) of allowance for impairment of other assets	7, 8,12,16	373	124
Loss on disposal of property and equipment and intangible assets		(194)	66
Net change in interest accruals		2 829	(4 132)
Gain on revaluation of derivative financial instruments	26	(19)	(11)
Revaluation at fair value of investments at fair value through profit or loss		1 611	-
Unused vacation and bonus accrual		329	135
(Profit)/loss from translation differences		(1 052)	(1 044)
Gain on disposal of non-current assets held for sale and other property		(2)	(73)
Effect of first-time adoption of IFRS 9 at 1 January 2018		915	-
Cash flows from operating activities before changes in operating assets and liabilities		**11 407**	**13 578**
Decrease/(increase) in operating assets:			
Amounts due from financial institutions		(1 881)	1 726
Loans to customers		(38 132)	7 839
Derivative financial instruments		10	20
Other assets		2 406	575
Decrease/(increase) in operating liabilities:			
Amounts due to financial institutions		23 888	(3 414)
Amounts due to customers		40 985	(3 893)
Other liabilities		(397)	(798)
Net cash inflows from operating activities before income tax		**26 879**	**2 055**
Income tax paid		(1 062)	(617)
Net cash inflow from operating activities		**37 224**	**15 016**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets	13, 14	(1 585)	(1 110)
Acquisition of securities		(94 129)	(99 878)
Proceeds from redemption of securities		71 005	101 020
Proceeds from redemption of property and equipment and intangible assets		291	-
Proceeds from redemption of shares		7 960	(2 015)
Net cash outflow from investing activities		**(16 458)**	**(1 983)**

OJSC "PARITETBANK"

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

	Notes	2018 г.	2017 г.
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debt securities	30	10 343	(762)
Dividends paid	20	(3)	(1 829)
Net cash outflow from financing activities		**10 340**	**(2 591)**
Effect of exchange rates changes on cash and cash equivalents		2 144	961
Impact of changes in expected credit losses on cash and cash equivalents		(15)	-
Net increase/(decrease) in cash and cash equivalents		33 235	11 403
Cash and cash equivalents as at the beginning of the reporting year	7	39 500	28 097
Cash and cash equivalents as at the end of reporting the year	**7**	**72 735**	**39 500**

Notes on pages 12 to 72 are an integral part of these financial statements.

Chairman of the Management Board
I. V. Katibnikov

10 June 2019
Minsk

Deputy Chief Accountant
E.M. Skriba

10 June 2019
Minsk

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1. ORGANIZATION

Commercial Bank "Poisk" (hereinafter - the "Bank") was registered by the National Bank of the Republic of Belarus (hereinafter – "NB RB") under No. 5 on 15 May 1991. In 1992 the Bank was reorganized as SCB "Poisk" (Meeting of shareholders dated 12 March 1992, Minutes No. 1) and registered in NB RB on 2 July 1992 under No. 5. Since 1999 the Republic of Belarus has been the principal shareholder of the Bank. On 21 November 2000 NB RB registered amendments and additions to the Statute of SCB "Poisk", approved by the meeting of the Bank's shareholders on 21 September 2000 (Minutes No. 2) and related to the change in the name to the OJSC "Bank "Poisk". On 26 March 2004 the General Meeting of Shareholders of OJSC "Bank "Poisk" (Minutes No. 2) decided to rename OJSC "Bank "Poisk" to OJSC "Paritetbank". The changes were registered by the NB RB on 5 May 2004 under No. 5.

The Bank was granted banking license No. 5 dated 27 October 2014 for the following banking operations:

- attracting monetary means of legal and natural persons in accounts and deposits;
- placement of attracted monetary means in the own name and at the own costs on the conditions of repayment, interest payment, and maturity;
- opening and operating accounts of natural and legal persons;
- settlement and/or cash services to natural and legal persons, including correspondent banks;
- currency exchange transactions;
- sale of precious metals and in the cases stipulated by the National Bank;
- issuing bank guarantees;
- trust management of monetary means under a contract of trust management of monetary means;
- issuance (emission) of bank payment cards;
- issuance (emission) of electronic money;
- issuance of securities confirming acceptance of monetary means in deposits and placement thereof in the accounts;
- financing against monetary claim assignment (factoring);

(in thousands of Belarusian rubles)

- providing natural and legal persons with special premises or strongboxes located therein for bank safekeeping of documents and valuables (monetary means, securities, precious metals and precious stones, etc.);

- carriage of cash monetary means, payment instructions, precious metals and precious stones and other valuables between banks and non-bank credit and financial organizations, their separate and structural divisions, and delivery of such valuables to customers of banks and non-bank credit and financial organizations.

The Bank also holds a license for securities and stock exchange operations.

The Bank has 19 structural divisions in the Republic of Belarus and a head office located in Minsk and having its registered address at 61a Kiseleva Street, 220002 Minsk, Republic of Belarus.

As of 31 December 2018 and 2017, the Bank's share capital was distributed among its shareholders as follows:

Shareholders	**31 December 2018**	**31 December 2017**
Administration of the President of the Republic of Belarus	-	99,83%
State Committee on Property of the Republic of Belarus	99,83%	-
Other (legal and natural person)	0,17%	0,17%

Information on investments in associates of the Bank is presented below:

Name	**Country of operation**	**Share**		**Type of activity**
		2018	**2017**	
LLC "Investment Company "Paritet"	Republic of Belarus	50,0%	50,0%	Finance lease

In 2013 the Bank ceased recognition of investments in associate company by expensing the carrying the amount of the investments in the Bank's profit or loss account.

Total unrecognized Bank's share in profit for the 2018 year are BYN 4 thousand and in loss for the 2017 year are BYN 54 thousand. Unrecognized Bank's share in the associate's accumulated loss as of 31 December 2018 and 31 December 2017 is BYN 336 thousand and 171 thousand, respectively.

2. OPERATING ENVIRONMENT OF THE BANK

Republic of Belarus. The Republic of Belarus displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation which contributes to the challenges faced by banks operating in the Republic of Belarus.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe and Russia, which is the main export markets for Belarus, and other risks could have significant negative effects on the Belarusian financial and corporate sectors. Management determined loan impairment allowance using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of allowance. Refer to Note 11.

The future economic development of the Republic of Belarus is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

Financial instruments - key measurement terms.

. From January 1, 2018 in accordance with IFRS 9 after initial recognition financial assets are measure at amortised cost, fair value through other comprehensive income or at fair value through profit or loss, based on: business model used by the Bank to manage financial assets; the contractual cash flow characteristics of financial asset.

To choose the category of financial assets, the Bank consistently conducts two tests to determine the category of financial assets: business model test and solely payments of principal and interest test

Business model analysis is performed at the level of asset portfolios. The Bank analyzes all significant and objective evidence available at the valuation date to determine the business model for specific portfolios of financial assets.

A financial asset shall be measured at amortised cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: the financial 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 solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income

At initial recognition the Bank may decide, irrevocably designate to represent, as part of other comprehensive income changes in the fair value of Investments in equity instruments, not intended for trading.

Financial liabilities are measured at fair value through profit or loss when they meet the definition of held for trading or classified in this category at initial recognition. Financial liabilities are measured at fair value through profit or loss if: the Bank at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; fair value is used as the basis for managing a group of financial liabilities or financial assets; or financial liabilities held for trading, including derivatives.

All other financial liabilities are measured at amortised cost using effective interest method

Except for trade receivables, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If the trade receivables do not contain a significant financing component it is measured at their transaction price.

After initial recognition the Bank measures a financial asset at: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

The Bank applies impairment requirements to financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income.

After initial recognition the Bank measures a financial liability at: amortised cost or fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. Fair value of financial instruments traded in an active market is measured the same even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are convertible to known amounts of cash within a day and which are subject to an insignificant risk of changes in value. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Precious metals and precious stones. Precious metals and gemstones in physical form are presented by the Bank within other non-financial assets at the lower of cost and net realisable value at the reporting date.

Mandatory reserves placed in the National Bank of Belarus. Mandatory cash balances with the National Bank of the Republic of Belarus represent mandatory reserve deposits with the Central Bank of the Republic of Belarus, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory cash balances with the National Bank of the Republic of Belarus are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets measured at amortised cost. At each reporting date, the Bank measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

In accordance with the requirements of IFRS 9, the Bank applies the model of expected credit losses for the purpose of impairment of financial instruments, the key principle of which is the timely reflection of deterioration or improvement in the credit quality of financial instruments, taking into account current and forecast information. The amount of expected credit losses, recognized as loss allowance for expected credit losses, depends on level of change in the credit quality of a financial instrument from the date of its initial recognition (for credit related commitments the date of initial recognition is the date when the Bank assumes such commitment).

In accordance with the general approach, at the recognition date, financial instruments are included in Stage 1, then, depending on the degree of deterioration in credit quality from the date of initial recognition at subsequent reporting dates, the Bank classifies financial instruments to one of the following steps:

Stage 1 - Financial instruments that do not have factors that indicate an increase in credit risk and that do not have impairment indicators for which expected credit losses are calculated for a period of 1 year;

Stage 2 - Financial instruments that have factors that indicate an increase in credit risk, but do not have impairment indicators for which expected credit losses are calculated for the entire life of the financial instrument;

Stage 3 - Financial instruments that have impairment indicators for which expected credit losses are calculated for the entire life of the financial instrument.

In case of significant increase in credit risk as of the previous reporting date, compared with the date of initial recognition, and financial asset was assigned to Stage 2 and at the reporting date there are no factors indicating a significant increase in credit risk compared to initial recognition, the asset is assigned to Stage 1 expected credit losses are determined on a 12-month horizon and loss allowance is recovered.

Purchased or originated credit-impaired financial assets are not transferable from Stage 3.

The Bank considers a significant increase in credit risk at the reporting date if there are, among other things, the following signs: overdue debt on a financial asset for a period exceeding 30 days for individuals, as well as a significant deterioration in the counterparty credit rating for legal entities and individual entrepreneurs and financial institutions.

