Reshenie Bank Joint-Stock Company

Financial statements
for the year ended 31 December 2018

April 2019

This document contains 76 pages

CONTENT

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Translation from the original into English

INDEPENDENT AUDITOR'S REPORT

To the Shareholders, Supervisory Board, Management of Reshenie Bank Joint-Stock Company,
To the National Bank of the Republic of Belarus
Date: 24 April 2019
Ref. number: 04-05/35

Opinion

Information about the auditee:

Name: Reshenie Bank Joint-Stock Company (abbreviated Bank's name — R-Bank JSC)
Location: 11 Ignatenko Str., 220035, Minsk, Republic of Belarus
Information on the state registration: Reshenie Bank Joint-Stock Company is registered upon the decision of the National Bank of the Republic of Belarus dated 09 November 1994, registration number 53
Payer's identification number: 100789114

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

- The statement of financial position as at 31 December 2018;
- 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, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter - "ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Each matter specified below includes the information on how the corresponding matter had been addressed during our audit.

We met all the obligations described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report including those related to the matters specified. Therefore, our audit engaged implementation of the procedures elaborated in response to our risk assessment of material misstatements in the financial statements. The results of audit procedures, including those performed while considering the matters referred to below, form the basis for our opinion on the accompanying financial statements.

Allowance for impairment of loans to customers, as well as allowance for credit related commitments

Due to the materiality of the allowance for impairment of loans to customers and credit related commitments for the financial position of the Bank, as well as due to the complexity and necessity of applying judgements in estimating expected credit losses in accordance with the new IFRS 9 Financial Instruments (hereinafter - "IFRS 9") standard, this matter is a key audit matter.

In order to determine a significant increase in credit risk from the date of initial recognition, both on an individual and on a portfolio basis, and to calculate expected credit losses ("ECL") judgment must be applied. The assessment of the increase in credit risk is based on the relative change in credit ratings, the length of past due debt and other objective and subjective factors. The selection of thresholds at which the increase in credit risk is considered significant, such as the amount of credit rating deterioration, is also subjective.

During our audit, we paid particular attention to the following:

- assessment of the credit risk models and assumptions used to determine the key parameters of the reservation and expected credit losses for the portfolio;
- assessment of Management's judgment on the identification of significant increases in credit risk on an individual and portfolio basis, using quantitative and qualitative criteria;
- testing expected future cash flows, including collateral cash flows, with respect to significant impairment loans to customers and credit related commitments.

Our audit procedures included an assessment of the methodology for calculating expected credit losses developed by the Bank in accordance with IFRS 9 to assess allowances for impairment of loans to customers and credit related commitments.

The ECL calculation includes valuation methodologies that use significant unobservable inputs and factors, such as internal credit ratings, as well as complex statistical modelling and expert judgment. These methodologies are used to determine the probability of default, the value of the credit claim under the risk of default and the level of loss in case of default on the basis of available historical data and external information adjusted to projections, including projected macroeconomic variables.

Key audit matters (ending)

The calculation of expected credit losses for significant financial assets that have been impaired on a case-by-case basis requires analysis of financial and non-financial information and a broad use of assumptions. Estimation of future cash flows is based on significant inputs unobservable on the market such as current and projected borrower financial performance, collateral cost and probability assessment of possible scenarios. The use of other modeling methodologies, assumptions and projections may lead to substantially different estimates of the allowance for expected credit losses.

Information on the allowance for expected credit losses in respect of loans to customers as well as credit related commitments is provided in Note 10 "Loans to Customers", Note 36 "Risk Management" and Note 34 "Contingent Assets and Liabilities" to the financial statements.

We have assessed the reasonableness of the credit risk factors and thresholds selected by Management to determine a significant increase in credit risk on an individual and portfolio basis. We have evaluated the consistency of the application of criteria selected by Management at the reporting date.

When testing the impairment calculated on a portfolio basis, we have analyzed the underlying statistical models, key inputs and assumptions, used to calculate expected credit losses. For selected material loans, we have checked internal credit ratings, credit risk factors and stage classification. With respect to our selection of material impaired corporate loans, we, together with valuation experts, have reviewed assumptions about future cash flows, including the cost of collateral and probability of possible scenarios. We have reviewed the results of the Bank's subsequent testing of the models used for IFRS 9.

We have also examined the disclosure in the Bank's financial statements regarding the allowance for expected credit losses on loans to customers and credit related commitments.

Responsibilities of the Auditee for the Preparation of the Financial Statements

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

In preparing the financial statements, the Management is responsible for assessing the ability of the auditee to continue as a going concern and the appropriateness of applying the going concern principle, as well as the proper disclosure in the financial statements, where appropriate, of information on going concern.

Those charged with governance, including the Audit Committee, are responsible for overseeing the auditee's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud and (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 the internal control system relevant to the audit of the financial statements 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 system;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures of the financial statements made by the auditee;
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the auditee's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements. or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the auditee to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with 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.

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

From the matters communicated with those charged with governance, we determine the key audit matters and describe these matters in our auditor's report (unless law or regulation precludes public disclosure about the matter or when we determine that the adverse consequences of such disclosure would reasonably be expected to outweigh the public interest benefits of such communication).

Deputy Director for Audit of Financial Institutions, Engagement Partner	Natalia Kondratyeva
Auditor-in-charge	Ekaterina Zhiznevskaya

БДО

Auditor's report date: 24 April 2019

Place of issue: Minsk, Republic of Belarus

Date of receipt by the auditee: 24 April 2019

Position, Full name Chief accountant V.S. Borichevskaya

Signature

INFORMATION ABOUT THE AUDITOR:

Name:	BDO Limited Liability Company
Location:	103 Pobediteley ave., office 807, Minsk, 220020, Republic of Belarus
Information on the state registration:	Certificate on the state registration was issued by Minsk City Executive Committee dated 15 November 2013
Payer's identification number:	190241132

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Management of R-Bank JSC is responsible for the preparation of financial statements of the Bank. The financial statements on pages 10 to 76 represent fairly the financial position of the Bank as at 31 December 2018, the results of its operations and cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

The Management of the Bank confirms that proper accounting principles had been consistently applied during the reporting period. Reasonable and prudent judgments and estimates have been made in the preparation of the financial statements of the Bank. The Management also confirms that financial statements have been prepared on a going concern basis.

The Management of the Bank is responsible for proper accounting, taking necessary measures to protect the property of the Bank and detecting and preventing instances of fraud and other abuse. The Management of the Bank is also responsible for the management of the Bank in accordance with the legislation of the Republic of Belarus, including the rules established by the National Bank of the Republic of Belarus (hereinafter – "NB RB").

The financial statements for the year ended 31 December 2018 are authorized for issue on 24 April 2019 and are signed on behalf of the Management of the Bank.

On behalf of the Management of the Bank:

Chairperson of the Management Board
S.D. Budnikov

Chief Accountant
V.S. Borichevskaya

Minsk
24 April 2019

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2018	31 December 2017
ASSETS			
Cash and cash equivalents	7	40,653	27,230
Precious metals and gemstones	8	-	30
Due from banks	9	2,800	2,070
Loans to customers	10	113,736	98,066
Financial assets measured at amortized cost	11	-	6,180
Financial assets measured at fair value through profit or loss	12	7	-
Financial assets measured at fair value through other comprehensive income	13	34	570
Investment property	14	235	3,441
Property and equipment and intangible assets	15	14,574	11,734
Other assets	16	2,742	4,386
TOTAL ASSETS		174,781	153,707
LIABILITIES AND EQUITY			
Liabilities			
Due to banks	17	7	9,539
Due to customers	18	106,922	80,980
Debt securities issued	19	9,748	6,231
Finance lease debt	20	137	238
Subordinated loans	21	14,696	16,132
Other liabilities	22	1,445	1,510
Total liabilities		**132,955**	**114,630**
Equity	23		
Share capital		73,639	69,456
Reserve fund		-	-
Revaluation reserve for financial assets measured at fair value through other comprehensive income		(536)	-
Unrecovered loss		(31,277)	(30,379)
Total equity		**41,826**	**39,077**
TOTAL LIABILITIES AND EQUITY		174,781	153,707

The accompanying notes on pages 16 to 76 form an integral part of these consolidated financial statements.

Chairperson of the Management Board
S.D. Budnikov

Minsk
24 April 2019

Chief Accountant
V.S. Borichevskaya

STATEMENT OF COMPREHENSIVE INCOME

	Note	2018	2017
Interest income	24	12,562	11,331
Interest expenses	24	(5,081)	(2,872)
Net interest income		**7,481**	**8,459**
Commission income	25	6,491	3,853
Commission expenses	25	(2,149)	(630)
Net commission income		**4,342**	**3,223**
Net gain from transactions with financial assets measured at fair value through profit or loss	26	36	(3)
Net gain from foreign currency transactions	27	1,215	1,051
Net gain on operations with financial instruments at amortized cost	28	7	-
Net gain on operations with precious metals and gemstones	29	127	-
Net (accrual) / recovery of allowances for other assets, including:		(122)	1,107
Net (accrual) / recovery of allowances for credit related commitments	34	*62*	*(83)*
Net (accrual) / recovery of allowances for the impairment of inventories	16	*(184)*	*1,190*
Net other income	30	1,406	1,173
Total operating income		**14,492**	**15,010**
Net (accrual) / recovery of allowance for impairment of financial assets:	7, 9-11, 13, 16	550	(978)
Personnel expenses	31	(6,537)	(5,587)
Amortization/Depreciation	14, 15	(1,378)	(697)
Administrative expenses	32	(5,430)	(5,290)
Profit before tax		**1,697**	**2,458**
Income tax expense	33	(287)	(165)
Net profit for the year		**1,410**	**2,293**

Other comprehensive income that will not be subsequently reclassified to profit or loss			
Net change in the fair value of financial assets measured through other comprehensive income	13	(536)	-
Total other comprehensive income that will not be subsequently reclassified to profit or loss		**(536)**	**-**
TOTAL COMPREHENSIVE INCOME		**874**	**2,293**
Basic earnings per ordinary share	21.1	0.1065	0.1826

The accompanying notes on pages 16 to 76 form an integral part of these consolidated financial statements.

Chairperson of the Management Board
S.D. Budnikov

Chief Accountant
V.S. Borichevskaya

Minsk
24 April 2019

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Reserve fund	Revaluation reserve for financial assets measured at fair value through other comprehensive income	Unrecovered loss	Total Equity
Balance as at 31 December 2016		66,887	2,980	-	(35,652)	34,215
Comprehensive income		-	-	-	2,293	2,293
Net profit for the year		-	-	-	2,293	2,293
Other comprehensive income		-	-	-	-	-
Transactions with owners, recognized directly in equity		2,569	(2,980)	-	2,980	2,569
Contributions to the share capital		2,569	-	-	-	2,569
Redistribution between equity articles		-	(2,980)	-	2,980	-
Balance as at 31 December 2017	23	69,456	-	-	(30,379)	39,077
Effect of the application of IFRS 9	4	-	-	-	(2,308)	(2,308)
Balance as at 31 December 2017	23	69,456	-	-	(32,687)	36,769
Comprehensive income		-	-	(536)	1,410	874
Net profit for the year		-	-	-	1,410	1,410
Other comprehensive income	13	-	-	(536)	-	(536)
Transactions with owners, recognized directly in equity		4,183	-	-	-	4,183
Contributions to the share capital	23	4,183	-	-	-	4,183
Redistribution between equity articles		-	-	-	-	-
Balance as at 31 December 2018		73,639	-	(536)	(31,277)	41,826

The accompanying notes on pages 16 to 76 form an integral part of these consolidated financial statements.

Chairperson of the Management Board
S.D. Budnikov

Chief Accountant
V.S. Borichevskaya

Minsk
24 April 2019

STATEMENT OF CASH FLOWS

	Note	2018	2017
Cash flow from operating activities:			
Interest income received		12,628	9,638
Interest expenses paid		(4,910)	(2,869)
Commission income received		6,704	3,899
Commission expenses paid		(2,139)	(609)
Realized results of foreign exchange, precious metals and gemstones operations		2,378	553
Realized results of operations with financial assets measured at fair value through profit or loss		163	13
Other income received		1,690	1,173
Personnel expenses paid		(6,537)	(5,587)
Administrative expenses paid		(5,408)	(5,290)
Cash flows from operating activities before changes in operating assets and liabilities		**4,569**	**921**
Increase/(decrease) in operating assets			
Due from banks		(526)	(1,529)
Loans to customers		(12,093)	(40, 747)
Derivative financial assets		-	7
Other assets		(111)	902
Increase/(decrease) in operating liabilities:			
Due to banks		(9,535)	8,639
Due to customers		19,027	23,464
Debt securities issued		2,774	553
Derivative financial liabilities		-	(10)
Other liabilities		(144)	89
Net cash flows from operating activities before tax		**3,961**	**(7,711)**
Income tax paid		(299)	(146)
Net cash flow from operating activities		**3,662**	**(7,857)**
Cash flow from investing activities:			
Acquisition of property and equipment and intangible assets		(1,439)	(2,028)
Purchase of property and equipment and intangible assets		737	1,986
Acquisition of financial assets measured at amortized cost		(39,126)	(19,684)
Repayment of financial assets measured at amortized cost		44,999	22,101
Net cash flow from investing activities		**5,171**	**2,375**
Cash flow from financing activities			
Share issue	23	4,183	2,569

	Note	2018	2017
Net cash flow from financing activities		4,183	2,569
Net increase/(decrease) in cash and cash equivalents		13,016	(2,913)
Effect of changes in foreign exchange rates on cash and cash equivalents		377	572
Cash and cash equivalents at the beginning of the year	7, 8	27,260	29,601
Cash and cash equivalents at the end of the year	7, 8	40,653	27,260

The accompanying notes on pages 16 to 76 form an integral part of these consolidated financial statements.