The main factors of impairment and classification to Stage 3 are following: debt overdue more than 90 days, decrease of credit rating to level E for corporate customers, initiation of economic litigation (bankruptcy) proceedings against the client by the economic court.

The amount of loss allowance for expected credit losses (ECL) depends on the amount of exposure at default (EAD), the term of the financial asset or conditional liability, the probability of default (PD) and level of loss given default (LGD). In general the amount of loss allowance for expected credit losses is calculated using the formula:

$$ECL = PD \times LGD \times EAD,$$

where PD – probability of default. This value is a calculated estimate of the probability of default over a certain time period during the term of the financial asset (contingent liability).

LGD - loss given default. This value is a calculated estimate of losses arising in the event of a default at a certain point in time.

EAD – exposure at default.

Estimation of the probability of default (PD) of corporate customers is based on internal credit ratings. After determining the internal credit rating at the reporting date and the previous reporting date, a migration matrix is formed. The resulting migration matrix is adjusted taking into account the influence of macroeconomic factors calculated for 3 calendar years in advance. Any indicators that demonstrate the closest relation with the level of default can be used as a macroeconomic indicator.

Estimation of the probability of default (PD) of individuals is determined by dividing the credit debt of individuals into homogeneous loan portfolios by overdue periods: not past due, from 1 to 30 days, from 31 to 60 days, from 61 to 90 days, over 90 days. After dividing the credit debt of individuals into portfolios of homogeneous loans, a migration matrix is formed, which is adjusted for macroeconomic factors.

Estimation of the probability of default of financial institutions is based on external credit ratings established by external rating agencies. To obtain annual estimates of the probability of default (PD) for financial institutions, the Bank uses Moody's one-year migration matrices. One-year migration matrix is adjusted for macroeconomic factors, similar to the approach used for corporate customers. Herewith, the macroeconomic factor of the respective country of registration of financial institution is used.

LGD coefficient is calculated based on historical information. The percentage of receipts from defaulted loans is analyzed. Proceeds from sale of collateral are not included in calculation. For future periods for which there is not enough historical information to calculate loss given default coefficient the level of coefficient is set at 100%. LGD coefficient for financial institutions is equal 100%.

When calculating the expected credit losses for corporate customers cash flows are taken into account not only from the repayment of loan, but also from the possible realization of collateral. Calculating the collateral adequacy on loans to legal entities, as well as guarantees of the Bank, the expected sale price of the collateral is determined. For this purpose, the market value of the property taking into account the forecasts for its change until the expected sale date of the property is determined.

To calculate the expected credit losses on receivables, a simplified approach is used, according to which the allowance for expected credit losses is recognized in an amount equal to the expected credit losses over the entire life of the financial instrument. The total amount of expected credit losses is calculated as the sum of the values of expected credit losses of three portfolios of receivables formed by the type of counterparty segment (financial institutions, corporate customers and individuals) and based on the number of days overdue. For receivables, for which evidence of impairment is identified, the allowance is assumed to be 100% of the outstanding amount.

For purchased or originated credit-impaired financial assets t the date of initial recognition, the Bank takes into account expected credit losses when calculating the effective interest rate adjusted for credit risk, and no allowance for impairment of such financial assets is formed. On subsequent reporting dates for the calculation of loss allowance the Bank estimates only the cumulative changes in the value of expected credit losses over the entire life of the asset.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantee agreement - an agreement under which the issuing party is obliged to make certain payments to the counterparty to compensate for the loss incurred by the latter as a result of the fact that the debtor specified in the contract was not able to make payment within the terms established by the original or revised terms of the debt instrument.

At initial recognition, the Bank evaluates the financial guarantee agreement at fair value.

After initial recognition, a financial guarantee agreement is measured at the higher of: the estimated loss allowance; and the initially recognized amount less, where appropriate, the total recognized income.

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Securities at fair value through profit or loss. This category includes securities classified as held for trading. Securities are classified as held for trading if they are acquired for sale in the near future. Revaluation of securities at fair value through profit or loss is recognised in profit or loss for the year.

Financial instruments at amortised cost. This financial instruments include debt investment securities for which the Bank has no intention to sell them immediately or in the near future, as well as loans and receivables. These financial instruments are carried at amortised cost.

The Bank applies impairment requirements to financial assets at amortised cost and financial assets at fair value through other comprehensive income.

Allowance for expected credit losses on financial assets that are measured at fair value through other comprehensive income is recognised in other comprehensive income and does not reduce the carrying amount of the financial asset in the statement of financial position.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Property and equipment. Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying amount of property and equipment is reviewed for impairment. In case of any indication of impairment there is estimated the recoverable amount, which is the higher of the asset's fair value less costs to sell and its value as a result of its use. The carrying amount is reduced to its recoverable amount and an impairment loss is recognized in profit or loss for the year.

An impairment loss recognized for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use, or its fair value less costs to sell.

Expenditures for repairs and renewals are expensed as incurred and are included in other operating expenses, unless they are subject to capitalization.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Period for property and equipment depreciation, years
Buildings and constructions	8 – 125
Computers	3 – 14
Motor vehicles	5 – 9
Office furniture and other property and equipment	2 – 100

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Finance lease receivables. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments.

Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Bank uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, rather than through continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Due to financial institutions. Amounts due to financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities issued. Debt securities in issue include bonds and debentures issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, and currency and interest rate swaps are carried at their fair value.
All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse.

Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Allowance for liabilities and charges. Allowance for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Belarusian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees relating to investment funds are recorded rateably over the period that the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Belarus, Belarusian ruble ("BYN").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the National Bank of Belarus at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the National Bank of Belarus, are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

At 31 December 2018, the principal rate of exchange used for translating foreign currency balances was USD 1 = BYN 2,1598. (2017: USD 1 = BYN 1,9727).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Belarus state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in accordance with statutory legislation and local acts of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these financial statements on a going concern basis.

Loss allowance for expected credit losses. The Bank regularly reviews its loans and receivables to assess impairment. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Evaluation of loss allowance for expected credit losses (ECL) for financial assets measured at amortised cost and at fair value through other comprehensive income requires the use of complex models and significant assumptions regarding future economic conditions and the counterparty's credit behavior. The Bank applies judgments when assessing whether the counterparty's credit risk has increased significantly, forecasting the future economic situation, and choosing the appropriate model for estimating expected credit losses.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Deferred tax assets. Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Useful lives of property and equipment. The Bank reviews useful lives of property and equipment at least at each financial year-end. If expectations differ from previous estimates, changes are treated as changes in accounting estimates. These estimates may have a material impact on the carrying amounts of property and equipment and on depreciation recognized in the statement of profit or loss.

Impairment of non-financial assets. The carrying value of the Bank's non-financial assets, except for deferred tax assets, is reviewed at each reporting date to determine any indication of impairment. If there is any such indication of impairment the recoverable amount of an asset is estimated. The recoverable amount of other non-financial asset is the largest value of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows independently of the other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Bank from 1 January 2018, but did not have any material impact on the Bank:

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the entity should determine the date of transaction for each payment or receipt of advance consideration. This Interpretation had no impact on the Bank's consolidated financial statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of property does not provide evidence of a change in use. These amendments had no impact on the Group's consolidated financial statements.

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

IFRS 16 Leases

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

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. In addition, IFRS 16, which becomes effective for annual periods beginning on 1 January 2019, requires lessors and lessees to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Bank is currently assessing the effect of adoption of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life insurance, direct insurance and re-insurance) regardless of the type of entities that issues them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17. This standard is not applicable to the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

Amendment to IFRS 9 – Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2019, with early application permitted. These amendments have no impact on the Group's consolidated financial statements.

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

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

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the reporting period, an entity is required to:

(in thousands of Belarusian rubles)

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine the net interest applicable to the remaining part of the period after the plan amendment, curtailment or settlement with the use of a net liability (asset) under the defined benefit plan, reflecting the consideration under the plan and assets of the plan after this event; and the discount rate used to remeasure this net liability (asset) under the defined benefit plan.

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. The entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

These amendments are applied to the plan amendment, curtailment or settlement occurred on the date of or after the first annual period beginning on or after 1 January 2019. Early application is permitted. These amendments will be applied only to the Group's future plan amendment, curtailment or settlement.

Amendments to IAS 28 – Long-Term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take into account any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments are applied retrospectively and become effective for annual periods beginning on or after 1 January 2019. Early application is permitted. Since the Group does not have such long-term interests in an associate or a joint venture, these amendments will not have any impact on its consolidated financial statements.

6. NEW ACCOUNTING PRONOUNCEMENTS

IFRS 9 "Financial Instruments". The Bank first implemented IFRS 9. Presented below is a reconciliation of the carrying amount, estimated in accordance with IAS 39, with a carrying amount, calculated in accordance with IFRS 9, as of January 1, 2018:

	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39	Reclassificatio n	Remeasurement under IFRS 9 ECL	Remeasurement under IFRS 9 Other	Carrying amount under IFRS 9
Financial assets:							
Cash and cash equivalents	Loans and receivables	financial assets at amortised cost	39 500	-	(6)	-	39 494
Amounts due from financial	Loans and receivables	financial assets at amortised cost	243	-	-	-	243

(in thousands of Belarusian rubles)

institutions							
Securities, in particular:			99 464	-	-	-	99 464
Securities, available-for-sale	financial assets available-for-sale	financial assets at fair value through other comprehensive income	75 962	-	-	-	75 962
securities at fair value through profit or loss	financial assets at fair value through profit or loss	financial assets at fair value through profit or loss	23 512	-	-	-	23 512
Loans to customers	Loans and receivables	financial assets at amortised cost	182 429	-	1 727	1 962	186 118
Other financial assets	Loans and receivables	financial assets at amortised cost	10 569	-	(1 984)	-	8 585
Non-financial assets							
Deferred income tax assets			795	-	613	-	1 408
Non-financial liabilities							
Deferred income tax liabilities			-	-	920	-	920

The following table reconciles:

- The allowance for impairment of financial assets under IAS 39 and the allowance for credit-related commitments and impairment of financial guarantees under IAS 37 as of 31 December 2017, and
- The impairment allowance under IFRS 9 as of 1 January 2018.

	As of 31 December 2017 (under IAS 39 / IAS 37)	**Remeasurement of ECL under IFRS 9**	**As of 1 January 2018 (under IFRS 9)**
Cash and cash equivalents	-	6	6
Amounts due from financial institutions	-	-	-
Securities at fair value through other comprehensive income	-	367	367
Loans to customers	7 401	(1 727)	5 674
Other financial assets	7	1 984	1 991
Contractual and contingent liabilities	-	474	474

The effect of transition to IFRS 9 on accumulated profit and revaluation reserve for investment securities at fair value through other comprehensive income is analyzed below. There is no effect on other components of equity.

(in thousands of Belarusian rubles)

	Accumulated loss	Revaluation reserve at fair value of available-for-sale investments	Total
Closing balance under IAS 39 as of 31 December 2017	**(46 722)**	**(26)**	**(46 748)**
Recognition of expected credit losses under IFRS 9:			
Debt financial assets at amortized cost and creditrelated commitments	1 221	-	1 221
Financial assets at fair value through other comprehensive income	(367)	367	-
Tax effect	(306)	-	(306)
Opening balance under IFRS 9 as of 1 January2018	**(46 174)**	**341**	**(45 833)**

IFRS 15 "Revenue from Contracts with Customers". IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. IFRS 15 will replace all currently existing standards on revenue recognition, including the IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations.

A key principle of IFRS 15 is that the organization should recognize revenue at the moment or during the transfer of goods or services to customers in the amount of corresponding payment, as a company expects to receive in exchange for goods and services. In particular, it proposes to apply a single standard model consisting of five stages, to all contracts with customers.

The Standard introduces a much clearer guidance on issues of accounting, as the moment of revenue recognition, allowance for variable compensation, costs associated with the conclusion and execution of contracts and others. In addition, the Standard introduces a new disclosure requirements. However, interest and fee income, which is an integral part of financial instruments and leases, is beyond the requirements of IFRS 15 and will be governed by other applicable standards (IFRS 9 Financial Instruments and IFRS 16 Leases). As a result, the application of this standard will not affect a significant part of the Bank's income.

Amendments to IFRS 15 "Revenue from Contracts with Customers". Amendments to IFRS 15 issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018. The amendments do not change the fundamental principles of the standard but explain how these principles should be applied. In addition to the clarifications, the amendments include two additional exemption requirements, which will allow the company that first applies the new standard to reduce costs and complexity of accounting.

7. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on hand	25 460	9 445
Current accounts with the National Bank of the Republic of Belarus	39 723	28 275

(in thousands of Belarusian rubles)

Current accounts with other credit institutions	7 574	1 780
Less allowance for impairment	(21)	-
Total cash and cash equivalents	**72 735**	**39 500**

As of 31 December 2018 BYN 5 049 thousand (2017 – BYN 1 047 thousand) was placed on current accounts and interbank deposits with internationally recognized banks which are the main counterparties of the Bank in performing international settlements, in particular, the share of banks in OECD countries is about 81%, the share of the CIS countries is about 19 %.

The movements in allowance for credit losses of cash and cash equivalents are as follows:

	Total
Cash and cash equivalents	
The allowance for credit losses as of 01.01.2018	6
Charge of allowance	15
The allowance for credit losses as of 01.01.2019	**21**

All cash and cash equivalents are assigned to Stage 1.

8. AMOUNTS DUE FROM FINANCIAL INSTITUTIONS

As of 31 December 2018 and 31 December 2017 amounts due from credit institutions comprised:

	31 December 2018	31 December 2017
Guarantee deposits	664	243
Term deposits	(11)	-
Total amounts due from financial institutions	**653**	**243**

Guarantee deposits are represented by funds placed as security for liabilities. The Bank's ability to withdraw these deposits is limited.

Movements in the gross carrying amount and respective expected credit losses related to amounts due from financial institutions for the year ended 31 December 2018 are as follows:

	12-month expected credit losses (Stage 1)	**Lifetime expected credit losses (Stage 2)**	**Lifetime expected credit losses (Stage 3)**	**Credit-impaired financial assets**	**Total**
Amounts due from financial institutions					
Gross carrying amount as at 1 January 2018	243	-	-	-	243

(in thousands of Belarusian rubles)

New issues	19 711	-	-	-	19 711
Derecognition	(19 255)	-	-	-	(19 255)
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Other changes	(35)	-	-	-	(35)
Write-offs	-	-	-	-	-
Gross carrying amount as at 1 January 2019	**664**	**-**	**-**	**-**	**664**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Amounts due from financial institutions					
Loss allowance as at 1 January 2018	-				-
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Charge for the year	11	-	-	-	11
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**11**	**-**	**-**	**-**	**11**

9. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities as of 31 December 2018 include: securities at fair value through profit or loss, securities at fair value through other comprehensive income, securities at amortised cost.

Securities as of 31 December 2017 include: securities at fair value through profit or loss and securities available-for -sale.

Securities at fair value through profit or loss is presented as follows:

	31 December 2018	31 December 2017
Eurobonds issued by the Republic of Belarus	12 091	17 081
Eurobonds issued by Ukraine	-	6 431

(in thousands of Belarusian rubles)

Shares	13 716	-
Securities at fair value through profit or loss	**25 807**	**23 512**
Less: allowance for impairment	-	-
Total securities at fair value through profit or loss	**25 807**	**23 512**

Securities at fair value through other comprehensive income and securities available-for-sale are presented as follows:

	31 December 2018	**31 December 2017**
Bonds issued by National Bank of the Belarus, including:	21 587	56 717
pledged under repurchase agreements	16 733	18 115
Corporate bonds of banks	12 736	13 296
pledged under repurchase agreements	12 336	-
Government bonds	63 451	5 939
pledged under repurchase agreements	28 186	-
Securities at fair value through other comprehensive income	**97 774**	**-**
Securities available-for-sale	-	**75 952**

Corporate bonds of banks as of December 31, 2018 and as of December 31, 2017 is represented by securities of JSCB "ASB Belarusbank".

Securities at amortised cost are represented as of December 31, 2018 by Eurobonds of the Republic of Belarus, the value of which was 6 301 thousand rubles and allowance for impairment of 31 thousand rubles, the maturity of these securities comes in 2030.

Movements in the gross carrying amount and respective expected credit losses related to securities at fair value through other comprehensive income for the year ended 31 December 2018 are as follows:

	12-month expected credit losses (Stage 1)	**Lifetime expected credit losses (Stage 2)**	**Lifetime expected credit losses (Stage 3)**	**Credit-impaired financial assets**	**Total**
Securities measured at fair value through profit or loss					
Gross carrying amount as at 1 January 2018	75 952	-	-	-	75 952
New issues	81 771	-	-	-	81 771
Derecognition	(66 362)	-	-	-	(66 362)
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-

(in thousands of Belarusian rubles)

Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Other changes	6 413	-	-	-	6 413
Write-offs	-	-	-	-	-
Gross carrying amount as at 1 January 2019	**97 774**	**-**	**-**	**-**	**97 774**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Securities measured at fair value through profit or loss					
Loss allowance as at 1 January 2018	367	-	-	-	367
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Charge for the year	107	-	-	-	107
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**474**	**-**	**-**	**-**	**474**

10. DERIVATIVES FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

	2018		2017	
	Asset	liability	Asset	liability
Foreign exchange contracts				
Swaps - foreign	41	22	11	-
Swaps - domestic	3	3	-	1
Total derivative assets/ liabilities	**44**	**25**	**11**	**1**

In the table above domestic contracts represent deals with Belarusian entities and foreign contracts represent deals with counterparties which are non-Belarusian entities.

(in thousands of Belarusian rubles)

As of 31 December 2018 and 31 December 2017, the Bank had positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

11. LOANS TO CUSTOMERS

As of 31 December 2017 and 31 December 2016 loans to customers comprised:

	31 December 2018	31 December 2017
Corporate lending	151 204	149 661
Consumer lending	78 742	40 169
Total loans to customers	**229 946**	**189 830**
Less: allowance for impairment	(6 963)	(7 401)
Total loans to customers less allowance for impairment	**222 983**	**182 429**

Movements in the gross carrying amount and respective expected credit losses related to loans to corporate customers for the year ended 31 December 2018 are as follows:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Loans to corporate customers					
Gross carrying amount as at 1 January 2018	116 032	24 029	9 600	-	**149 661**
New issues	72 914	15 553	-	-	88 467
Derecognition	(71 030)	(4 917)	(22)	-	(75 969)
Transfer to 12-month expected credit losses (Stage 1)	170	(170)	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	(3 352)	3 395	(43)	-	-
Transfer to lifetime expected credit losses (Stage 3)	(1 511)	(4 504)	6 015	-	-
Other changes	(9 423)	243	(1 775)	-	(10 955)
Write-offs	-	-	-	-	-
Gross carrying amount as at 1 January 2019	**103 800**	**33 629**	**13 775**	-	**151 204**

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Loans to corporate customers					
Loss allowance as at 1 January 2018	1 038	5	2 576	-	3 619
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	26	(26)	-	-
Transfer to lifetime expected credit losses (Stage 3)	(17)	(4)	21	-	-
Charge/(recovery) for the year	(48)	5	132	-	89
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**973**	**32**	**2 703**	**-**	**3 708**