Chairperson of the Management Board
S.D. Budnikov

Chief Accountant
V.S. Borichevskaya

Minsk
24 April 2019

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Reshenie Bank Joint-Stock Company (hereinafter – the "Bank") is a commercial bank established on 09 November 1994 as a closed joint stock entity with participation of foreign capital in accordance with the legislation of the Republic of Belarus. The previous name of the Bank is Closed Joint-Stock Company "Trustbank". The Bank was renamed on 08 June 2016 in accordance with the decision of the General Meeting of Shareholders. The Bank operates under a general license of NB RB No. 14 to conduct banking operations dated 08 June 2016.

The Bank has a license to carry out professional and exchange activities on securities issued by the Ministry of Finance of the Republic of Belarus No. 02200/5200-246-1099, on 14 April 1995, as well as license to carry out activities related to precious metals and gemstones issued by the Ministry of Finance of the Republic of Belarus No. 02200/21-00055 on 17 March 2004, as well as license to carry out security activities by the Ministry of Internal Affairs of the Republic of Belarus No. 33030/355 on 21 September 1999.

The Bank was established as a universal bank for commercial and retail banking operations on the territory of the Republic of Belarus. The main activities of the Bank are the provision of corporate loans, loans to small and medium-sized businesses and individuals; raising resources in deposits from non-banking and banking organizations and individuals; maintenance of customer accounts; provision of guarantees and letters of credit; operations with cash and settlements operations, operations with securities, currencies and precious metals.

The Bank's registered legal address is 11 Ignatenko Str., 220035, Minsk, Republic of Belarus

The average listed number of employees of Bank as at 31 December 2018 was 303 people (as at 31 December 2017 – 315 people).

The information on the shareholders of the Bank is presented below:

	Share (%) 2018	Share (%) 2017
Joint venture "Intersportproekt" Limited (Republic of Belarus)	24.0	18.4
Joint venture "Saturn-Info" Limited (Republic of Belarus)	13.4	15.2
Alm Investments FZE (United Arab Emirates Free Zone Ras Al Khaimah, Ras A1 Khaimah)	62.6	66.4
Total	100.00	100.0

The ultimate controlling owner of the Bank as at 31 December 2018 and 31 December 2017 is Mohammad Ahmad Salem Khalifa Alzaraim Al Suwaidi, resident of UAE, Dubai.

2. ECONOMIC ENVIRONMENT IN WHICH THE BANK OPERATES

The main volume of the Bank's operations is carried out in the Republic of Belarus.

Annual inflation in the consumer sector in 2018 amounted to 5.64%, which is higher than the level in 2017, when the annual inflation reduced to the historically lowest value for the calendar year. The average annual inflation, on the contrary, reduced from the previous year, amounting to 4.9% and becoming historically the lowest annual figure. In general, consumer inflation in the Republic of Belarus has been at the lowest level in history for two consecutive years.

The reason for low inflation in 2017-2018 is the tight monetary policy in Belarus, which resulted in financial exchange rate stability in the country. But after reaching historically minimum annual inflation values in July 2018, price growth in the consumer sector accelerated, facilitated by both the global rise in oil prices and a certain weakening of the Belarusian national currency.

The average weighted exchange rate of the Belarusian ruble in the exchange market of the Republic of Belarus against the Russian ruble in January-December 2018 was at 3.2563 rubles per 100 Russian rubles; against the US dollar – 2.0366 rubles for 1 US dollar, against Euro – 2.4054 rubles for 1 Euro.

Taking into account the emerging inflation, the refinancing rate was kept at the level of 10 percent per annum (effective 27 June 2018). Rates on constantly available liquidity assistance and absorption operations have not changed – 11.5% and 8% per annum, respectively.

The average monthly rate of the one-day interbank market in December 2018 was 10.82% per annum (compared to 9.71% per annum in December 2017). The level of interest rates in the economy ensured the demand for loans in volumes that do not pose risks to price stability and correspond to the level of business activity in the country.

The annual growth of requirements of banks and the Development Bank of the Republic of Belarus to the economy in December 2018 amounted to 14.8%, including: in national currency – 19.2%, in foreign currency in dollar equivalent – 1.1%.

At the same time, the dynamics of interest rates ensured the attractiveness of savings in national currency. In December 2018, time ruble deposits of the population grew by 20% on a year-on-year basis (18.3% in September 2018).

The situation on the domestic currency market at the end of 2018 was characterized by the formation of a net supply of foreign currency, mainly due to the operations of resident and non-resident banks. At the same time, amid the growth of volatility of the exchange rate of the national currency, the population reduced the sale of the currency, increasing the purchase.

The dynamics of monetary supply in 2018 ensured the maintenance of price stability and did not have a deterrent effect on business activity. The monetary conditions are estimated to be close to neutral.

The growth of the average broad money supply on a year-on-year basis in December 2018 amounted to 8.1% with the set parameter of 9 – 12%.

The measures taken in the framework of the de-dollarization of the economy contributed to the reduction of the share of the currency component in the structure of the monetary aggregate. In December 2018, the currency component decreased to 62% (in December 2017 - 66.2%).

The GDP growth rate of the Republic of Belarus in 2018 amounted to 3%, although during the year they were much higher (according to the results of the first quarter of 2018, GDP growth amounted to 5.1%, in the first half of the year the figure decreased to 4.5%). According to the projections of the Ministry of Economy of the Republic of Belarus, the GDP growth of the Republic of Belarus by the end of 2018 should have amounted to 3.9 - 4.1%. According to the yearly objectives of social and economic development of the Republic of Belarus signed by the President of the Republic of Belarus at the beginning of 2018, GDP growth was projected at 3.5%.

The national debt of the Republic of Belarus as of 1 January 2019 amounted to 45.4 billion rubles and increased compared to the beginning of 2018 by 3.2 billion rubles, or by 7.6%. External national debt as of 1 January 2019 amounted to 16.9 billion US dollars, having increased since the beginning of the year by 0.2 billion US dollars (taking into account exchange differences), or by 1.0%. Internal national debt as of 1 January 2019 amounted to 8.9 billion rubles, having decreased since the beginning of the year by 0.3 billion rubles (taking into account exchange differences), or by 3.1%.

In 2018, domestic foreign currency government bonds for legal entities and individuals were placed in the amount of 529.5 million US dollars. Currency and ruble government bonds for legal entities and individuals in the amount of 864.9 million US dollars and 123.4 million rubles were repaid.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (hereinafter - "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter - "IFRIC").

Going concern

These financial statements have been prepared upon the assumption, that the Bank will continue as a going concern.

As at 31 December 2018 NB RB requires maintaining the size of regulatory capital at a minimum level of 54,350 thousand Belarusian rubles (hereinafter – "thousand rubles") in relation to the minimum regulatory capital calculated based on the accounting records prepared in accordance with Belarusian legislation for banks, which can perform banking operations stipulated by Part 1 Article 14 of the Banking Code of the Republic of Belarus.

According to the results of the annual financial statements of 2018 prepared in accordance with Belarusian legislation, the regulatory capital of the Bank as at 31 December 2018 amounted to 61,132 thousand rubles.

Share capital of the Bank in 2018 was increased by 4,183 thousand rubles or by 13,2% due to the contribution by the shareholder of the Bank ALM Investments FZE (United Arab Emirates) to the share capital of the Bank in the amount 1,399.1 thousand rubles. Also, Joint venture "Intersportproekt" contributed the funds of the subordinated loan in the amount of 2,783.4 thousand rubles (1,15 million Euro) to increase the share capital of the Bank.

For the year ended 31 December 2018, the Bank earned a profit in the amount of 1,410 thousand rubles.

Functional and reporting currency

The Belarusian ruble is the functional currency of the Bank. These financial statements are presented in thousands of Belarusian rubles (unless otherwise specified).

Use of estimates and assumptions

Preparation of financial statements in accordance with IFRSs requires the Management of the Bank to develop estimates and assumptions affecting the reported amounts of assets and liabilities of the Bank, to disclose contingent assets and liabilities as at the reporting date and the reported amounts of income and expenses for the reporting period. Estimates and related assumptions are based on historical information and other factors that are reasonable where the value of assets and liabilities in the statement of financial position cannot be defined in another way. Although Management estimates and assumptions are based on knowledge of the current situation and operations of the Bank, actual results may differ from these estimates.

Estimates and key assumptions are revised on an ongoing basis. Revision of accounting estimates is recognized in the periods in which the estimates are revised and in future periods to which they relate.

Allowance for impairment (since 1 January 2018)

Classification of financial assets

Assessment of the business models that are applied to the assets and an assessment of whether the contractual terms of the financial asset are solely a payment of the principal amount of the debt and interest on the principal amount of the debt, is disclosed in Note 5 "Significant Accounting Policies".

Measurement of the estimated allowance for expected credit losses (ECL)

Measurement of the estimated allowance for expected credit losses for financial assets measured at amortized cost and measured at fair value through other comprehensive income (hereinafter - "FVTOCI") is an area that requires complex models and significant assumptions about future economic conditions and credit behavior (e.g. the probability of default of customers and arising losses). A number of material judgments are also required when applying accounting requirements for ECL measurement, such as:

- Determination of criteria for significant increase in credit risk;
- Selection of suitable models and assumptions for ECL measurement;
- Setting the number and relative weights of future scenarios for each product/market type and the corresponding ECL; and
- Creation of groups of homogeneous financial assets for ECL valuation purposes.

Initial data for estimating expected losses

The main baseline data for estimating expected credit losses are the temporary structures of the following variables:

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

These indicators are derived from internal statistical models, other historical data and available sources of information used by the Bank. They have been adjusted to reflect the forecast information presented below.

Estimates of probability of default (PD) are estimates on a given date that are calculated on the basis of statistical rating models and are evaluated using estimation tools, adapted to different categories of counterparties and positions exposed to credit risk. These statistical models are based on internal accumulated data, including both quantitative and qualitative factors. Where possible, market data can also be used to determine the likelihood of default for large counterparties - legal entities. If the counterparty or position exposed to credit risk migrate between rating levels, this will result in a change in the assessment of the respective probability of default. The probability of default is estimated taking into account the contractual maturities of the positions exposed to credit risk and the estimated early repayment rates.

The value of loss given default (LGD) sets the amount of probable loss given default. The Bank evaluates LGD indicators based on information on the return ratios of claims against counterparties.

The exposure at default (EAD) is the expected value of the position exposed to credit risk on the date of default. This indicator is calculated by the Bank on the basis of the current value of EAD and its possible changes permitted under the contract, including depreciation/amortization and early repayment. For a financial asset, the value of the EAD is the gross book value in the event of default.

As described above, provided that a maximum 12-month probability of default is used for financial assets for which credit risk has not been significantly increased, the Bank estimates the expected credit losses taking into account the risk of default during the maximum period under the contract during which the financial asset is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period.

Fair value measurement of financial instruments

The Bank estimates fair value using the following structure of fair value, which reflects the nature of the data used in the evaluation:

Level 1: Quotations of active market (unadjusted) for identical instruments.

Level 2: Valuation techniques based on the observed data, obtained either directly (i.e., prices) or indirectly (i.e. derivatives from prices). This category includes instruments measured using quotations in active markets for similar instruments; quotations for identical or similar instruments in markets that are less active, or other valuation techniques in which all relevant data are directly or indirectly available.

Level 3: Valuation techniques based on the unobserved data. This category includes instruments that are evaluated on the basis of quotations for similar instruments when significant unobserved adjustments or assumptions are necessary to reflect the difference between the instruments.

The fair value of financial assets and liabilities traded in an active market is based on market quotes or OTC quotes. For all other financial instruments, the Bank determines fair value using valuation methods.

Determining the fair value of financial assets and liabilities for which there is no market quotation requires the use of the valuation methods described in the relevant accounting policies. For financial instruments that do not have an active market, the determination of fair value is less objective and requires the application of judgments based on liquidity, concentration, uncertainty market factors, cost assumptions and other factors affecting the financial instrument. The purpose of the valuation methods is to determine the fair value, which reflects the value of the financial instrument at the reporting date, which would be determined by market participants acting independently of each other.