Movements in the gross carrying amount and respective expected credit losses related to loans to individuals for the year ended 31 December 2018 are as follows:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Loans to individuals					
Gross carrying amount as at 1 January 2018	39 678	157	2 252	-	**42 087**
New issues	48 767	256	167	-	49 190
Derecognition	(5 768)	(10)	(89)	-	(5 867)
Transfer to 12-month expected credit losses (Stage 1)	123	(90)	(33)	-	-
Transfer to lifetime expected credit losses (Stage 2)	(214)	214	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	(272)	(52)	324	-	-
Other changes	(6 309)	(39)	(320)	-	(6 668)
Write-offs	-	-	-	-	-
Gross carrying amount as at 1 January 2019	**76 005**	**436**	**2 301**	**-**	**78 742**

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Loans to individuals					
Loss allowance as at 1 January 2018	224	77	1 754	-	2 055
Transfer to 12-month expected credit losses (Stage 1)	70	(44)	(26)	-	-
Transfer to lifetime expected credit losses (Stage 2)	(3)	3	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	(9)	(26)	35	-	-
Charge/(recovery) for the year	976	233	(9)	-	1 200
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**1 258**	**243**	**1 754**	**-**	**3 255**

Presented below is the movement in the allowance for loan impairment by class for the year 2017:

	Corporate lending	Consumer lending	Total
As of 1 January 2017	6 520	128	6 648
Charge/(reversal) for the year	3 250	399	3 649
Amounts written off	(2 549)	(347)	(2 896)
As of 31 December 2017	7 221	180	7 401
Individual impairment	2 909	-	2 909
Collective impairment	4 312	180	4 492
	7 221	180	7 401
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	56 500	-	56 500

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

(in thousands of Belarusian rubles)

- For corporate lending, charges over real estate properties, inventory and accounts receivable;
- For consumer lending - surety, charges over residential properties and vehicles;
- For finance lease - usually no additional collateral to the leased equipment is obtained.

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.

Concentration of loans to customers

As of 31 December 2018, the Bank had a concentration of loans in the amount of BYN 123 488 thousand due from ten largest independent third party borrowers or 55% of gross loan portfolio (2017 - BYN 120 882 thousand or 66% of gross loan portfolio).

During the years 2009-2011 the Bank issued construction loans to the employees working for one of its customers, which is a related party to the Bank. The nominal loans issued as at 31 December 2018 and 2017 amounted to BYN 619 thousand and BYN 738 thousand, respectively. The loans were issued with a maturity of up to 20 years bearing interest of 4.75% per annum, which is much lower than market rate level for similar financial instruments. These loans were issued using amounts received from this customer as deposits and placed in the Bank at an interest rate of 0.01% with maturity of 3 years, which is also much lower than market rate. Deposits were closed in 2013. In accordance with customer agreement at the date of loan issue the balance between the deposit placed and loans issued by the Bank had to be not less than the established ratio, moreover the client had no option to withdraw the placed deposit before expiry of a 3-year period The Bank bears all credit risks in the event the loans issued will not be repaid. Loans issued and the deposit placed are initially recognized at approximate fair value using corresponding discount methods and the effective interest rate method with subsequent measurements at amortized cost.

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

	31 December 2018	31 December 2017
Individuals	78 742	40 169
Industry	42 957	44 130
Trade and catering	30 232	40 681
Leasing companies	13 621	8 248
Petrochemistry	12 444	23 542
Real estate transactions	11 472	2 191
Construction	7 004	14 606
Agriculture	3 437	7 252
Transport	942	781
Individual entrepreneurs	133	12
Other	28 962	8 218
Total loans to customers	**229 946**	**189 830**
Less: allowance for impairment	(6 963)	(7 401)
Total loans to customers less allowance for impairment	**222 983**	**182 429**

(in thousands of Belarusian rubles)

12. LONG-TERM ASSETS HELD FOR SALE

Long-term assets held for sale are as follows:

	31 December 2018	31 December 2017
Property received by the Bank as repossession of collateral for loan repayment	231	406
Long-term assets held for sale	**231**	**406**
Less: allowance for impairment	(119)	(190)
Total long-term assets held for sale less allowance for impairment	**111**	**216**

As of 31 December, 2018 and 31 December, 2017, assets held for sale included property (primarily, real estate) transferred to the Bank as repayment of loans. Proceeds from the sale of property transferred to the Bank as repayment of loans amounted to BYN 400 thousand and 696 thousand in 2018 and 2017, respectively.

Long-term assets held for sale are measured at fair value. Allowance for impairment was charged based on the results of an independent appraisal of the fair value of the property transferred to the Bank as repayment of loans. The movements in allowance for impairment were as follows:

	2018	2017
Allowance for impairment as of 1 January	**190**	**73**
Charge/(recovery) of allowance of impairment for the year	(71)	117
Allowance for impairment as of 31 December	**119**	**190**

13. PROPERTY AND EQUIPMENT

Property and equipment is presented as follows:

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2018	27 175	1 774	245	2 851	267	32 312
Additions	-	969	149	210	3	1 331
Disposals	(33)	-	-	(34)	-	(67)
As of 31 December 2018	27 142	2 743	394	3 027	270	33 576

(in thousands of Belarusian rubles)

Accumulated depreciation						
As of 1 January 2018	2 148	770	165	1 520	-	4 603
Depreciation charge	476	343	31	321	-	1 171
Disposals	(33)	-	-	(34)	-	(67)
As of 31 December 2018	2 591	1 113	196	1 807	-	5 707
Net book value						
As of 1 January 2018	25 027	1 004	80	1 331	267	27 709
As of 31 December 2018	24 551	1 630	198	1 220	270	27 869

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2017	27 249	1 510	333	3 080	267	32 439
Additions	3	274	-	101	-	378
Disposals	(77)	(10)	(88)	(330)	-	(505)
As of 31 December 2017	27 175	1 774	245	2 851	267	32 312
Accumulated depreciation						
As of 1 January 2017	1 739	499	221	1 442	-	3 901
Depreciation charge	482	281	32	346	-	1 141
Disposals	(73)	(10)	(88)	(268)	-	(439)
As of 31 December 2017	2 148	770	165	1 520	-	4 603
Net book value						
As of 1 January 2017	25 510	1 011	112	1 638	267	28 538
As of 31 December 2017	25 027	1 004	80	1 331	267	27 709

14. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

	2018	2017
Cost		
As at 1 January	1 798	1 066
Additions	254	732
Disposals	(130)	-
As at 31 December	1 922	1 798
Accumulated depreciation		
As at 1 January	571	250
Amortization charges	415	321
Disposals	(18)	-

(in thousands of Belarusian rubles)

As at 31 December	968	571
Net book value		
As at 1 January	1 227	816
As at 31 December	954	1 227

15. TAXATION

The tax rate for banks for profits other than on government securities was 25% in 2018. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	31 December 2018	**31 December 2017**
Profit before income tax expense	3 523	13 402
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**881**	**3 350**
Tax exempt income	(1 009)	(1 890)
Non-deductible expenses:		
- charity	-	5
- remuneration, bonuses and financial assistance to employees	234	223
- other	426	320
Effect of changes in the tax base for property and equipment due to the revaluation for tax purposes	-	(803)
Effect of other permanent differences	(179)	(202)
Non-deductible income	-	(3)
Income tax expense	**353**	**1 000**
Current income tax expense	647	824
The effect of deferred income tax recognized in the income statement	(294)	176
Income tax expense	**353**	**1 000**

Differences between IFRS and tax legislation of the Republic of Belarus give rise to temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and income tax calculation. The tax consequences of movements in these temporary differences recorded at the rate of 25% are as follows:

		Credited/ (charged)				**Credited/ (charged)**		
Tax effect of deductible/(taxable) temporary differences:	**As of 31 December 2018**	**to profit or loss**	**to other comprehensive income**	**The impact of adoption of IFRS 9**	**As of 31 December 2017**	**to profit or loss**	**to other compreh ensive income**	**As of 31 December 2016**
Derivative financial assets	(11)	(8)	-	-	(3)	2	-	(5)
Loans to customers	(2 114)	356	-	(918)	(1 552)	(954)	-	(598)
Securities available-for-sale	97	61	37	-	(1)	4	8	(13)

(in thousands of Belarusian rubles)

Property and equipment and intangible assets	1 907	(99)	-	-	2 006	784	-	1 22
Long-term assets held for sale	3	3	-		-	1	-	(
Other assets	1 088	146	-	496	446	53	-	39
Derivative financial liabilities	6	6	-	-	-	-	-	
Amounts due from credit institutions	(163)	(156)	-		(7)	8	-	(15
Other liabilities	7	(15)	-	116	(94)	(74)	-	(20
Net deferred tax assets/(liability)	**820**	**294**	**37**	**(306)**	**795**	**(176)**	**8**	**96**

16. OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Prepayments for share	2 950	2 253
Accrued income	294	144
Receivables	246	281
Shares in other banks	8	7
Shares in commercial organizations	-	7 891
Less: allowance for impairment	(2 333)	(7)
Total other financial assets	**1 165**	**10 569**
Other prepayments	519	782
Taxes reimbursable other than income tax	66	71
Materials	58	82
Other	-	78
Total other non-financial assets	**643**	**1 013**
Total other assets	**1 808**	**11 582**
Settlements with other creditors	409	247
Total financial liabilities	**409**	**247**
Other non-financial liabilities		
Taxes payable other than income tax	517	53
Settlements with employees	501	323
Contributions to the Agency of Deposits Compensation	-	150
Other	585	-
Total other non-financial liabilities	**1 603**	**526**
Total other liabilities	**2 012**	**773**

The movement of the allowance for expected credit losses of other assets for 2018 is as follows:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total

Other financial assets					
Loss allowance as at 1 January 2018	-	237	2 522	-	2 759
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Charge for the year	-	(128)	(298)	-	(426)
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**-**	**109**	**2 224**	**-**	**2 333**

The movement of allowance for impairment of other assets for 2017 is presented below:

	2017
Allowance for impairment as of 1 January	**-**
Charge/(reversal) of allowance for impairment for the year	7
Allowance for impairment as of 31 December	**7**