Determination of deferred tax assets

A recognized deferred tax asset is the amount of income tax that can be set off against future income taxes and is recognized in the statement of financial position. A deferred tax asset is recognized only to the extent that the relevant tax benefit is likely to be used. The determination of future taxable profits and the amount of tax benefits likely to occur in the future is based on the forecasts of the Management of the Bank.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

The Bank applied IFRS 9 Financial Instruments (hereinafter - "IFRS 9") and IFRS 15 Revenue from Contracts with Customers (hereinafter - "IFRS 15") for the first time. The nature and impact of changes resulting from the application of these financial reporting standards are described below.

In 2018, a number of other amendments to the standards and interpretations, which did not affect the financial statements of the Bank, were also applied for the first time.

The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

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

The data from previous periods has not been restated. Differences in the book value of financial assets and liabilities arising from the application of IFRS 9 are recognized in retained earnings and provisions as at 1 January 2018. Accordingly, the information as at 31 December 2017 does not reflect the requirements of IFRS 9 and is therefore not comparable to the information submitted for 2018 in accordance with IFRS 9.

The following assessments were based on the facts and circumstances prevailing at the date of initial application:

- determination of the business model according to which the financial asset is managed;
- classification and revision of previous classifications of certain financial assets;
- classification of certain investments in non-trade equity instruments into instruments recognized at fair value through other comprehensive income (FVTOCI).

If debt securities had a low credit risk as of the initial IFRS 9 application date, the Bank assumed that the credit risk on the asset has not increased significantly since its initial recognition. A financial instrument has a low risk of default if the borrower is able to fulfill his contractual liabilities on cash flows in the short term, and adverse changes of economic and business conditions in the long term may, but not necessarily, diminish the ability of the borrower to fulfill his contractual liabilities.

Categories of valuation of financial assets and liabilities in accordance with IAS 39 Financial instruments: Recognition and Measurement" (hereinafter - "IAS 39") and new categories and valuations under IFRS 9 as of 1 January 2018 are presented in the table below:

	Category of valuation in accordance with IAS 39	Category of valuation in accordance with IAS 9	Book value in accordance with IAS 39 as at 31 December 2017	Revaluation in accordance with IFRS 9	Book value in accordance with IFRS 9 as at 1 January 2018
Financial assets					
Cash and cash equivalents	Loans and receivables	At amortized cost	27,230	(229)	27,001
Due from banks	Loans and receivables	At amortized cost	2,070	78	2,148
Loans to customers	Loans and receivables	At amortized cost	98,066	(1,938)	96,128
Financial assets measured at amortized cost	Financial assets held to maturity	At amortized cost	6,180	-	6,180
Financial assets measured at fair value through other comprehensive income	Financial assets available for sale	At fair value through other comprehensive income	570	-	570
Other financial assets	Loans and receivables	At amortized cost	944	(250)	694
Total financial assets			**135,060**	**(2,339)**	**132,721**
Financial liabilities					
Due to banks	At amortized cost	At amortized cost	9,539	-	9,539
Due to customers	At amortized cost	At amortized cost	80,980	-	80,980
Debt securities issued	At amortized cost	At amortized cost	6,231	-	6,231
Finance lease debt	At amortized cost	At amortized cost	238	-	238
Subordinated loans	At amortized cost	At amortized cost	16,132	-	16,132
Other financial liabilities and allowances for credit related commitments	At amortized cost	At amortized cost	771	(31)	740
Total financial liabilities			**113,891**	**(31)**	**113,860**

Thus, the table above shows the effect of the transition to IFRS 9 on items of financial assets and liabilities (excluding the tax effect).

The Bank does not recognize a deferred tax asset due to uncertainties associated with the likelihood of taxable profit against which it would be possible to offset the deductible time difference (Note 33 "Income tax expense").

An analysis of the effect of IFRS 9 on funds and unrecovered loss is presented below:

	Effect of IFRS 9 as of 1 January 2018
Unrecovered loss in accordance with IAS 39 (as at 31 December 2017)	(30,379)
Recognition of expected credit losses under IFRS 9 for debt financial assets measured at amortized cost and credit related commitments	(2,308)
Unrecovered loss in accordance with IFRS 9 (as at 1 January 2018)	(32,687)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and, with a few exceptions, applies to all items of revenue, arising from contracts with customers. IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers, and requires revenue to be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgment and take into account all relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also contains requirements for accounting of additional costs for obtaining a contract and costs incurred to fulfil a contract. However, the standard does not apply to revenue related to financial instruments and leases, and therefore does not affect most of the Bank's revenue, including interest revenue, profit/(losses) on securities transactions, rental income, to which IFRS 9 Financial Instruments and IAS 17 Leases apply. The application of this standard did not affect the financial statements of the Bank.

IFRIC 22 - Foreign Currency Transactions and and Advance Consideration

It clarifies that for the purpose of determining exchange rate to be applied at initial recognition of the respective assets, expenses or revenues (or their part) at derecognition of a non-monetary asset or non-monetary liability related to payment or receipt of advance consideration, the date of transaction should be considered the date when an entity initially recognizes the non-monetary asset or non-monetary liability related to payment or receipt of advance consideration. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

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

Amendments to IAS 40 - Transfers of Investment Property

Amendments clarify the cases when an entity is required to transfer real estate, including real estate under construction or development, into or from the category of investment property. The amendments state that a change in use occurs when property begins or ceases to comply with the definition of investment property and there is evidence of a change in use. Any change in Management's intentions regarding the use of the property itself does not indicate a change in its use.

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

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

The IASB issued amendments to IFRS 2 Share-based Payments, which cover the following three aspects: the effects of vesting conditions on the measurement of a cash-settled share-based payment; classification of share-based payments with settlement of the tax at source on a net basis; accounting for amended terms of share-based payments resulting in cease of classification as a cash-settled transaction and start of classification as equity-settled transaction. When adopting the amendments, entities do not have to restate data for the prior periods, however retrospective application is possible if the entity applies all three aspects and if other criteria are met.

The Bank does not perform share-based payments with settlement of the tax at source on a net basis. Consequently, the Bank does not expect any effect on its financial statements.

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

These amendments eliminate concerns arising from implementing the new standard related to financial instruments, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments grant two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

These amendments are not applicable to the Bank.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"

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

If the entity that is not an investment entity itself has an interest in an associate or joint venture that are investment entities, when applying the equity method, such entity can retain the fair value measurement applied by its investment associate or joint venture to its interests in subsidiaries. This decision is made individually for each investment associate or joint venture at the later of:

(a) the date of initial recognition of an investment associate or joint venture;

(b) the date when an associate or joint venture becomes an investment entity;

and (c) the date when an investment associate or joint venture first becomes a parent.

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

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards

Short-term exemptions stipulated by paragraphs E3-E7 of IFRS 1 were deleted since they had served their purpose. The Bank does not expect any effect on its financial statements.

NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE

IFRS 16 Leases

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

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

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

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

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

A lessee may apply this standard using either a full or modified retrospective approach. The transitional provisions of the standard contain certain exemptions. In 2019 the Bank will continue to assess the potential impact of IFRS 16 on its financial statements.

IFRIC 23 - Uncertainty over Income Tax Treatments

The interpretation addresses the treatment of income tax when there is uncertainty over tax interpretations, which affects the application of IAS 12. The interpretation does not apply to taxes or fees that are not within the scope of IAS 12, nor does it contain specific requirements for interest and penalties related to uncertain tax interpretations.

The entity should decide whether to consider each uncertain tax interpretation separately or together with one or several other uncertain tax interpretations. It is necessary to use an approach that will allow predicting results of resolving uncertainty more accurately. The interpretation also covers assumptions made to review interpretations of tax authorities and changes in facts and circumstances.

The interpretation becomes effective for annual reporting periods beginning on or after 1 January 2019.

ANNUAL IFRS IMPROVEMENTS, 2015-2017 CYCLE (ISSUED IN DECEMBER 2017)

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

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

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

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

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

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

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

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

IAS 23 Borrowing Costs - borrowing costs eligible for capitalization

These amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally. Earlier application is permitted and must be disclosed.

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

5. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash; accounts in the NB RB (less cash in the obligatory reserve fund) and financial institutions, which are free from any commitments; loans to financial institutions with an initial maturity of less than three months.

Precious metals

Precious metals in the form of ingots and coins are recognized at the acquisition price, which approximately corresponds to the fair value. The Bank determines the cost of writing off precious metals in the form of ingots and coins at the cost of each unit.

Derivative financial instruments

In the course of its ordinary operations, the Bank uses various derivative financial instruments (including forwards, swaps) in foreign exchange markets. These financial instruments are held for trading and are initially recognized at fair value. Fair value is determined on the basis of market quotations or valuation models based on current market and contractual values of corresponding underlying instruments and other factors. Derivative financial instruments with a positive fair value are recognized as assets, and those with a negative fair value - as liabilities.

Income and expenses from transactions with these instruments are recognized in the statement of comprehensive income.

Financial assets and liabilities

Recognition

Financial assets and liabilities are reflected in the statement of financial position when the Bank becomes a party to the contract in respect of the financial instrument concerned.

Financial assets and liabilities are initially recognized at fair value and financial assets and liabilities not classified as measured at fair value through profit or loss are recognized at fair value plus transaction costs directly associated with the acquisition or issuance of a financial asset or financial liability.

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

Classification and subsequent measurement of financial instruments: categories of measurement

Since 1 January 2018 the Bank classifies financial instruments using the following categories of measurement:

- measured at fair value through profit or loss (FVPL),
- measured at fair value through other comprehensive income (FVTOCI), and
- measured at amortized cost.

The classification and subsequent measurement of financial assets depend on the business model used by the Bank for asset management and the characteristics of cash flows on the asset.

A financial asset is measured at amortized cost only if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- The asset is held within the framework of a business model that seeks to retain assets to obtain contractual cash flows; and
- the contractual terms of the financial asset provide for cash flows, which are solely a payment on the principal amount of the debt and interest accrued on the outstanding part of the principal amount.

A financial asset is measured at fair value through other comprehensive income if it meets both of the following conditions and is not classified at the Bank's discretion as measured at fair value through profit or loss:

- The asset is held within the framework of a business model, the purpose of which is achieved both through the receipt of contractual cash flows and through the sale of financial assets;
- the contractual terms of the financial asset provide for cash flows, which are solely a payment on the principal amount of the debt and interest accrued on the outstanding part of the principal amount.

Classification and subsequent measurement of financial assets: business model

The business model reflects the way the Bank uses to manage assets in order to receive cash flows, depending on whether the Bank's goal is:

- only to receive contractual cash flows from assets ("retention of assets to receive contractual cash flows") or
- to receive contractual cash flows and cash flows arising from the sale of assets ("retention of assets to receive contractual cash flows and to carry out sales").

If the paragraphs above are not applicable, financial assets are classified as "other" business models and are measured at fair value through profit or loss.

The business model is defined for a group of assets (at the portfolio level) on the basis of all relevant evidence of the activity that the Bank intends to undertake to achieve the objective set for portfolio available at the valuation date.

If the business model provides for the retention of assets to receive contractual cash flows or to receive contractual assesses flows and to carry out sales, the Bank estimates whether cash flows are solely payments of principal and interest (the "solely payments of principal and interest test" or the "SPPI test").

In carrying out this assessment, the Bank considers whether the contractual cash flows correspond to the terms of the loan agreement, i.e. interest only includes reimbursement in respect of the credit risk, time value of money, other risks of the underlying loan agreement and profit margin.

If the terms of the contract provide for exposure to risk or volatility that do not comply with the terms of the loan agreement, the relevant financial asset is classified and measured at fair value through profit or loss. Solely payments of principal and interest are valued on initial recognition of the asset, and no subsequent revaluation is made.

Loans to customers that meet the SPPI criterion are withheld to receive the contractual cash flows and are recognized at amortized cost.

Impairment of loans measured at amortized cost or at fair value through other comprehensive income is determined using the forecast model of expected credit losses.

Equity instruments measured at FVTOCI

Starting from 1 January 2018, the Bank, upon initial recognition of investments in equity instruments, decided, without the right of its subsequent cancellation, to classify them as equity instruments that are measured at FVTOCI if they meet the definition of an equity instrument in accordance with IAS 32 "Financial Instruments: Presentation" and are not intended for sale. The decision on such a classification is made for each instrument separately. Profit and losses on such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right to receive dividends is established, unless the Bank benefits from such proceeds as a refund of a part of the initial cost of such an instrument. In this case, the profit is recognized in other comprehensive income. Equity instruments measured at FVTOCI are not subject to impairment assessment. When such instruments are disposed of, the accumulated revaluation reserve is transferred to retained earnings.

Impairment of financial assets estimated allowance for expected credit losses (ECL)

Based on forecasts, the Bank estimates expected credit losses related to debt financial assets measured at amortized cost and fair value through other comprehensive income, and risks arising from credit related commitments and financial guarantee contracts.

The Bank estimates the expected credit losses and recognises the estimated allowance for credit losses at each reporting date. Estimation of expected credit losses reflects:

- an unbiased and probable amount determined by assessing the range of possible results;
- the time value of the money;
- reasonable and corroborated information on past events, current conditions and projected future economic conditions available at the reporting date without excessive cost or effort.

Debt financial assets measured at amortized cost are presented in the statement of financial position less the estimated allowance for expected credit losses. For debt instruments measured at fair value through other comprehensive income, the estimated allowance for expected credit losses is recognized as profit or loss and affects the profit or loss on changes in fair value recognized in other comprehensive income rather than on the book value of those instruments.

The Bank applies the impairment accounting model under IFRS 9 based on changes in credit quality since initial recognition.

A financial asset that is not impaired on initial recognition for which there was no significant increase in credit risk during the reporting period is classified as relating to Stage 1. For Stage 1 financial assets, the expected credit losses are estimated to be equal to the portion of the expected credit losses for the entire term that arise as a result of defaults that may occur within the next 12 months (12-month ECL), or to maturity if it is less than 12 months from the reporting date.

If the Bank detects a significant increase in credit risk from the moment of initial recognition, the asset is transferred to Stage 2 and the expected credit losses are estimated on the basis of expected credit losses for the entire term (ECL for the entire term).

If the Bank determines that a financial asset is impaired: the borrower is assigned the default status, the asset is transferred to Stage 3 and the expected credit losses are estimated as expected credit losses for the entire term.

Determination of a significant increase in credit risk

The Bank has developed an assessment methodology that includes both quantitative and qualitative information to determine a significant increase in credit risk for a particular financial instrument from the moment of its initial recognition.

By applying an expert assessment of the quality of the loan and, if applicable, relevant historical experience, the Bank can determine that there has been a significant increase in credit risk in the position exposed to credit risk, if specific qualitative indicators show this, and the indicators cannot be fully taken into account within the quantitative analysis in a timely manner.

As a "limiter", the Bank believes that a significant increase in credit risk occurs no later than the moment when the number of days of past due debt on the asset exceeds 30 days. The Bank determines the number of days of past due debt by counting the number of days starting from the earliest day as of which full payment has not been received.

The Bank verifies the effectiveness of the criteria used to identify significant increases in credit risk through regular checks to ensure the following:

- the criteria are able to detect a significant increase in credit risk before the position exposed to credit risk falls into default;
- the criteria do not coincide with the moment when payment on the asset is more than 30 days overdue;
- the average time between the identification of a significant increase in credit risk and default seems reasonable;
- risk-exposed items are not transferred directly from the 12-month expected credit losses to the loan-impaired;
- there is no unjustified volatility of the estimated allowance for losses when transferring from 12-month expected credit losses to expected credit losses for the entire term.

Determination of default

A financial asset is classified by the Bank as a financial asset for which the default event occurred, in the following cases:

- it is unlikely that the borrower's credit related commitments to the Bank will be repaid in full without the Bank's use of such actions as the realization of collateral (if any); or
- the borrower's debt on any of the Bank's significant credit related commitments is past due by more than 90 days. Overdrafts are considered to be past due from the moment the customer has violated the recommended limit or has been recommended a limit less than the amount of the current outstanding debt;
- restructuring due to the borrower's financial difficulties within the previous 12 months prior to the reporting date.

The initial data in assessing the occurrence of a default event on a financial instrument and its significance may change over time to reflect changes in circumstances.

Modified financial assets

The Bank seeks, to the extent possible, instead of enforcing collateral to revise the contractual terms for loans by agreement of the parties, for example, to extend the contractual terms of payments, to agree on new loan terms or otherwise modify the contractual cash flows.

Starting from 1 January 2018, the Bank terminates the recognition of a financial asset, for example, a loan granted to the customer, if the revision of the contractual terms leads to a significant change in cash flows, which is a material modification of the financial asset. A material modification results in the repayment of the initial financial asset and recognition of the new financial asset, while classifying the new financial asset in accordance with IFRS 9 (including cash flow testing using SPPI test). Upon initial recognition, new financial assets are assigned to Stage 1 for the purpose of the ECL valuation, unless the new financial asset is considered to be an acquired or created credit impaired asset. Factors leading to the derecognition of a financial asset include:

- changing the currency of a financial asset;
- changing the fixed interest rate to floating interest rate and vice versa;
- replacing the debtor (counterparty) under the contract.

If the modification of contractual cash flows does not result in the derecognition of the financial asset, this is an immaterial modification. Immaterial modifications include changes in the contractual term, changes in the periodicity of principal and interest payments, and other changes in the terms of the contract that are not material modification.

The Bank recognizes profit or loss from modification calculated on the basis of changes in cash flows discounted at the initial effective interest rate in the statement of comprehensive income before the impairment loss is recognized. In the case of a modification that does not result in derecognition, the Bank also reassesses whether the credit risk on a financial asset has increased significantly since its initial recognition, taking into account all reasonable and corroborated information, including forecast information, and, depending on the degree of deterioration in credit quality from the date of initial recognition, assigns financial instruments to one of the following reservation stages:

- Stage 1 - financial assets that do not have factors showing material increase in credit risk and do not show signs of impairment for which expected credit losses are calculated during one year;
- Stage 2 - financial assets that have factors showing material increase in credit risk, but without signs of impairment, for which expected credit losses are calculated for the entire service life of the financial asset;
- Stage 3 - financial assets with signs of impairment, for which expected credit losses are calculated for the entire service life of the financial asset.

The Bank recognizes as debt restructuring any changes in the terms of the contract relating to changes in the term of repayment of the principal debt, and (or) changes in the term of interest payment, and (or) changes in schedule of repayment of the principal debt (terms and amounts), and (or) change in schedule of repayment of interest (terms), and (or) change of interest rate, as well as conclusion of a new contract providing for the emergence of an asset at the Bank that is subject to credit risk and leads to the termination of liabilities between the Bank and the debtor under a previously concluded contract, the debtor of which is the same person, due to the inability of the debtor to fulfill his liabilities to the Bank, carried out with the aim of creating conditions to ensure timely and full fulfillment by the debtor of his liabilities to the Bank. Problem restructuring, which indicates a material increase in credit risk, is a repeated and subsequent restructuring in the absence of factors indicating a material increase in credit risk and (or) signs of impairment, or restructuring if there are factors indicating a material increase in credit risk at the time of restructuring; or restructuring whereby any outstanding principal debt and (or) interest liabilities are deemed to be urgent; or restructuring involving a carry-over of previously provided nearest payment on the principal debt and (or) interest for a period of more than one year.

Default restructuring is a restructuring related to the inability of the borrower (counterparty) to fulfill his liabilities under the initial terms of the contract. Restructuring is considered default if there is at least one of the following criteria:

- restructuring if there are signs of impairment of the financial asset at the time of restructuring, before the condition of recovery is met or the condition of recovery is not met, or repeated and subsequent restructuring where there are factors indicating a material increase in credit risk before the condition of recovery is met or the condition of recovery is not met;
- restructuring with write-off of part of debt (principal and (or) interest) to off-balance accounts (debt release);
- restructuring results in a reduction of the interest rate under the contract to the level 2/3 or below the level 2/3 of the rate set by the Financial Committee of the Bank for the corresponding currency for a comparable period of time. In the event that the borrower's financial asset is assigned to Stage 3 of the reservation, the other available financial instruments of the borrower are also referred to Stage 3, in the case of a new loan to the borrower, such loan is classified as a created credit impaired financial asset.

The condition of restoring the credit quality of a financial asset is the payment of at least three consecutive payments in due time and in full continuously in accordance with the contractual terms with the debtor for at least 12 months from the moment of detection of the absence of factors indicating a material increase in credit risk (for recovery from stage 2 of reservation to stage 1) or signs of impairment (for recovery from stage 3 of reservation to stage 2 or, if all of the above mentioned recovery conditions are met, to stage 1).

Forecast information

The Bank includes the forecast information both in its assessment of a significant increase in credit risk from the moment of initial recognition, and in the assessment of expected credit losses.

The Bank uses an expert judgement to evaluate forecast information. This judgement is based on external information. External information may include economic data and forecasts published by state bodies and monetary regulatory bodies such as the NB RB, the Ministry of Finance, as well as certain individual and scientific forecasts.

Reclassification of financial assets

Reclassification of financial assets is carried out only in cases of changes in the business model used for the management of financial assets, the Bank must reclassify all affected financial assets, with the reclassified financial asset being assessed in a perspective from the reclassification date, previously recognised gains, losses (including impairment gains or losses) or interest is not recalculated.

Such changes are expected to occur very rarely. Such changes should be determined by the senior management of the Bank as a consequence of external or internal changes and should be significant for the Bank's operations and obvious to external parties.

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

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- the rights to receive cash flows from the asset have expired;

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

Financial liabilities other than those recognized at fair value through profit or loss are classified as liabilities recognized at amortized cost. Liabilities recognized at amortized cost are initially recognized at fair value, less transaction costs incurred. They are subsequently measured at amortized cost.

If a liability is issued at interest rates higher (lower) than market ones, the difference between the fair and nominal value of the liability is reflected in the statement of comprehensive income as the effect of initial recognition of financial instruments at fair value. Subsequently, the value of the liability recognized in the statement of financial position is adjusted for depreciation of the original expenses and the related expenses are reflected as interest expenses in the statement of comprehensive income.

The financial liabilities recognized at amortized cost include funds from other financial organizations and customer funds.

Funds in financial organizations. Amounts due to banks are recognized starting from the moment of granting loans to the Bank, placing deposits by counterparty banks or placing cash as collateral for liabilities.

Customer funds. Amounts due to customers are non-derivative financial liabilities to individuals, government and corporate clients.

Derecognition of financial liabilities

A financial liability is derecognized when the relevant liability has been performed, cancelled or expired.

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

Offsets of financial assets and liabilities

Financial assets and liabilities shall be set off and the statement of financial position shall recognize the net value only where there is a statutory right to produce the offset of the amounts recognized, and the intention to either set off or to dispose of the asset and settle the liability at the same time.

Investment property

Initial recognition and subsequent accounting of investment property is made at cost, taking into account the adjustment for hyperinflation, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses. The resulting rental income is recorded in the statement of comprehensive income. Depreciation is calculated using a straight-line method over the estimated useful life of the asset, which is 50 years. Subsequent expenses are capitalized only if the Bank is likely to receive corresponding future economic benefits and the possibility of a reliable estimate of costs. All other repair and maintenance costs are recognized as expenses as incurred. If the owner occupies an investment property, it is reclassified into property and equipment (buildings).

Property and equipment

Property and equipment are recognized at acquisition cost, less accumulated depreciation and allowance for impairment, if any.

At each reporting date, the Bank determines whether there are any signs of impairment of property and equipment. If such signs exist, the Bank makes an estimate of the recoverable value, which is defined as the largest of the net value of the sale of property and equipment and the value derived from their use, which is the current value of expected future cash flows. If the value of property and equipment in the statement of financial position exceeds their estimated recoverable value, the value of property and equipment in the statement of financial position is reduced to the recoverable value and the difference is recognized in the statement of comprehensive income as an expense on impairment of property and equipment.

Gains and losses arising from disposals of property and equipment are determined on the basis of their value in the statement of financial position and recognized as operating expenses in the statement of comprehensive income.

Repair and maintenance costs are reflected in the statement of comprehensive income at the time they arise.

Depreciation of property and equipment starts from the moment of their commissioning. Depreciation is calculated using a straight-line method over the following useful life periods:

- buildings and structures: 20-50 years;
- vehicles: 8 years;
- office and computer equipment: 5-50 years.

The depreciation method, the residual value of the assets and the useful life of the assets are reviewed and, if necessary, adjusted for each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset that has no physical shape. An intangible asset is recognized if:

- it is likely that the Bank will receive future economic benefits related to the asset;
- the value of the asset can be reliably measured.

Intangible assets include software, licenses and other intangible assets.

Intangible assets acquired separately are shown at acquisition cost less accumulated amortization and accumulated impairment losses, if any.

Intangible assets with a limited useful life are amortized using a straight-line method over the useful life of 1 to 10 years and are analyzed for impairment whenever there is an indication of possible impairment of an intangible asset. Amortization periods and methods for intangible assets with limited useful lives are reviewed at least at each reporting year-end.

Profit or loss on disposal of intangible assets is defined as the difference between the net income on disposal and the value of the assets recognized in the statement of financial position and is recognized in the statement of profit or loss as "Other income".

Repossessed assets

In the ordinary course of business, the Bank receives a title for non-financial assets, which were initially represented as collateral for a loans. When the Bank acquires (i.e. gains a complete ownership) non-financial assets in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognized at the value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of cost and net realizable value. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

Net realizable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated sales costs.

At each reporting date the Bank revises the net realizable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in the estimated costs of completion and sales costs, the Bank writes such assets down to their net realizable value and recognizes the write down in operating expenses in the period such write down occurs or losses take place. Subsequently, if the circumstances which led to the write down of assets change or if there is an evidence of net realizable value growth, the amount of write down is reversed so that the revised amount recorded in the statement of financial position would be the lower of net realizable value and cost.