Other assets include equity interests in banks and commercial organizations. The Bank has decided to reflect the change in the fair value of these equity interests in other comprehensive income, as the Bank does not plan to sell these equity investments. The fair value of equity investments and the amount of dividends received during the year are as follows:

	Fair value as of 31 December, 2018	**Dividends received in 2018**
Investments in equity securities of OJSC "Bank Moscow-Minsk"	294	7
Investments in equity securities of OJSC " Banking technology center "	8	1
Total	**302**	**8**

17. AMOUNTS DUE TO FINANCIAL INSTITUTIONS

As of 31 December 2018 and 31 December 2017 amounts due to financial institutions comprise:

	31 December 2018	**31 December 2017**
Loans and deposits	97 911	67 699
Current accounts	368	231
Total amounts due to financial institutions	**98 279**	**67 930**

(in thousands of Belarusian rubles)

The structure of loans received from other banks, as well as deposits placed in the Bank by other financial institutions, presented by counterparty as of 31 December 2018 and 31 December 2017 is as follows:

31 December 2018	Country of registration of the counterparty	Loans and deposits, thousands of rubles	Share, %
«Priorbank» JSC	the Republic of Belarus	34 134	34,86
CJSC "MTBank"	the Republic of Belarus	10 524	10,75
R-Bank JSC	the Republic of Belarus	8 005	8,18
CJSC «ABSOLUTBANK»	the Republic of Belarus	7 111	7,26
JSC «Belinvestbank»	the Republic of Belarus	2 046	2,09
JSC "Development Bank of the Republic of Belarus"	the Republic of Belarus	458	0,47
Total for the Republic of Belarus		**62 279**	**63,61**
PJSC "Transcapitalbank"	Russian Federation	7 786	7,95
KB "AKROPOL" JSC	Russian Federation	6 230	6,36
Total for the Russian Federation		**14 016**	**14,31**
ID BANK CJSC	Armenia	21 615	22,08
Total for the Armenia		**21 615**	**22**
Total		**97 911**	**100,00**

31 December 2017	Country of registration of the counterparty	Loans and deposits, thousands of rubles	Share, %
OJSC "Bank BelVEB"	the Republic of Belarus	19 687	29,08
«Priorbank» JSC	the Republic of Belarus	18 107	26,75
JSC Belarusian Currency and Stock Exchange	the Republic of Belarus	6 995	10,33
BPS-Sberbank	the Republic of Belarus	6 413	9,47
CJSC "BTA Bank"	the Republic of Belarus	4 736	7,00
«Belinvestbank» JSC	the Republic of Belarus	4 440	6,56
CJSC "Idea Bank"	the Republic of Belarus	2 960	4,37
JSC "Technobank"	the Republic of Belarus	2 355	3,48
CJSC "BSB Bank"	the Republic of Belarus	1 578	2,33
OJSC "Non-banking Credit and Financial Organization "Home Credit"	the Republic of Belarus	428	0,63
Total for the Republic of Belarus		67 699	100,00
Total		67 699	100,00

(in thousands of Belarusian rubles)

The structure of loans received from other banks, as well as deposits placed in the Bank by other financial institutions, in the context of foreign currencies as of 31 December 2018 and 31 December 2017 is presented in the table:

31 December 2018	Amount in currency, thousands	Equivalent, thousands of Belarusian rubles	Share, %
U.S. dollar	25 812	55 749	56,94
Euro	450 269	14 016	14,32
Belarusian ruble	28 146	28 146	28,75
Total	**x**	**97 911**	**100,00**

31 December 2017	Amount in currency, thousands	Equivalent, thousands of Belarusian rubles	Share, %
U.S. dollar	28 286	55 800	82,42
Euro	1 900	4 476	6,61
Belarusian ruble	7 423	7 423	10,97
Total	**x**	**67 699**	**100,00**

As of December 31, 2018, interbank loans were obtained mainly for the period of not more than 3 days.

18. AMOUNTS DUE TO CUSTOMERS

As of 31 December 2018 and 31 December 2017 amounts due to customers comprise:

	31 December 2018	31 December 2017.
Term deposits	200 780	151 999
Current accounts	38 387	36 620
Total amounts due to customers	**239 167**	**188 619**

As of 31 December 2018 amounts due to the largest customers amounted to BYN 211 542 thousand (88%) (2017 - BYN 73 151 thousand (39%)). Term deposits include deposits of individuals in the amount of BYN 102 595 thousand (2017- BYN 91 458 thousand). In case when term deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts of the following types of customers by form of ownership:

	31 December 2018	31 December 2017
Individuals	113 156	99 685
State organizations	81 295	62 750
Private enterprises	44 716	26 184
Total amounts due to customers	**239 167**	**188 619**

(in thousands of Belarusian rubles)

Amounts due to customers include accounts of the following categories of customers by type of activity:

	31 December 2018	31 December 2017
Individuals	113 156	99 685
Insurance	78 178	27 344
Commercial activity	27 433	18 810
Trade	5 319	2 755
Construction	3 075	1 855
Information and computing services	2 548	2 322
Transport and communication	2 229	1 398
Healthcare.	2 054	4 764
Culture and art	1 220	1 404
Manufacture	1 133	807
Real estate	1 089	199
Public organizations	724	704
Agriculture	153	177
Science and scientific service	29	-
Management and defense	2	23 000
Other	826	3 395
Total amounts due to customers	**239 167**	**188 619**

19. DEBT SECURITIES ISSUED

Debt securities issued by the Bank as of 31 December 2018 and 31 December 2017 comprise the following types of bond issues:

	Nominal currency	Nominal rate	Maturity date	31 December 2017
Bonds held by legal entities	Belarusian ruble	9,2-10,8	12.08.2020	12 035
Total debt securities issued				**12 035**

	Nominal currency	Nominal rate	Maturity date	31 December 2017
Bonds held by individuals	USD	4	22.08.2019	1 436
Total debt securities issued				**1 436**

20. SHARE CAPITAL

Movements in issued, authorized and fully paid share capital is presented below:

(in thousands of Belarusian rubles)

	Number of shares		Nominal amount, BYN.		Inflation adjustment	Total, BYN thousand
	Ordinary	Preferred	Ordinary	Preferred		
31 December 2016	18 838 294	220 310 818 106	6	66 093	87 655	153 754
31 December 2017	18 838 294	220 310 818 106	6	66 093	87 655	153 754
31 December 2018	18 838 294	220 310 818 106	6	66 093	87 655	153 754

According to the Bank's Charter, as of 31 December 2018 and 2017 the authorized and fully paid share capital comprised 220 310 818 106 and 18 838 294 respectively shares with a par value of BYN 0.0003 each (at historical value). The par value of shares of OJSC "Paritetbank" remained unchanged and is BYN 0.0003.

Total amount of preferred shares as of 31 December 2017 and 31 December 2016 is BYN 6 thousand.

The share capital of the Bank was contributed by the shareholders in Belarusian rubles. Shareholders are entitled to dividends in Belarusian rubles.

In 2018 the Bank declared dividends in the total amount of BYN 3 thousand (2017 - BYN 1 829 thousand).

In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from retained and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the local accounting standards.

21. COMMITMENTS AND CONTINGENCIES

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. Belarusian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period. The Bank's management believes that the Bank applies tax accounting approaches that will be accepted by tax authorities as fully compliant with valid tax legislation of the Republic of Belarus.

As Belarusian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

(in thousands of Belarusian rubles)

Capital expenditure commitments. At of 31 December 2018 and 31 December 2017, the Bank has no material contractual capital expenditure commitments in respect of property and equipment and in respect of software and other intangible assets.

Operating lease commitments. The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2018 and 31 December 2017.

Compliance with covenants. The Bank complies with financial covenants in respect of its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since all Bank's commitments to extend credit can be revocable without a material adverse change in the borrower performance.

As of 31 December 2018 and 31 December 2017, the Bank's commitments and contingencies comprise:

	31 December 2018	31 December 2017
Commitments and contingencies		
Commitment to extend credit	21 004	6 962
Letters of credit	7 576	39
Guarantees issued	7 426	11 996
Less:allowance	(199)	-
Total commitments and contingencies (before deducting collateral)	**35 807**	**18 997**
Less: deposits held as collateral	(664)	(243)
Total commitments and contingencies	**35 144**	**18 754**

(in thousands of Belarusian rubles)

Below is the movement of the allowance for impairment on contingent liabilities:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total
Commitments and contingencies					
Loss allowance as at 1 January 2018	472	-	2		474
Transfer to 12-month expected credit losses (Stage 1)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 2)	-	-	-	-	-
Transfer to lifetime expected credit losses (Stage 3)	-	-	-	-	-
Charge for the year	(314)	37	2	-	(275)
Write-offs	-	-	-	-	-
Loss allowance as at 1 January 2019	**158**	**37**	**4**	**-**	**199**

22. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

	31 December 2018	31 December 2017
Settlement operations	4 745	4 363
Currency conversion operations	44	78
Fee and commission income	**4 789**	**4 441**
Settlement operations	860	774
Currency conversion operations	28	18
Other	361	178
Fee and commission expense	**1 249**	**970**
Net fee and commission income	**3 540**	**3 471**

Other Fee and commission expense include expenses on transactions with securities in the amount of BYN 178 thousand (2017 – BYN 76 thousand), expenses for operations of reinforcement in cash in the amount of BYN 97 thousand (2017 – BYN 15 thousand), for other operations – BYN 83 thousand (2017 – BYN 87 thousand).