Repossessed assets initially intended for purposes other than sale in the ordinary course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Leased assets

Leasing of property, in which almost all risks and benefits associated with the ownership of the lease object are transferred to the lessee, is classified as financial leases.

BANK recognizes financial leases as part of assets and liabilities in the statement of financial position at the date of commencement of the lease term in the amount equal to fair value of the leased property or at the present value of the minimum lease payments if this amount is less than fair value.

In calculating the present value of the minimum lease payments, the discount ratio is the internal interest rate under the lease agreement, if the determination of such a rate is possible. In other cases, the rate on borrowed funds of the Bank is used. Initial direct costs are recognized as part of the asset. Lease payments are divided between financing costs and liabilities repayments. Financing costs during the lease period are charged to the reporting periods in such a way as to ensure that expenses are recognized at a constant periodic interest rate charged to the liabilities balance for each reporting period.

Any other lease that is not classified as financial is recognized as operating. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Impairment of non-financial assets

Book value of non-financial assets of the Bank, excluding deferred tax assets, is reviewed at each reporting date to determine signs of impairment. If there are any such signs of impairment, the cost of recovering the asset is estimated.

The cost of recovering other non-financial asset is the highest value of its fair value less the cost of selling and the cost of its use. In estimating the cost of use, the expected future cash flows are discounted to the present value, using a pre-tax discount rate that reflects the current market estimate of the time value of money and risks specific to the asset. For an asset that does not generate cash flows independently of other assets, the cost of recovery is determined for the cash-generating unit to which the asset relates.

An impairment loss is recognized when the book value of an asset or cash-generating unit exceeds its recoverable value.

All impairment losses on non-financial assets are recognized as expenses in the statement of comprehensive income and are refunded only if there have been changes in the estimates used to determine the cost of recovery. Any impairment loss shall be recovered only to the extent that the book value of the asset does not exceed the book value that would have been determined after deduction of depreciation, if there was no recognition of impairment losses.

Share capital

Ordinary shares are classified as equity.

Share capital is recognized at cost. Expenses for services to third parties directly related to the issue of shares are accounted in equity as a deduction from the amount received during the issue of shares.

Provisions

Provisions are recognized in accounting if the Bank has current liabilities (defined by law or implied) arising from past events, the repayment of which is likely to require the disposal of resources with economic benefits, and the amount of such liabilities can be estimated with sufficient accuracy.

Provisions are measured at the present value of the lowest expected value, which reflects the current market estimate of the time value of cash and, where applicable, the risks inherent in the liability.

Current employee benefits

Current employee benefits are measured at undiscounted value and are attributed to costs during the period in which the services were rendered or the work was performed.

According to the requirements of the legislation of the Republic of Belarus, the Bank makes mandatory payments to the Social Protection Fund of the Ministry of Labor and Social Protection of the Republic of Belarus from the accrued wages of its employees.

The Bank has no other pension liabilities to retired employees or to former employees.

Credit related commitments

The Bank assumes credit related commitments, including financial guarantees, letters of credit and loan commitments. Guarantees are the Bank's irrevocable commitments to perform payments when the customer does not fulfill his obligations to third parties and have the same level of credit risk as loans. Letters of credit are the Bank's written commitments to make payments on behalf of customers in agreed amount when certain conditions are met; they are collaterized with the corresponding deliveries of goods or deposits and, accordingly, have lower risk level, than direct lending.

Loan commitments represent an unused part of loans, guarantees or letters of credit authorized for issue. In respect of the loan commitments, the Bank potentially has the risk to sustain losses in the amount equal to the total amount of the unused commitments. The Bank controls maturity terms for credit related commitments, as usually long-term liabilities bear higher credit risk level than the short-term ones.

A financial guarantee liability is recognized initially at fair value net of related transaction costs, and is measured subsequently at the higher of the amount initially recognized less cumulative amortization or the amount of allowance for expected losses under the guarantee. Allowance for expected losses under financial guarantees and other commitments are recognized when losses are considered probable and can be measured reliably. Such allowances are recognized in other liabilities.

Taxation

Income tax expenses are the sum of current and deferred tax expenses. The amount of expenses on current income taxes is determined taking into account the amount of taxable profit for the year calculated in accordance with the legislation of the Republic of Belarus.

Current tax payments are calculated on the basis of taxable profit for the year, using income tax rates that were in effect during the reporting period.

Balance on current tax liabilities are amounts payable to the state budget or reimbursed from the state budget in respect of taxable profits and deductible current and prior expenses.

Deferred tax is future tax claims or liabilities to recover the difference between the value of assets and liabilities in the financial statements and the corresponding tax base, used in the calculation of taxable profits.

Deferred tax liabilities are generally recognized for all temporary differences, and deferred tax assets are recognized on the likelihood of future taxable profits, from which temporary differences accepted for tax purposes may be deducted.

The value of deferred tax assets in the statement of financial position is reviewed at each reporting date and reduced to the extent that there is no longer a possibility that the benefit of the tax claim is sufficient to recover the asset in full or in part will be received.

Deferred taxes are calculated at rates effective at the reporting date. Deferred taxes are recognized in the statement of comprehensive income, unless the deferred tax relates to items directly reflected in other comprehensive income, in which case the deferred tax is recognized in other comprehensive income.

Expenses for taxes other than income tax applied to BANK are recognized in operating expenses.

Recognition of income and expenses

Interest income and expenses are recognized in the statement of profit or loss on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortized value of a financial asset or financial liability and allocating interest income and interest costs to the relevant period. Effective interest rate is the discount rate for estimated future cash payments or receipts for the expected term of the financial instrument, or for a shorter period, up to a net value of the financial asset or financial liability recognized in the statement of financial position. When calculating the effective interest rate, BANK evaluates cash flows taking into account all contractual terms for the financial instrument, but does not take into account future losses on loans. Such calculation includes all fees and commissions paid and received by the parties to the contract, which form an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

If a financial asset or a group of homogeneous financial assets has been written off (partially written off) as a result of impairment, interest income is determined by taking into account the interest rate used for discounting future cash flows for the purpose of calculating impairment losses.

Foreign exchange transactions

Foreign exchange transactions are accounted at the exchange rate of the National Bank of the Republic of Belarus effective on the date of the transaction. Monetary assets and liabilities expressed in foreign currencies other than functional currency are converted into Belarusian rubles at the exchange rate effective at the reporting date.

Gains and losses arising from exchange differences are reflected in net gains on foreign exchange transactions.

Non-monetary assets and liabilities recognized at fair value in foreign currency are translated into Belarusian rubles at the exchange rate of the National Bank of the Republic of Belarus effective on the date of determination of fair value. Non-monetary assets and liabilities, recognized at historical value in foreign currency, are translated at the exchange rate of the National Bank of the Republic of Belarus effective on the date of acquisition.

6. ADJUSTMENTS RELATING TO PREVIOUS PERIODS

Below are the adjustments made by the Bank in the comparative information for 2017:

Statement of financial position

	2017	Adjustment amount	2017 after adjustment
Investment property	3,748	(307)	3,441
Property and equipment and intangible assets	11,427	307	11,734

In the comparative information for 2017, property and equipment objects with a residual value of 307 thousand rubles were transferred from the item "Investment property" to the item "Property and equipment and intangible assets".

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following amounts:

	31 December 2018	31 December 2017
Cash	3,874	5,135
Balances on current accounts with NB RB (other than mandatory reserves)	11,863	9,736
Correspondent accounts and overnight deposits in financial organizations	25,218	12,359
Total cash and cash equivalents	**40,955**	**27,230**
Less allowance for impairment	(302)	-
Total net cash and cash equivalents	**40,653**	**27,230**

As at 31 December 2018 and 31 December 2017 cash and cash equivalents have been placed in NB RB and other resident banks of the Republic of Belarus, as well as non-resident banks of the Republic of Belarus with a credit rating A-, B or no credit rating.

As at 31 December 2018 the correspondent network of the Bank includes 70 Nostro accounts in foreign currency (as at 31 December 2017 - 70 accounts).

As at 31 December 2018 and 31 December 2017 the Bank had no balances on correspondent accounts and overnight deposits with other banks which exceeded 10% of the Bank's capital.

Movement in the provision for cash and cash equivalents is presented as follows. The comparative period for 2017 is presented in accordance with IFRS 39.

	2018				2017
	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	Total	Total
Provision for cash equivalents					
Balance as at 31 December				-	-
Effect of the first application of IFRS 9	(229)	-	-	(229)	-
Adjusted balance as at 1 January	(229)	-	-	(229)	-
(Accrual) / recovery of an allowance	(73)	-	-	(73)	-
Balance as at 31 December	(302)	-	-	(302)	-

8. PRECIOUS METALS AND GEMSTONES

	31 December 2018	31 December 2017
Gemstones	-	30
Total precious metals and gemstones	-	30

9. DUE FROM BANKS

	31 December 2018	31 December 2017
Unimpaired and non-overdue loans and other amounts due from banks (credit rating "B-")	1,288	1,205
Obligatory provisions in the National Bank of the Republic of Belarus	1,569	983
Total amounts due from banks	**2,857**	**2,188**
Less allowance for impairment	(57)	(118)
Total net amounts due from banks	**2,800**	**2,070**

Movement in the provision for amounts due from banks is presented as follows. The comparative period for 2017 is presented in accordance with IFRS 39.

	2018				2017
	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total	Total
Provision for amounts due from banks					
Balance as at 31 December	(118)	-	-	(118)	
Effect of the first application of IFRS 9	78	-	-	78	
Adjusted balance as at 1 January	(40)	-	-	(40)	(14)
(Accrual) / recovery of an allowance	(17)	-	-	(17)	(104)
Balance as at 31 December	(57)	-	-	(57)	(118)

Belarusian credit organizations are required to maintain an interest-free cash deposit (obligatory provision) in the NB RB, the amount of which depends on the amount of funds raised by the credit organization. The legislation provides for significant restrictions on the possibility of withdrawing this deposit by the Bank.

a) Restricted cash in financial organizations (less cash in the obligatory reserve fund of the NB RB)

As at 31 December 2018 and 31 December 2017 amounts due from banks included guarantee deposits placed by the Bank in Belarusbank for operations with letters of credit and bank payment cards in the amount of 1,469 thousand Belarusian rubles and 770 thousand Belarusian rubles, respectively, and JSC "Belarusian Currency and Stock Exchange" as a contribution to the guarantee fund of the foreign exchange market of the Republic of Belarus in the amount of 100 thousand Belarusian rubles as at 31 December 2018. In the prior period this fund was not formed.

b) Concentration of amounts due from banks

As of 31 December 2018 and 31 December 2017, the Bank had no balances in financial organizations exceeding 10% of the capital of the Bank.

10. LOANS TO CUSTOMERS

	31 December 2018	31 December 2017
Loans to corporate customers	77,107	68,476
Loans to individuals	42,261	33,970
Total loans to customers	**119,368**	**102,446**
Less allowance for impairment	(5,632)	(4,380)
Total net loans to customers	**113,736**	**98,066**

Quality of loans to corporate customers

The table below provides information on the quality of the corporate customer loan portfolio:

as at 31 December 2018

	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	31 December 2018
Loans to corporate customers				
Amount of loans	73,216	2,234	1,657	77,107
Allowance for impairment	(1,757)	(304)	(1,076)	(3,137)
Book value	**71,459**	**1,930**	**581**	**73,970**

as at 31 December 2017

	Amount of loans	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment to the amount of loans
Individually impaired loans:	45,248	(3,268)	41,980	7,2%
Collectively impaired loans	23,228	(923)	22,305	4,0%
Total loans to corporate customers	**68,476**	**(4,191)**	**64,285**	**6.1%**

a) **Analysis of collateral for corporate customer loan portfolio (less the allowance for impairment):**

The table below provides the analysis of loans to corporate customers by types of collateral as at 31 December 2018 and 31 December 2017:

	31 December 2018	Share in the loan portfolio, %	31 December 2017	Share in the loan portfolio, %
Real estate	25,973	33.7%	29,905	43.7%
Equipment and vehicles	24,549	31.8%	7,529	11.0%
Guarantees	12,244	15.9%	5,533	8.1%
Other collateral	11,358	14.7%	9,479	13.8%
Unsecured loans	2,983	3.9%	16,030	23.4%
Total loans to corporate customers	**77,107**	**100.0%**	**68,476**	**100.0%**

In order to reduce credit risk, the Bank requires borrowers to provide collateral, the size and type of which depends on the assessment of the counterparty's credit risk. The main types of collateral received when lending to corporate customers is mortgage.

b) Analysis of ageing of the impaired loans to corporate customers (less allowance for impairment):

	31 December 2018	31 December 2017
Unexpired	75,669	68,433
Overdue less than 1 year	1,438	43
Total loans to corporate customers	**77,107**	**68,476**

c) Analysis of the corporate customer loan portfolio by method of loan provision (less allowance for impairment):

	31 December 2018	31 December 2017
Credit line, including:	55,166	40,911
Revolving credit line	*40,078*	*22,539*
Non-revolving credit line	*15,088*	*16,384*
Overdraft lending	-	*1,988*
One-time loan	21,941	27,565
Total loans to customers	**77,107**	**68,476**

d) Analysis of corporate customer loan portfolio by types of business activity (less allowance for impairment):

	31 December 2018	Share in the loan portfolio, %	31 December 2017	Share in the loan portfolio, %
Wholesale and retail trade, car and motorcycle repair	37,718	49.0%	22,950	33.5%
Manufacturing	22,278	28.9%	19,724	28.8%
Operations with real estate	1,027	1.3%	1,392	2.0%
Transportation, warehousing, postal and courier activities	472	0.6%	1,152	1.7%
Construction	79	0.1%	9,051	13.2%
Agriculture, forestry and fisheries	-	0.0%	135	0.2%
Other	15,533	20.1%	14,072	20.6%
Total loans to corporate customers	**77,107**	**100.0%**	**68,476**	**100.0%**

Quality of loans to individuals

The following table provides information on the quality of loans to individuals:

as at 31 December 2018

	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	31 December 2018
Loans to individuals				
Amount of loans	36,812	139	5,310	42,261
Allowance for impairment	(530)	(2)	(1,963)	(2,495)
Book value	**36,282**	**137**	**3,347**	**39,766**

as at 31 December 2017

	Amount of loans	Allowance for impairment	Loans less allowance for impairment	Allowance for impairment to the amount of loans
Overdraft loans	21,850	(130)	21,720	0.6%
Consumer lending	11,814	(57)	11,757	0.5%
Mortgage loans	157	-	157	0.0%
Auto lending	149	(2)	147	1.3%
Total loans to individuals	**33,970**	**(189)**	**33,781**	**0.6%**

All loans to individuals were impaired on a collective basis.

a) **Analysis of collateral for loans to individuals (before impairment):**

	31 December 2018	31 December 2017
Loans secured by penalties and guarantees	42,182	33,695
Loans secured by pledge of vehicles	58	21
Loans secured by pledge of property	21	254
Total loans to customers	**42,261**	**33,970**

The above amounts represent the value of the loans reflected in the statement of financial position and not the fair value of the collateral.

b) **Analysis of ageing of impaired loans (less allowance for impairment):**

	31 December 2018	31 December 2017
Unexpired	36,544	28,871
Overdue less than 1 month	288	261
Overdue from 1 to 6 month	209	192
Overdue from 6 month to 1 year	5,220	4,646
Total loans to individuals	**42,261**	**33,970**

Loan impairment

Movement in the allowance for loans to customers are as follows. The comparative period for 2017 is presented in accordance with IFRS 39.

	2018				2017
	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	Total	Total
Allowance on loans to customers					
Balance as at 31 December				(4,380)	
Effect of the first application of IFRS 9				(1,938)	
Adjusted balance as at 1 January	(3,084)	(258)	(2,976)	(6,318)	(3,287)
(Accrual) / recovery of an allowance	797	(48)	337	1,086	(856)
Write-off	-	-	(400)	(400)	(237)
Balance as at 31 December	**(2 287)**	**(306)**	**(3,039)**	**(5,632)**	**(4,380)**

Significant credit exposures

As at 31 December 2018 and 31 December 2017, the Bank had four and five corporate borrowers, respectively, with loan debt exceeding 10% of the Bank's capital. The total value of these loans as at 31 December 2018 and 31 December 2017 was 24,725 thousand rubles and 36,574 thousand rubles, respectively.

Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to the book value of the loans recorded in the statement of financial position.

11. FINANCIAL ASSETS MEASURED AT AMORTIZED COST

	31 December 2018	31 December 2017
Debt securities held to maturity	-	6,180
Total financial assets measured at amortized cost	**-**	**6,180**

As at 31 December 2017 financial assets measured at amortized cost were represented by bonds of NB RB.

During 2018, there was no movement on the allowance for impairment of financial assets measured at fair value.

12. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018	31 December 2017
Derivative financial assets	7	-
Total financial assets measured at fair value through profit or loss	**7**	**-**

13. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity securities (shares) as of 31 December 2018 and 31 December 2017 are as follows:

Name	Type of activity	Country of registration	Share in the share capital	31 December 2018	31 December 2017
JV "Venbelcom S.A."	Foreign trade activity	Venezuela	19.60	26	26
JSV "Belzarubezhstroy"	Construction	Republic of Belarus	10.00	-	536
JV "MAZ-MAN"	Manufacturing	Republic of Belarus	7.37	8	8
Total				34	570

Investments in equity securities are classified as financial assets measured at fair value through other comprehensive income.

Signs that the cost may not reflect fair value include, among other things, a significant change in the performance of the investee. As at 31 December 2018, the fair value of the equity instrument of JSV "Belzarubezhstroy" amounted to zero rubles (as at the reporting date, the issuer worked with negative net assets).

The amount of dividends received for 2018 and 2017 amounted to 24 thousand rubles and 88 thousand rubles, respectively, and is recognized in other income.

14. INVESTMENT PROPERTY

The movement of investment property for the year ended 31 December 2018 is as follows:

	31 December 2018	31 December 2017
Initial cost		
Balance as at 1 January	3,673	3,673
Acquisition	-	-
Disposal	-	-
Transfer to property and equipment	(3,422)	-
Balance as at 31 December	**251**	**3,673**
Accumulated depreciation		
Balance as at 1 January	(232)	(173)
Accrual	(7)	(59)
Disposal	-	-
Transfer to property and equipment	223	-
Balance as at 31 December	**(16)**	**(232)**
Net book value		
As at 31 December	**235**	**3,441**

Income from investment property included in profit or loss is as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Rental income from investment property	13	22
Total income for the period	**13**	**22**

Investment property includes objects that the Bank leases.

The Management of the Bank believes that the fair value of investment property is equal to its book value as of 31 December 2018 and 31 December 2017.

In 2018 the Bank carried out an impairment test, as a result of which no signs of impairment of investment property were identified.

In 2017-2018, the Bank had no restrictions on the feasibility of its investment property, as well as any contractual liabilities to acquire, construct or build investment property objects, repair, maintain or improve them.

15. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

The following is the information on the movement of property and equipment for the year ended 31 December 2018:

	Buildings and structures	Vehicles	Office and computer equipment, other	Intangible assets	Investments in intangible assets	Total
Initial cost						
Balance as at 31 December 2017	12,187	422	4,347	3,008	112	20,076
Acquisition	-	-	114	1,231	198	1,543
including modernization	-	-	*3*	*154*	-	*157*
Disposal	(1,525)	-	(181)	(133)	(112)	(1,951)
Transfer from investment property	3,422	-	-	-		3,422
Balance as at 31 December 2017	**14,084**	**422**	**4,280**	**4,106**	**198**	**23,090**
Accumulated depreciation						
Balance as at 31 December 2017	(3,475)	(407)	(3,151)	(1,309)	-	(8,342)
Accrued for the year	(468)	(9)	(219)	(452)	-	(1,148)
Disposal	898	-	171	128	-	1,197
Transfer from investment property	(223)	-	-	-	-	(223)
Balance as at 31 December 2017	**(3,268)**	**(416)**	**(3,199)**	**(1,633)**	**-**	**(8,516)**
Residual value as at 31 December 2017	**8,712**	**15**	**1,196**	**1,699**	**112**	**11,734**
Residual value as at 31 December 2017	**10,816**	**6**	**1,081**	**2,473**	**198**	**14,574**

As of the year ended 31 December 2018, the cost of fully depreciated property and equipment and amortized intangible assets that continue to be used by the Bank amounts to 3,731 thousand rubles.

The following is the information on the movement of property and equipment for the year ended 31 December 2017:

	Buildings and structures	Vehicles	Office and computer equipment, other	Intangible assets	Investments in intangible assets	Total
Initial cost						
Balance as at 31 December 2017	12,597	531	4,339	1,510	81	**19,058**
Acquisition	-	-	254	1,511	1,542	**3,307**
including modernization	-	-	*33*	*105*	-	*138*
Disposal	(410)	(109)	(246)	(13)	(1,511)	**(2,289)**
Balance as at 31 December 2017	**12,187**	**422**	**4,347**	**3,008**	**112**	**20,076**
Accumulated depreciation						
Balance as at 31 December 2017	(3,326)	(495)	(3,205)	(953)	-	**(7,979)**
Accrued for the year	(225)	(22)	(173)	(361)	-	**(781)**
Disposal	76	110	227	5	-	**418**
Balance as at 31 December 2017	**(3,475)**	**(407)**	**(3,151)**	**(1,309)**	-	**(8,342)**
Residual value as at 31 December 2017	**9,271**	**36**	**1,134**	**557**	**81**	**11,079**
Residual value as at 31 December 2017	**8,712**	**15**	**1,196**	**1,699**	**112**	**11,734**

As of the year ended 31 December 2017, the cost of fully depreciated property and equipment and amortized intangible assets that continue to be used by the Bank amounts to 3,486 thousand rubles.

16. OTHER ASSETS

	31 December 2018	31 December 2017
Accrued commission income	152	222
Accrued lease income	92	118
Allowance for unearned income	(158)	(12)
Receivables	779	616
Allowance for covering possible losses on accounts receivable from economic activities	(464)	-
Total other financial assets	**401**	**944**
Property transferred to the Bank as repayment of debt	2,455	2,701
Allowance for the impairment of inventories	(429)	(245)
Advance payments	171	261
Taxes prepaid	82	678
Prepayments on capital investments	62	3
Other	-	44
Total other non-financial assets	**2,341**	**3,442**
Total other assets	**2,742**	**4,386**

The Bank has no restrictions on the sale of available assets and has no contractual obligations for the acquisition, construction or improvement of other property, its repair, technical maintenance or improvement.

The movement in the provision for other financial assets is presented as follows. The comparative period for 2017 is presented in accordance with IFRS 39.

	2018				2017
	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	Total	Total
Allowance for other financial assets					
Balance as at 31 December				(12)	
Effect of the first application of IFRS 9				(250)	
Adjusted balance as at 1 January	(59)	-	(203)	(262)	(1,679)
(Accrual) / recovery of an allowance	43	-	(489)	(446)	(18)
Write-off	-	-	86	86	1,685
Balance as at 31 December	**(16)**	**-**	**(606)**	**(622)**	**(12)**

Movements in the allowance for the impairment of inventories are presented below:

	2018	2017
Allowance for the impairment of inventories		
Balance as at 1 January	(245)	(1,435)
Recovery (accrual) of an allowance	(184)	1,190
Balance as at 31 December	**(429)**	**(245)**

The maximum credit risk for other financial assets is equal to the net value of these assets, recorded in the statement of financial position in other assets.

17. DUE TO BANKS

	31 December 2018	31 December 2017
Loans and deposits from other banks	-	9,539
Correspondent accounts of banks	7	-
Total amounts due to banks	**7**	**9,539**

As of 31 December 2018 and 31 December 2017, the Bank had no balances of banks exceeding 10% of the capital of the Bank.

18. DUE TO CUSTOMERS

	31 December 2018	31 December 2017
Legal entities		
- time deposits	23,468	21,020
- current (settlement) accounts	16,621	12,239
Individuals		
- time deposits	54,465	41,540
- current (settlement) accounts	12,368	6,181
Total amounts due to customers	**106,922**	**80,980**

As of 31 December 2018 and 31 December 2017, the Bank had no balances of customer funds exceeding 10% of the capital of the Bank.

19. DEBT SECURITIES ISSUED

	Issue	Maturity	% rate	31 December 2018	31 December 2017
Bonds denominated in foreign currency	8	18.09.2019	4.25%	8,142	6,231
BYN-denominated bonds	11	20.04.2023	11.00%	1,606	-
TOTAL				**9,748**	**6,231**

The information on changes in liabilities related to the financial activities of the Bank as at 31 December 2018 and 31 December 2017 is presented below:

	Debt securities issued
Book value as at 31 December 2016	**5,591**
Acquisition	6,171
Repayment	(5,523)
Interest paid	(316)
Foreign exchange differences	248
Interest accrued	60
Book value as at 31 December 2017	**6,231**
Acquisition	30,706
Repayment	(27,933)
Interest paid	(1,029)
Foreign exchange differences	671
Interest accrued	1,102
Book value as at 31 December 2018	**9,748**

20. FINANCE LEASE DEBT

	31 December 2018	31 December 2017
Debt on property and equipment received for rent, leasing	137	238
Total financial lease debt	**137**	**238**

In 2017 the Bank received property and equipment for leasing form two organizations. As at 31 December 2018 there is a debt on one lease agreement.

21. SUBORDINATED LOANS

In June 2015 the Bank received a subordinated loan from the shareholder company Alm Investments FZE in the amount of 3,500,000 and 4,500,000 US dollars. Maturity date under the contract terms is 30 June 2021, the interest rate equals to LIBOR + 6% rate.