(in thousands of Belarusian rubles)

23. OTHER INCOME

Other income comprises:

	31 December 2018	31 December 2017
Income from debt previously written-off	2 195	5 248
Income from sale of other assets	1 015	98
Fines and penalties received	808	716
Income from operating rent	731	48
Dividends	8	2
Total other income	**4 757**	**6 112**

24. NON-INTEREST EXPENSE

Non-interest expense comprise:

	31 December 2018	31 December 2017
Salaries and bonuses	7 438	6 701
Social security costs	2 377	2 152
Расходы на персонал	**9 815**	**8 853**
Services of automated interbank settlement system	1 541	1 187
Legal, audit and consulting services	1 535	436
Software maintenance	1 105	1 008
Operating taxes	1 042	483
Marketing and advertising	1 024	421
Occupancy and rent	996	866
Security	586	443
Payments to individuals deposits insurance fund	565	589
Municipal services	475	444
Communications	402	304
Expenses from disposal of other property	397	623
Repair and maintenance of property and equipment	391	258
Operating costs	273	192
Business trips and related expenses	148	46
Deductions to the PTUO of JSC "Paritetbank"	123	92
Expenses from disposal of fixed assets and intangible assets	118	69
Transportation	116	100
Costs of disposal of investment property	96	-
Office supplies	90	42
Charity	-	21
Other	835	301
Other operating expense	**11 859**	**7 925**

25. RISK MANAGEMENT

26. Introduction

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

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

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

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Risk Committee

The Risk Committee headed by the Independent Director is responsible for monitoring of the risk management strategy implementation and execution of decisions adopted by the Bank's Supervisory Board with regard to the Bank's risk profile and risk tolerance, assessing the effectiveness of the Bank's risk management system and providing complex solutions to issues related to the analysis of key banking risks and development of the relevant risk management policies.

Audit Committee

The Audit Committee headed by the Independent Director is responsible for overall management and effective functioning of internal control system, internal audit function of the Bank and selection of and cooperation with audit firms.

Management Board

The Management Board has the responsibility for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Financial Committee

The Financial Committee's objective is to implement uniform financial policies for financial resource management for the purpose of securing regular growth of the Bank's revenue and enhancing efficiency of financial resources used.

Credit Committee

The Credit Committee is responsible for complex credit risk management, coordinates the activities of the Bank's divisions in the field of credit risk management in order to reach the optimal balance of credit risks and yields.

Risk Controlling Department

The department performs qualitative and quantitative assessment of banking risks, provides analytical and methodological support in analysing and managing risks, informs the Bank's management bodies on the level of assumed risks.

Bank Treasury

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

Internal audit

Risk management processes throughout the Bank are audited annually by the audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The audit function discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Audit Committee and Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using various risk measurement tools: scenario methods which allow assessing the level of risk in various case scenarios, client risk assessments, stress-testing and other.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity while performing calculations of capital adequacy and other prudential regulations.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Supervisory Board, the Management Board, the Risk Committee and the Financial and Credit Committees (within their competence). The reports include aggregate credit exposure, liquidity ratios, levels of operational and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. On a quarterly basis, the Supervisory Board receives a report on Bank's implementation of Strategic development plan that provides the information about performance and financial result.

Risk mitigation

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by local statutory requirements to manage exposures resulting from changes in interest rates, foreign currencies, equity price, credit risks, and exposures arising from forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

- monitoring of credit instruments issued by the corresponding structural units of the Bank;
- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;
- control over customers' fulfilment of conditions upon credit and similar agreements.

Control of the accepted credit risk level in relation to amounts placed within banks acting as counteragents to the Bank includes the following:

- analysis of negative financial and non-financial information while applying previously set limits (performed by the risk controlling department);
- routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank.

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for clients attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

The Bank receives collateral and guarantees from entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

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

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

The maximum exposure to credit risk equals to the carrying amount of financial assets.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. Such agreements expose the Bank to risks similar to loan risks, which are mitigated by the same control processes and policies.

Credit quality on loans to corporate clients

The Bank applies the system of internal rating assessment of the financial condition of corporate clients to determine the credit rating. In accordance with this system, the ratings have the following characteristics:

Rating	Short characteristic
A	The client has a stable financial position and is able to service the debt
B	The client has an acceptable financial position and is able to service the debt in the short term
C	The client has a weak financial position, but with a balanced flow is able to service the debt
D	The client has a weak financial position and an unsatisfactory balance sheet structure
E	Default

The table below presents an analysis of credit quality by class of financial assets for credit-related legal entities at amortised cost by credit ratings based on the internal credit rating system.

	Neither past due Rating					Past due	Total 31 December 2018
	A	B	C	D	E		

(in thousands of Belarusian rubles)

Loans to corporate customers	**10 319**	**71 821**	**45 264**	**3 070**	**507**	**20 223**	**151 204**

	Neither past due Rating					Past due	Total 1 January 2018
	A	B	C	D	E		
Loans to corporate customers	**28 963**	**58 779**	**36 005**	**2 940**	-	**22 974**	**149 661**

The table below presents an analysis of credit quality by class of financial assets for loans to legal entities at amortised cost, by stages of impairment by credit ratings based on the internal credit rating system.

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total 31 December 2018
Loans to corporate customers					
A	10 319	-	-	-	**10 319**
B	71 821	-	-	-	**71 821**
C	16 461	33 629	-	-	**50 090**
D	5 199				**5 199**
E	-	-	13 775	-	**13 775**
Total gross carrying amount to loans to corporate customers	**103 800**	**33 629**	**13 775**		**151 204**
Loss allowance	(973)	(32)	(2 703)		**(3 708)**
Total loans to corporate customers	**102 827**	**33 597**	**11 072**		**147 496**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total 31 December 2018
Loans to individuals					
Neither past due	74 434	-	-	-	**74 434**
1-30 past due	1 571	-	-	-	**1 571**
31-60 past due	-	320	-	-	**320**
61-90 past due	-	116	-	-	**116**
more than 90 past due	-	2 301	-	-	**2 301**
Total gross carrying amount loans to individuals	76 005	2 737	-	-	78 742

(in thousands of Belarusian rubles)

The allowance for credit losses	(1 258)	(1 997)	-	-	**(3 255)**
Total loans to individuals	**74 747**	**740**	**-**	**-**	**75 487**

Loans to corporate customers	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total 1 January 2018
A	28 963	-	-	-	**28 963**
B	58 875	-	-	-	**58 875**
C	24 622	14 020	-	-	**38 642**
D	3 667	10 009	-		**13 676**
E	-	-	9 600	-	**9 600**
Total gross carrying amount of loans to corporate customers	**116 127**	**24 029**	**9 600**		**149 756**
The allowance for credit losses	(1 038)	(5)	(2 576)		**(3 619)**
Total loans to corporate customers	**115 089**	**24 024**	**7 024**		**146 137**

Loans to individuals	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Credit-impaired financial assets	Total 1 January 2018
Neither past due	38 973	-	-	-	**38 973**
1-30 past due	705	-	-	-	**705**
31-60 past due	-	137	-	-	**137**
61-90 past due	-	21	-	-	**21**
more than 90 past due	-	2 251			**2 251**
Total gross carrying amount loans to individuals	**39 678**	**2 409**	**-**	**-**	**42 087**
The allowance for credit losses	(224)	(1 831)	-	-	**(2 055)**
Total loans to individuals	**39 454**	**578**	**-**	**-**	**40 032**

Credit quality per class of financial assets

The table below presents an analysis of credit quality for funds placed in financial institutions, based on ratings assigned by the International rating agency Moody's.

(in thousands of Belarusian rubles)

	B1	B3	No rating assigned	Total 31 December 2017
Amounts due from financial institutions	50	100	514	**664**

	B2	No rating assigned	Total 31 December 2017
Amounts due from financial institutions	45	198	**243**

Geographical concentration

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

	31 December 2018				31 December 2017			
	Belarus	OECD	CIS and other countries	Total	Belarus	OECD	CIS and other countries	Total
Cash and cash equivalents	67 702	4 379	654	**72 735**	38 452	59	989	**39 500**
Amounts due from financial institutions	90	216	347	**653**	-	198	45	**243**
Mandatory reserves with the National Bank of Belarus	4 106	-	-	**4 106**	2 660	-	-	**2 660**
Derivative financial assets	44	-	-	**44**	-	-	11	**11**
Loans to customers	208 936	-	14 047	**222 983**	182 429	-	-	**182 429**
Securities	116 135	-	13 716	**129 851**	93 033	-	6 431	**99 464**
Other financial assets	1 165	-	-	**1 165**	2 678	-	7 891	**10 569**
Total financial assets	**398 178**	**4 595**	**28 764**	**431 537**	**319 252**	**257**	**15 367**	**334 876**
Amounts due to financial institutions	62 638	-	35 641	**98 279**	67 920	-	10	**67 930**
Derivative financial liabilities	25	-	-	**25**	1	-	-	**1**
Amounts due to customers	234 434	1 514	3 219	**239 167**	186 178	-	2 441	**188 619**
Debt securities issued	12 035	-	-	**12 035**	1 436	-	-	**1 436**
Other financial liabilities	409	-	-	**409**	247	-	-	**247**
Total financial liabilities	**309 541**	**1 514**	**38 860**	**349 915**	**255 782**	**-**	**2 451**	**258 233**
Net position on assets and liabilities	**88 637**	**3 081**	**(10 096)**	**81 622**	**63 470**	**257**	**12 916**	**76 643**

(in thousands of Belarusian rubles)

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs.

In addition, the Bank maintains a cash deposit (obligatory reserve) with the NB RB, the amount of which depends on the level of customer funds attracted.