At the reporting date the Bank's balance sheet includes balances of subordinated loans in the amount of 2,304 thousand US dollars and 4,500 thousand US dollars, respectively.

In 2018 the balance of the subordinated loan raised in 2015 in the amount of 2,785 thousand rubles was transferred to replenish the share capital of the Bank.

Interest expenses on subordinated loans in 2018 amounted to 499 thousand rubles in equivalent.

In accordance with the contractual terms the creditor shall not meet its requirements to the borrower before meeting requirements of other creditors in full.

The information on changes in liabilities related to the financial activities of the Bank as at 31 December 2018 and 31 December 2017 is presented below:

	Subordinated loans
Book value as at 31 December 2016	**18,020**
Acquisition	-
Repayment	(2,309)
Interest paid	-
Foreign exchange differences	421
Interest accrued	-
Book value as at 31 December 2017	**16,132**
Acquisition	-
Replenishment of the share capital with the subordinated loan	2,785
Repayment	(5,570)
Interest paid	-
Foreign exchange differences	1,349
Interest accrued	-
Book value as at 31 December 2018	**14,696**

22. OTHER LIABILITIES

	31 December 2018	31 December 2017
Other payables	591	376
Other operating expenses accrued	118	130
Accrued commission expenses	45	36
Other banking services expenses accrued	20	16
Deferred income	11	12
Total other financial liabilities	**785**	**570**
Provision for unpaid leave	229	157
Tax accruals	207	463
Allowance for credit related commitments	108	201
Deductions to the Individuals' Deposit Guarantee Fund	100	71
Other	16	48
Total other non-financial liabilities	**660**	**940**
Total other liabilities	**1,445**	**1,510**

The movement in the allowance for credit related commitments is presented in Note 34 "Contingent Assets and Liabilities".

23. EQUITY

As of 31 December 2018 and 31 December 2017, the announced, issued and fully paid share capital was presented as follows:

	31 December 2018	31 December 2017
Number of ordinary shares	14,662	12,958
Nominal value of 1 share, rubles	*2,455*	*2,455*
Nominal value of shares	35,988	31,805
Hyperinflation effect	37,651	37,651
Total share capital	**73,639**	**69,456**

The increase in share capital in 2018 and 2017 occurred due to the additional issue of ordinary shares in the amount of 1,704 and 1,047 pieces, 2,454.5 rubles each, for the total amount of 4,183 and 2,569 thousand rubles, respectively, which were acquired by Alm Investments FZE (UAE) and JLLC "Intersportproekt".

As of 31 December 2018 and 31 December 2017, all ordinary registered shares are fully paid, give the right to one vote, as well as the right to receive dividends and participate in net assets. All ordinary registered shares have equal rights with respect to net assets.

There are no rights, privileges or restrictions on the distribution of dividends and the placement of capital in respect of shareholders of the Bank. In the reporting year and in the year preceding the reporting one, the Bank did not buy or sell its own shares.

In accordance with the Belarusian legislation, the Bank distributes income as dividends or transfers income and retained earnings to fund accounts on the basis of financial statements, prepared in accordance with national accounting rules.

21.1 Basic earnings per ordinary share

Basic earnings per ordinary share are calculated by dividing the profit owned by shareholders holding ordinary shares of the Bank by the average weighted number of ordinary shares in circulation during the period, net of own shares purchased from shareholders. The Bank does not have its own redeemed shares, as well as ordinary shares potentially diluting profit per share. Thus, diluted earnings per share are equal to basic earnings per share.

	31 December 2018	31 December 2017
Profit for the period owned by shareholders, thousand rubles	1,410	2,293
Average weighted number of ordinary shares in circulation, pieces	13,243	12,557
Basic earnings per ordinary share, thousand rubles	**0.1065**	**0.1826**

24. INTEREST INCOME AND EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on loans and receivables, including:	12,549	11,323
On loans to customers	*12,175*	*10,915*
On amounts due from banks	*238*	*49*
On financial assets measured at amortized cost	*136*	*359*
Other interest income	13	8
Total interest income	**12,562**	**11,331**
Interest expenses on financial liabilities measured at amortized cost, including:	(5,079)	(2,861)
On amounts due to customers and subordinated loans	*(4,251)*	*(2,331)*
On own issued securities	*(447)*	*(316)*
On amounts due to banks	*(381)*	*(214)*
Other interest expenses	(2)	(11)
Total interest expenses	**(5,081)**	**(2,872)**
Total net interest income	**7,481**	**8,459**

25. COMMISSION INCOME AND EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Commission income		
Commissions on transcations with customers	4,853	2,372
Commissions on transactions with bank payment cards	1,422	1,413
Commission for the services of the lease of depositary cells	25	27
Commissions on foreign currency transactions	13	16
Other	178	25
Total commission income	**6,491**	**3,853**

	Year ended 31 December 2018	Year ended 31 December 2017
Commissions on transcations with customers	(1,540)	(361)
Commissions on transactions in AIS "Raschet"	(275)	(181)
Commissions on transactions with banks	(101)	(53)
Commissions on foreign currency transactions	(36)	(24)
Commissions on securities transcations	(8)	(2)
Other	(189)	(9)
Total commission expenses	**(2,149)**	**(630)**
Total net commission income	**4,342**	**3,223**

26. NET GAIN FROM TRANSACTIONS WITH FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Year ended 31 December 2018	Year ended 31 December 2017
Gain from transactions with financial assets measured at fair value through profit or loss	44	7
Loss from transactions with financial assets measured at fair value through profit or loss	(8)	(10)
Total net gain from transactions with financial assets measured at fair value through profit or loss	**36**	**(3)**

27. NET GAIN FROM FOREIGN CURRENCY TRANSACTIONS

	Year ended 31 December 2018	Year ended 31 December 2017
Gains/(loss) from exchange differences	(1,192)	84
Profit from foreign currency transactions	2,407	967
Total net gain from foreign currency transactions	**1,215**	**1,051**

28. NET GAIN ON OPERATIONS WITH FINANCIAL INSTRUMENTS AT AMORTIZED COST

	Year ended 31 December 2018	Year ended 31 December 2017
Gain from transactions with financial instruments measured at amortized cost	7	-
Total net gain from transactions with financial instruments measured at amortized cost	**7**	**-**

29. NET GAIN ON OPERATIONS WITH PRECIOUS METALS AND GEMSTONES

	Year ended 31 December 2018	Year ended 31 December 2017
Gain from transcations with precious metals and gemstones	127	-
Total net gain from transcations with precious metals and gemstones	**127**	**-**

30. NET OTHER INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Net income from disposal of property	377	533
Lease proceeds	292	290
Profit from previous years	239	2
Fines received	215	221
State fees	100	-
Dividends	24	88
Other	159	39
Total other income	1,406	1,173

31. PERSONNEL EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Bank employee benefits	4,937	4,238
Expenditures on contributions to the Social Protection Fund	1,600	1,349
Total personnel expenses	6,537	5,587

32. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2018	Year ended 31 December 2017
Taxes other than income tax	1,027	1,512
Professional services	1,244	892
Software expenses	696	668
Rent, utilities	594	648
Deductions to the Guarantee Fund for the Protection of Funds	383	209
Advertising & Marketing	330	337
Repair and maintenance	246	215
Communication and information services	160	154
Transport expenses	134	117
Security	129	137
Insurance	23	20
Office expenses	3	4
Other	461	377
Total administrative expenses	5,430	5,290

33. INCOME TAX EXPENSE

The Bank calculates taxes on the basis of tax accounting, which is conducted in accordance with the tax legislation of the Republic of Belarus, which may differ from IFRSs.

Due to the fact that some types of expenses are not taken into account for taxation purposes, as well as due to the existence of income not subject to taxation, the Bank has certain tax differences.

During the periods ended 31 December 2018 and 31 December 2017, the republican tax rate for the banks of the Republic of Belarus was 25%.

Below is a comparison of the theoretical tax expense with the actual tax expenditure for the years ended 31 December 2018 and 31 December 2017:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit before tax	1,697	2,458
Estimated value of income tax at the statutory rate (25%)	424	615
Effect of revaluation of property and equipment in tax accounting	-	(254)
Tax effect of income / (expenses) not involved in taxation	(331)	1,425
Changes in the amount of the unrecognized deferred tax asset	(380)	(1,951)
Total income tax expense	**(287)**	**(165)**

Income tax expense is presented as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax expense	(285)	(165)
Deferred income tax expense	-	-
Total income tax expense	**(287)**	**(165)**

Temporary differences as at 31 December 2018 and 31 December 2017 are presented as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Deductible temporary differences		
Property and equipment and intangible assets	6,172	5,946
Other assets and liabilities	2,375	2,176
Investment property	460	765
Financial assets measured at fair value through other comprehensive income	426	-
Total deductible temporary differences	**9,433**	**8,887**
Deferred tax asset at tax rate (25%)	**2,358**	**2,222**
Taxable temporary differences		
Loans to customers, cash and cash equivalents, amounts due from banks	(689)	(1,618)
Financial assets measured at fair value through other comprehensive income	-	(110)
Total taxable temporary differences	**(689)**	**(1,728)**
Deferred tax liability at tax rate (25%)	**(172)**	**(432)**
Unrecognized part of the deferred tax asset	(2,186)	(1,790)
Total net tax asset	-	-

Information on the movement of the deferred tax asset is presented as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Unrecognized deferred tax asset at the beginning of the year	1,790	2,239
Accrued for the year	396	(449)
Unrecognized part of the deferred tax asset	(2,186)	(1,790)
Balance as at 31 December	-	-

The Bank does not recognize a deferred tax asset due to uncertainties associated with the likelihood of taxable profit against which it would be possible to offset the deductible time difference.

34. CONTINGENT ASSETS AND LIABILITIES

Credit related commitments

In the course of its operations, the Bank uses financial instruments with off-balance risks to meet the needs of its customers. These instruments, which carry credit risks of varying degrees, are not reflected in the statement of financial position. The maximum risk of the Bank on conditional financial liabilities and loan liabilities in case of non-performance by the second party under the transaction of its obligations and impairment of all counterclaims and collateral is equivalent to the contractual value of these instruments.

The Bank applies the same credit policy for contingent liabilities as for financial instruments reflected in the statement of financial position.

The Bank's credit related commitments were as follows:

	31 December 2018	31 December 2017
Unused credit lines	15,234	5,188
Guarantees issued	7,214	985
Total credit related commitments	**22,448**	**6,173**
Less allowance for credit related commitments	(108)	(201)
Total credit related commitments	**22,340**	**5,972**

The movement in the allowance for credit related commitments is presented as follows. The comparative period for 2017 is presented in accordance with IFRS 39.

	2018				2017
	12-month period of loss	Period of loss for the whole term – not impaired	Period of loss for the whole term – impaired	Total	Total
Allowance for credit related commitments					
Balance as at 31 December		-	-	(201)	(118)
Effect of the first application of IFRS 9		-	-	31	-
Adjusted balance as at 1 January	(108)	(3)	(59)	(170)	(118)
(Accrual) / recovery of an allowance	52	3	7	62	(83)
Balance as at 31 December	(56)	-	(52)	(108)	(201)

Operating lease liabilities

Below are presented the minimum amounts of future lease payments for operating lease, which is not subject to unconditional cancellation, in cases where the Bank acts as a lessee:

	31 December 2018	31 December 2017
Less than 1 year	106	208
From 1 to 5 years	57	114
Total operating lease liabilities	**163**	**322**

Legal proceedings

Occasionally in the course of the operations of the Bank, customers and counterparties make claims against the Bank. Management believes that as a result of the proceedings on them the Bank will not incur significant losses and, accordingly, no provisions have been created in the financial statements.

Pension payments

Bank employees receive a pension in accordance with the legislation of the Republic of Belarus. As of 31 December 2018 and 31 December 2017, the Bank had no liabilities for additional benefits, pension health care, insurance, pension compensation to current or former staff members that would have been required to be charged.

Legislation

Some of the provisions of the Belarusian commercial legislation and tax legislation in particular, can be interpreted in different ways and, consequently, be applied inconsistently. In addition, since the interpretation of the legislation by the Management may differ from the official interpretation, and compliance with the laws can be changed by the controlling authorities, it may result in additional taxes and fees, as well as other preventative measures. The Management of the Bank believes that the Bank has made all tax and other payments. Previous tax periods remain open to the authorities' review.

35. OPERATING SEGMENTS OF THE BANK

Information on operating segments is disclosed on the basis of management reporting data generated by the main business lines of the Bank.

The Bank has 3 main segments in its operating segments: Retail banking business; Corporate banking business; Treasury, which includes transactions in the interbank loan markets, currency transactions and securities transactions.

All the above mentioned segments are classified by the Bank as reporting (the size of the assets of each operating segment is more than 10% of the total size of the assets of all operating segments). The operating segments were not combined.