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2018 and 31 December 2017 based on contractual undiscounted repayment obligations. 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 could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2018:	**Carrying amount**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to financial institutions	98 279	78 283	19 106	544	-	97 933
Derivative financial liabilities	25	25	-	-	-	25
Amounts due to customers	239 167	70 800	78 370	94 803	-	243 973
Debt securities issued	12 035	486	953	12 826	-	14 265
Other financial liabilities	409	409	-	-	-	409
Commitments and contingencies	35 144	35 144	-	-	-	35 144
Total undiscounted financial liabilities	**385 059**	**185 147**	**98 429**	**108 173**	**-**	**391 749**

31 December 2017:	**Carrying amount**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to financial institutions	67 930	67 981	-	-	-	67 981
Derivative financial liabilities	1	1	-	-	-	1
Amounts due to customers	188 619	90 143	91 926	10 190	-	192 259
Debt securities issued	1 436	11	1 445	-	-	1 456
Other financial liabilities	247	247	-	-	-	247
Commitments and contingencies	18 754	18 754	-	-	-	18 754

(in thousands of Belarusian rubles)

Total undiscounted financial liabilities	**276 987**	**177 137**	**93 371**	**10 190**	**-**	**280 698**

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

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

Debt securities issued are presented by bonds issued by the Bank with a maturity date 12.08.2020.

Market risk

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

Equity price risk

Equity price risk is the risk of changes in the value of equity financial instruments. The Bank is exposed to stock risk as a result of changes in stock quotes available in the trading portfolio of the Bank.

Below is an analysis of the sensitivity of the Bank's capital to changes in quotations for the year.

	As of 31 December 2018		**As of 31 December 2017**	
	Increase the quotations on 10.0 per	Decrease the quotations on 10.0 per	Increase the quotations on 10.0 per	Decrease the quotations on 10.0 per
Securities – equity financial instruments	1 372	(1 372)	-	-

Market risk- non-trading

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

(in thousands of Belarusian rubles)

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2018 and 31 December 2017.

Increase in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
500	3 174	2 381

Decrease in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of equity 2018
(500)	(3 174)	(2 381)

Increase in basis points 2017 .	Sensitivity of net interest income 2017	Sensitivity of equity 2017
500	962	721

Decrease in basis points 2017	Sensitivity of net interest income 2017	Sensitivity of equity 2017
(500)	(962)	(721)

Currency risk

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

Information on the level of the Bank's currency risk as of 31 December 2018 and 31 December 2017 is presented below:

	BYN	1 USD = 1,1598	1 EUR= 2,4734	100 RUB= 3,1128	Other currencies	31 December 2018 Итого
FINANCIAL ASSETS:						
Cash and cash equivalents	47 662	11 534	9 429	4 075	35	72 73
Derivative financial assets	44	-	-	-	-	4
Amounts due from financial institutions	89	327	236	-	1	65
Mandatory reserves with the National Bank of Belarus	4 106	-	-	-	-	4 10
Securities	12 736	97 767	5 632	13 716	-	129 85
Loans to customers	116 291	29 971	62 067	14 654	-	222 98
Other financial assets	1 165	-	-	-	-	1 16
TOTAL FINANCIAL ASSETS	**182 093**	**139 599**	**77 364**	**32 445**	**36**	**431 53**
FINANCIAL LIABILITIES:						
Amount due to financial institutions	28 162	56 099	2	14 016	-	98 27

(in thousands of Belarusian rubles)

Derivative financial liabilities	25	-	-	-	-	2
Amount due to customers	64 535	119 868	43 684	11 080	-	239 16
Debt securities issued	12 035	-	-	-	-	12 03
Other financial liabilities	409	-	-	-	-	40
TOTAL FINANCIAL LIABILITIES	**105 166**	**175 967**	**43 686**	**25 096**	**-**	**349 91**
NET CURRENCY POSITION	**76 927**	**(36 368)**	**33 678**	**7 349**	**36**	**81 62**
Requirements for spot transactions	-	39 293	-	-	-	39 29
Liability under spot transactions	-	-	33 020	8 233	-	41 25
NET SPOT TRANSACTION	**-**	**39 293**	**(33 020)**	**(8 233)**	**-**	**(1 960**
NET CURRENCY POSITION	**76 927**	**2 925**	**658**	**(884)**	**36**	**79 66**

	BYN	**1 USD = 1,9727**	**1 EUR= 2,3553**	**100 RUB= 3,4279**	**Other currencies**	**3 Decembe 201 Итог**
FINANCIAL ASSETS:						
Cash and cash equivalents	32 540	3 595	2 060	1 215	90	39 50
Derivative financial assets	-	-	-	11	-	1
Amounts due from financial institutions	-	243	-	-	-	24
Mandatory reserves with the National Bank of Belarus	2 660	-	-	-	-	2 66
Securities available-for-sale	13 297	62 655	-	-	-	75 95
Securities measured at fair value through profit or loss	-	23 512	-	-	-	23 51
Loans to customers	85 342	64 603	32 084	400	-	182 42
Other financial assets	1 940	8 537	92	-	-	10 56
TOTAL FINANCIAL ASSETS	**135 779**	**163 145**	**34 236**	**1 626**	**90**	**334 87**
FINANCIAL LIABILITIES:						
Amount due to financial institutions	7 433	55 962	4 489	46	-	67 93
Derivative financial liabilities	-	-	-	1	-	
Amount due to customers	65 284	90 758	24 878	7 699	-	188 61
Debt securities issued	-	1 436	-	-	-	1 43
Other financial liabilities	224	23	-	-	-	24
TOTAL FINANCIAL LIABILITIES	**72 941**	**148 179**	**29 367**	**7 746**	**-**	**258 23**
NET CURRENCY POSITION	**62 838**	**14 966**	**4 869**	**(6 120)**	**90**	**76 64**

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2018 and 31 December 2017 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYN, with all other variables held constant on the statement of comprehensive income (due to the availability of non-trading monetary assets and liabilities the fair value of which is currency sensitive). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

(in thousands of Belarusian rubles)

	31 December 2018		31 December 2017	
	BYR/USD	BYR/USD	BYR/USD	BYR/USD
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	292	(292)	1 123	(1 123)
Effect on equity	292	(292)	1 123	(1 123)
	31 December 2018		**31 December 2017**	
	BYR/EUR	BYR/EUR	BYR/EUR	BYR/EUR
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	66	(66)	365	(365)
Effect on equity	66	(66)	365	(365)
	31 December 2018		**31 December 2017**	
	BYR/RUB	BYR/RUB	BYR/RUB	BYR/RUB
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	(88)	88	(459)	459
Effect on equity	(88)	88	(459)	459

Commodity risk

Commodity risk reflects the amount of possible losses of the Bank associated with changes in the value of goods. Objects subject to commodity risk, the Bank considers movable property received in repayment of debt on credit operations, as well as property available-for-sale. As of 31 December, 2018 and 31 December, 2017, the value of this property amounted to 137 thousand rubles and 408 thousand rubles, and the value of commodity risk as of 31 December, 2018 and 31 December, 2017, respectively, 25 thousand rubles and 74 thousand rubles.

Operational risk

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

(in thousands of Belarusian rubles)

- Level 2: valuation techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;

- Level 3: valuation techniques which use inputs having a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	44	-	44
Securities	25 807	97 774	-	123 581
	25 807	97 818	-	123 625

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Derivative financial liabilities	-	25	-	25
	-	25	-	25

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	11	-	11
Securities available-for-sale	-	75 952	-	75 952
Securities categorised at fair value	23 512	-	-	23 512
	23 512	75 963	-	99 475

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Derivative financial liabilities	-	1	-	1
	-	1	-	1

Financial instruments recorded at fair value

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

Derivatives

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

(in thousands of Belarusian rubles)

Derivative instruments valued using valuation models that use significant raw data that are not observable on the market are mainly long-term currency swaps with the National Bank of the Republic of Belarus. The value of such derivatives is determined using a discounted cash flow model. This model combines various assumptions that are not observed in the market, including the volatility of market rates.

The data used for fair value measurement of derivative financial instruments was as follows: for the USD denominated part in 2018 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 6,880%;. for the EUR denominated part in 2018 the Bank used yield-to maturity of the Belarusian Eurobonds adjusted to Euro LIBOR, which was equal to 6,507%; for the RUB denominated part in 2018 the Bank used the average monthly actual rate for loans provided by Moscow banks (MIACR), for December 2018, which was equal to 7,530%.

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements.

	Carrying amount as of 31 December 2018	Fair value as of 31 December 2018	Carrying amount as of 31 December 2017	Fair value as of 31 December 2017
Financial assets				
Cash and cash equivalents	72 735	72 735	39 500	39 500
Derivative financial assets	44	44	11	11
Amounts due from financial institutions	4 759	4 759	2 903	2 903
Loans to customers	222 983	231 205	182 429	188 847
Securities	129 851	129 851	99 464	99 464
Other financial assets	1 165	1 165	10 569	10 569
Financial liabilities				
Amount due to financial institutions	98 279	98 279	67 930	67 930
Derivative financial liabilities	25	25	1	1
Amount due to customers	239 167	239 833	188 619	189 469
Debt securities issued	12 035	12 035	1 436	1 436
Other financial liabilities	409	409	247	247

Financial assets and financial liabilities for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short terms maturity (less than three months) it is assumed that the carrying amount approximates their fair value. Tins assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

(in thousands of Belarusian rubles)

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities based on their contractual settlement terms as of 31 December 2018.

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	72 735	-	-	-	-	72 735
Amounts due from financial institutions	436	-	-	217	-	653
Mandatory reserves with the National Bank of Belarus	-	-	-	-	4 106	4 106
Derivative financial assets	44	-	-	-	-	44
Loans to customers	32 429	111 824	75 561	3 169	-	222 983
Securities	11 914	10 963	36 909	56 349	13 716	129 851
Other financial assets	1 165	-	-	-	-	1 165
TOTAL FINANCIAL ASSETS	**118 723**	**122 787**	**112 470**	**59 735**	**17 822**	**431 537**
FINANCIAL LIABILITIES:						
Amount due to financial institutions	79 240	18 581	458	-	-	98 279
Derivative financial liabilities	25	-	-	-	-	25
Amounts due to customers	123 120	76 121	39 926	-	-	239 167
Debt securities issued	-	-	12 035	-	-	12 035
Other financial liabilities	409	-	-	-	-	409
TOTAL FINANCIAL LIABILITIES	**202 794**	**94 702**	**52 419**	**-**	**-**	**349 915**
OPEN BALANCE POSITION	**(84 071)**	**28 085**	**60 051**	**59 735**	**17 822**	**81 622**

The table below shows an analysis of assets and liabilities based on their contractual settlement terms as of 31 December 2017:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						

Cash and cash equivalents	39 500	-	-	-	-	39 500
Amounts due from financial institutions	45	-	-	198	-	243
Mandatory reserves with the National Bank of Belarus	-	-	-	-	2 660	2 660
Derivative financial assets	11	-	-	-	-	11
Loans to customers	52 186	68 750	57 481	4 012	-	182 429
Securities available-for-sale	18 132	38 661	5 954	13 205	-	75 952
Securities measured at fair value through profit or loss	615	-	8 483	14 414	-	23 512
Other financial assets	2 517	-	7 891	-	161	10 569
TOTAL FINANCIAL ASSETS	**113 006**	**107 411**	**79 809**	**31 829**	**2 821**	**334 876**
FINANCIAL LIABILITIES:						
Amount due to financial institutions	67 930	-	-	-	-	67 930
Derivative financial liabilities	1	-	-	-	-	1
Amount due to customers	88 543	90 129	9 947	-	-	188 619
Debt securities issued	6	-	1 430	-	-	1 436
Other financial liabilities	247	-	-	-	-	247
TOTAL FINANCIAL LIABILITIES	**156 727**	**90 129**	**11 377**	**-**	**-**	**258 233**
OPEN BALANCE POSITION	**(43 721)**	**17 282**	**68 432**	**31 829**	**2 821**	**76 643**

Significant mismatch in the liquidity position "less than 3 months" and "from 3 up to 12 months" is caused by significant portion of customer accounts classified into the category "Demand and less than 1 month". The Bank's management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. The Bank's management believes that the Bank will be able to attract sufficient interbank borrowings to finance potential customer short-term funds withdrawal. The Bank has positive cumulative expected liquidity gap for all other maturity periods.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

30. RELATED PARTY DISCLOSURES

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

(in thousands of Belarusian rubles)

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

33. The Republic of Belarus acting through state agencies controls the Bank's activities as well as directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Bank performs the following banking transactions with these entities: lending, attracting deposits, cash and settlement operations, exchange operations, providing guarantees, and transactions with securities and derivatives. Transactions with state-related entities constitute a significant part of the Bank's operations:

The volume of transactions and balances with related parties at the end of the reporting period, as well as the corresponding amounts of expenses and incomes for the year are presented below:

	2018			2017		
	Shareholders, Republic of Belarus	**Key management personnel**	**Other related parties**	**Shareholders, Republic of Belarus**	**Key management personnel**	**Other related parties**
Cash and cash equivalents	-	-	45 709	-	-	28 651
Amounts due from credit institutions	-	-	4 106	-	-	2 660
Loans as of 1 January	-	125	76 330	-	157	87 648
Loans outstanding as of 31 December	-	173	72 765	-	125	76 330
Less: allowance for impairment as of 31 December	-	-	(707)	-	-	(1 705)
Loans outstanding as of 31 December, less allowance	-	172	72 059	-	125	74 625
Securities	-	-	116 135	-	-	93 033
Amounts due to customers as of 1 January	-	362	40 008	23 000	515	41 180
Amounts due to customers as of 31 December	-	412	116 825	23 000	362	40 008
Amounts due to credit institutions	-	-	458	-	-	11 523
Commitments and guarantees issued	-	162	6 243	-	-	11 303
Less: allowance for impairment	-	-	(77)	-	-	-
Commitments and guarantees issued less allowance for impairment		162	6 165	-	-	-

	2018			2017		
	Shareholder, Republic of Belarus	Key managemen t personnel	Other related parties	Shareholders, Republic of Belarus	Key management personnel	Other related parties
Interest income	-	14	5 121	-	23	10 205
Interest expense	-	5	1 530	2 883	11	1 754
Net fee and	-	-	-	-	-	881

(in thousands of Belarusian rubles)

commission income						
Other income	-	-	-	-	-	3
Other operating expenses	-	-	-	-	-	190

Compensation to key management personnel comprises the following:

	2018	2017
Salaries and other short-term benefits	1 269	1 083
Social security costs	431	368
Total key management personnel compensation	**1 700**	**1 451**

34. SEGMENT ANALYSIS

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank.

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking - representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level and are based on different business and decision-making processes.

(c) Measurement of operating segment profit or loss, assets and liabilities

The CODM reviews financial information prepared based on Belarusian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) Financial information is not restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies";

(ii) loan provisions are recognised based on Belarusian legislation and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

(in thousands of Belarusian rubles)

(iii) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(iv) income taxes are not allocated to segments;

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method;

(vi) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances.

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities:

	Investment banking	Corporate banking	Retail banking	General banking	As of 31 December 2018
Interest income	7 706	11 851	8 761	-	28 318
Interest expense	(4 349)	(4 043)	(2 293)	-	(10 685)
Net interest income	3 357	7 808	6 468	-	17 633
Allowance for loan impairment	-	2 690	(4 183)	-	(1 493)
Net fee and commission income	(115)	1 559	2 096	-	3 540
Net gains from securities available- for-sale	(1 705)	-	-	-	(1 705)
Net gains/(losses) from foreign currency transactions:					
- trading operation	(2 968)	-	6 370	-	3 402
- revaluation of currency items	7 416	-	(6 364)	-	1 052
Net gains from derivative financial instruments transactions	(15)	-	-	-	(15)
Other income	8	3 273	31	1 445	4 757
Personnel expenses	-	-	-	(9 815)	(9 815)
Depreciation and amortization	-	-	-	(1 601)	(1 601)
Other operating expenses	(3)	(222)	(2 008)	(9 626)	(11 859)
Release/(expenses) of allowance for other assets	(199)	206	(24)	(356)	(373)
Segment result	5 776	15 314	2 386	(19 953)	3 523
Income tax expenses	-	-	-	(353)	(353)
Net profit/(loss) for the year	5 776	15 314	2 386	(20 306)	3 170

	Retail banking	Corporate banking	Unallocated	As of 31 December 2017
Interest income	7 313	23 984	-	31 297
Interest expense	(3 465)	(6 803)	-	(10 268)
Net interest income	3 848	17 181	-	21 029
Allowance for loan impairment	(399)	(3 250)	-	(3 649)

(in thousands of Belarusian rubles)

(Expenses)/release of allowance for loans impairment	1 464	1 728	279	3 471
Net fee and commission income	-	150	-	150
Net gains from securities available- for-sale	-	947	-	947
Net gains/(losses) from foreign currency transactions:				
- trading operation	-	2 615	-	2 615
- revaluation of currency items	-	-	1 044	1 044
Net gains from derivative financial instruments transactions	-	47	-	47
Other income	-	5 944	168	6 112
Personnel expenses	-	-	(8 853)	(8 853)
Depreciation and amortization	-	-	(1 462)	(1 462)
Other operating expenses	-	-	(7 925)	(7 925)
Release/(expenses) of allowance for other assets	-	(124)	-	(124)
Segment result	4 913	25 238	(16 749)	13 402
Income tax expenses	-	-	(1 000)	(1 000)
Net profit/(loss) for the year	4 913	25 238	(17 749)	12 402

35. CHANGES IN LIABILITIES RELATING TO FINANCIAL ACTIVITIES

Changes in liabilities relating to financial activities for 2018 and 2017 are represented as follows:

	Debt securities issued	Total liabilities from financial activities
Carrying amount as of 31 December 2016	**2 113**	**2 113**
Receipt	9 357	9 357
Redemption	(10 119)	(10 119)
Interest paid	(259)	(259)
Interest accrued	258	258
Exchange differences	86	86
Carrying amount as of 31 December 2017	**1 436**	**1 436**
Receipt	53 920	53 920
Redemption	(43 576)	(43 576)
Interest paid	(780)	(780)
Interest accrued	939	939
Exchange differences	97	97
Carrying amount as of 31 December 2018	**12 035**	**12 035**

36. CAPITAL ADEQUACY

The main regulator of the banking system is the National Bank of the Republic of Belarus (NBRB), which sets and monitors the Bank's capital adequacy.

To support the requirements on capital management, NBRB requires banks to maintain the ratio of the Bank's capital to total risk-weighted assets. The ratio is calculated based on the financial statements prepared under National Financial Reporting Standards. The risk degree is determined according to the ratio of credit risks of NBRB specific to individual asset classes. As of 31 December 2018 the regulatory capital of the Bank is BYN 104 280 thousand, core capital is BYN 87 117 thousand. As of 31 December 2018 the regulatory capital adequacy ratio is 24% (standard – 10%), the core capital adequacy ratio is 17% (standard – 4.5%).

In accordance with the regulations the minimal level of regulatory capital should not be less than 52 750 thousand Belarusian rubles for the bank that has the right to conduct banking operations on attracting funds from individuals who are not individual entrepreneurs to accounts and (or) deposits and (or) opening and maintaining bank accounts of such individuals as of 31 December 2018.

As of 31 December 2018 and 31 December 2017 the Bank complied with the above requirements of the capital.

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

The date of approval of the financial statements for issue coincides with the date of signing.

For the period starting from 01.01.2019 to 10.06.2019 official currency exchange rate of USD and EUR increased by 3,7% and 5% respectively, official currency exchange rate of RUB decreased by 3,2%.

According to the decision of the annual general meeting of shareholders of the Bank, dividends were announced based on the results of the Bank's activities for 2018 for ordinary shares in the amount of 0.0000061 belarusian rubles per share, for preference shares - 0.000048 belarusian rubles per one share.

Chairman of the Management Board — I. V. Katibnikov

Chief Accountant — E.M. Skriba

Date of signature: 10 June 2019

«ПАРИТЕТБАНК»