*1. **Retail banking business***. At the moment the Bank provides its customers with universal banking, including a full range of products and services most demanded by private individuals: lending, settlement and cash services, currency exchange operations, deposit operations, operations with precious metals and gemstones, issue and maintenance of bank payment cards, money transfers, leasing of safes and depository cells. The priority of the Bank in this operating segment in 2018 was a prompt response to rapidly changing market conditions and the adaptation of the product line to the current market situation, fully and comprehensively meeting customer needs. To maintain the client base, the Bank operated credit products that ensure more favorable lending terms for customers who applied to the Bank for a loan again.

*2. **Corporate banking business*** The Bank's corporate banking business specializes in providing comprehensive services to legal entities and individual entrepreneurs, providing customers with a wide range of banking products and services, including cash and settlement services, credit operations, foreign exchange transactions, and foreign trade operations services for customers. The development of corporate business is focused on the diversification of the client base. Much attention is paid to improving the level and quality of customer service.

3. ***Treasury*** The Bank's Treasury includes four main areas of activity: operations with financial institutions (banks), including borrowing and placement on the domestic market; the issuance and placement of own debt securities, the implementation of operations with securities; foreign exchange transactions (including the purchase and sale of foreign currency by customers on the Belarusian Currency and Stock Exchange) and derivative financial instruments; depositary services to customers.

As at 31 December 2018:

Key indicators	Retail business	Corporate business	Treasury	Unallocated part	Total
Assets and liabilities					
Amounts due from banks; loans to customers; financial assets measured at amortized cost	43,640	68,623	44,967	14,809	**172,039**
Amounts due to banks; amounts due to customers; debt securities issued; financial lease debt; subordinated loans	66,184	65,182	7	137	**131,510**
Other assets	-	-	-	2,742	**2,742**
Other liabilities	-	-	-	1,445	**1,445**
Income and expenses					
Interest income	5,928	5,597	1,037	-	**12,562**
Interest expenses	(2,930)	(1,312)	(839)	-	**(5,081)**
Commission income	5,213	1,277	1	-	**6,491**
Commission expenses	(2,016)	-	(133)	-	**(2,149)**
Net gain from transactions with financial assets measured at fair value through profit or loss	-	-	36	-	**36**
Net profit on financial instruments at amortized cost	-	-	7	-	**7**
Net income on foreign exchange, precious metals and gemstones	127	-	1,215	-	**1,342**
Net (accrual) / recovery of other allowances, net (accrual) / recovery of the allowance for impairment of financial assets	225	829	(90)	(536)	**428**
Other income	-	24	-	1,382	**1,406**
Personnel expenses, amortization/ depreciation, administrative expenses	-	-	-	(13,345)	**(13,345)**
Financial result	**6,547**	**6,415**	**1,234**	**(12,499)**	**1,697**

As at 31 December 2017:

Key indicators	Retail business	Corporate business	Treasury	Unallocated part	Total
Assets and liabilities					
Amounts due from banks; loans to customers; financial assets measured at amortized cost	38,949	60,241	34,956	15,175	**149,321**
Amounts due to banks; amounts due to customers; debt securities issued; financial lease debt; subordinated loans	47,213	56,130	9,539	238	**113,120**
Other assets	-	-	-	4,386	**4,386**
Other liabilities	-	-	-	1,510	**1,510**
Income and expenses					
Interest income	5,129	5,412	790	-	**11,331**
Interest expenses	(1,244)	(1,088)	(540)	-	**(2,872)**
Commission income	2,813	1,038	2	-	**3,853**
Commission expenses	(544)	-	(86)	-	**(630)**
Net gain from transactions with financial assets measured at fair value through profit or loss	-	-	(3)	-	**(3)**
Net income on foreign exchange, precious metals and gemstones	-	-	1,051	-	**1,051**
Net (accrual) / recovery of other allowances, net (accrual) / recovery of the allowance for impairment of financial assets	225	(934)	(104)	942	**129**
Other income	-	88	-	1,085	**1,173**
Personnel expenses, amortization/ depreciation, administrative expenses	-	-	-	(11,574)	**(11,574)**
Financial result	**6,379**	**4,516**	**1,110**	**(9,547)**	**2,458**

36. RISK MANAGEMENT

The Bank manages risks in relation to financial risks (credit, market, country, currency risks, liquidity and interest rate risks), as well as operational risks. The main task of managing financial risks is to minimize the Bank's exposure to banking risks while ensuring a set level of profitability of operations. The assessment of assumed risk also serves as the basis for the optimal allocation of capital, taking into account risks, pricing on operations and evaluation of performance. Operational and legal risk management should ensure proper compliance with internal regulations and procedures in order to minimize these risks.

Credit risk

The Bank assumes credit risk which is the risk that the Bank will incur a loss because its counterparty fails to discharge its contractual financial liabilities to the Bank, or discharged them in an untimely fashion or not in full. The main purpose of managing credit risk is to improve the quality of the Bank's loan portfolio by minimizing its risk.

The main strategic goal of the Bank in the field of credit risk management is to ensure the financial reliability, safe operation and sustainable development of the Bank.

To manage the level of credit risk, the Bank regularly monitors credit risk by individual borrower, as well as each contract and for the Bank's loan portfolio as a whole by monthly studying the system of indicators. The Bank controls credit risk by setting limits on one borrower or a group of related borrowers. Credit risk limits for carrying out active operations within the authority are approved by the Supervisory Board of the Bank and may be revised by the Bank's management bodies as necessary within the authority. Limits are set by type of loans, categories of borrowers or groups of interrelated borrowers, by loans in certain areas, by the most risky areas of lending. Actual compliance with the limits is monitored on a daily basis at the level of heads of structural divisions and the Risk Management System Development Department. In case of exceeding the standard values of the indicators, the heads of the Bank's structural divisions inform the Chairperson of the Management Board of the Bank.

Credit risk management is carried out through regular analysis of the ability of existing and potential borrowers to repay interest payments and the amount of principal debt, as well as through changing credit limits if necessary. In addition, the Bank manages credit risk, in particular, by obtaining collateral and guarantees of companies and individuals. The Bank carries out loan analysis by maturities and the subsequent control of overdue balances. Due to this, the Management is provided with information on the terms of debt.

Types of activity that are subject to credit risk and bear the corresponding maximum credit risk include:

(a) providing loans and borrowings to customers and placing deposits in other organizations. In these cases, the maximum credit risk is equal to the value of the relevant financial assets, as presented in the statement of financial position;

(b) the conclusion of contracts on derivative financial instruments, for example, foreign exchange contracts. The maximum credit risk at the end of the reporting period will be equal to the value as presented in the statement of financial position;

(c) provision of financial guarantees. In this case, the maximum credit risk is equal to the maximum amount that the Bank can pay if the guarantee is executed;

(d) the provision of a lending liability that is not subject to cancellation during the term of the validity or is canceled only as a result of a material adverse change. If the issuer is unable to fulfill the loan liabilities using cash or other financial instruments, the maximum credit risk is equal to the full amount of the liability.

Credit risk for financial instruments that are not recognized in the statement of financial position is defined as the probability of loss due to the inability of another participant in a transaction with this financial instrument to fulfill the terms of the contract. Regarding the credit risk of the loan liabilities, the Bank is potentially subject to losses in an amount equal to the total amount of unused liabilities.

However, the estimated amount of losses is less than the total amount of unused liabilities, since most loan liabilities depend on customers who support certain loan standards. The Bank applies the same credit policy with respect to contingent liabilities as it does with financial instruments recognized in the statement of financial position, based on the procedures for approving transactions, using risk limits, and monitoring. The Bank controls the maturity of credit related commitments that are not recognized in the statement of financial position, since the longer is the maturity of contingent liabilities, the higher is the credit risk.

The Bank monitors credit risk by borrower, contracts, market segments and the Bank's loan portfolio as a whole by analyzing risk factors and evaluating local indicators and prudential standards set by the National Bank of Belarus on a monthly basis. For each local indicator, limits are set and approved by the Bank's Management Board annually, which allows to minimize and limit the Bank's credit risks. In addition, the Risk Management Department carries out stress-testing of the level of credit risk on a quarterly basis.

The table below shows the analysis of financial assets by loan quality in accordance with the availability of ratings of international rating agencies Standard&Poor's and Fitch as at 31 December 2018.

31 December 2018	from AAA to A-	from BBB+ to BBB-	from BB+ to B-	CCC and lower	Credit rating not assigned	Total
Financial assets						
Cash and cash equivalents (net of cash on hand)	589	501	4,311	-	31,378	**36,779**
Precious metals and gemstones	-	-	-	-	-	-
Due from banks	-	-	1,440	-	1,360	**2,800**
Loans to customers	-	-	-	-	113,736	**113,736**
Financial assets measured at amortized cost	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	-	-	-	-	7	**7**
Financial assets measured at fair value through other comprehensive income	-	-	-	-	34	**34**
Other financial assets	-	-	-	-	401	**401**
Total financial assets	**589**	**501**	**5,751**	**-**	**146,916**	**153,757**

The table below shows the analysis of financial assets by loan quality in accordance with the availability of ratings of international rating agencies Standard&Poor's and Fitch as at 31 December 2017.

31 December 2017	from AAA to A-	from BBB+ to BBB-	from BB+ to B-	CCC and lower	Credit rating not assigned	Total
Financial assets						
Cash and cash equivalents (net of cash on hand)	-	9	3,925	-	18,161	22,095
Precious metals and gemstones	-	-	-	-	30	30
Due from banks	-	-	798	-	1,272	2,070
Loans to customers	-	-	-	-	98,066	98,066
Financial assets measured at amortized cost	-	-	-	-	6,180	6,180
Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	-	-	-	570	570
Other financial assets	-	-	-	-	944	944
Total financial assets	**-**	**9**	**4,723**	**-**	**125,223**	**129,955**

Market risk

The Bank assumes the market risk associated with open positions in interest rate, currency, debt and equity instruments that are subject to the risk of general and specific market changes. The management strategy for this type of risk and direct control is carried out under the guidance of the Bank's Management Board and the Bank's Financial Committee.

Market risk includes the interest rate risk of the trading portfolio, stock, currency and commodity risks.

The concentration of market risk is manifested in investments in homogeneous financial instruments of one counterparty, trading portfolio, individual currencies, goods, market prices for which change under the influence of the same economic factors.

The Management Board of the Bank sets limits on the level of assumed risk. Compliance with set limits is controlled on a daily basis.

Country risk

Country risk is the risk of losses of the Bank as a result of the influence of both internal and external factors independent of the financial position of counterparties of BANK (for example, non-conformity of contracts to the legislation of foreign states; non-fulfillment by foreign counterparties of obligations due to economic, political, social and other changes in the conditions of its activity).

The following is a geographical analysis of the assets and liabilities of the Bank as at 31 December 2018:

31 December 2018	Belarus	OECD countries	Other countries	Total
Financial assets				
Cash and cash equivalents	40,100	553	-	40,653
Precious metals and gemstones	-	-	-	-
Due from banks	2,800	-	-	2,800
Loans to customers	111,257	-	2,479	113,736
Financial assets measured at amortized cost	-	-	-	-
Financial assets measured at fair value through profit or loss	7	-	-	7
Financial assets measured at fair value through other comprehensive income	8	-	26	34
Other financial assets	348	-	53	401
Total financial assets	**154,520**	**553**	**2,558**	**157,631**
Financial liabilities				
Due to banks	-	-	7	7
Due to customers	103,898	13	3,011	106,922
Debt securities issued	9,748	-	-	9,748
Finance lease debt	137	-	-	137
Subordinated loans	-	-	14,696	14,696
Other financial liabilities	785	-	-	785
Total financial liabilities	**114,568**	**13**	**17,714**	**132,295**
Net balance sheet position	**39,952**	**540**	**(15,156)**	**25,336**

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

31 December 2017	Belarus	OECD countries	Other countries	Total
Financial assets				
Cash and cash equivalents	27,005	225	-	**27,230**
Precious metals and gemstones	30	-	-	**30**
Due from banks	1,796	274	-	**2,070**
Loans to customers	96,270	-	1,796	**98,066**
Financial assets measured at amortized cost	6,180	-	-	**6,180**
Financial assets measured at fair value through profit or loss	-	-	-	-
Financial assets measured at fair value through other comprehensive income	544	-	26	**570**
Other financial assets	944	-	-	**944**
Total financial assets	**132,769**	**499**	**1,822**	**135,090**
Financial liabilities				
Due to banks	9,539	-	-	**9,539**
Due to customers	78,647	938	1,395	**80,980**
Debt securities issued	6,231	-	-	**6,231**
Finance lease debt	238	-	-	**238**
Subordinated loans	2,709	-	13,423	**16,132**
Other financial liabilities	570	-	-	**570**
Total financial liabilities	**97,934**	**938**	**14,818**	**113,690**
Net balance sheet position	**34,835**	**(439)**	**(12,996)**	**21,400**

Currency risk

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

The Bank sets limits on the level of accepted risk in terms of currencies and in general, both at the end of each day and within one day, and monitors compliance with them on a daily basis. Control over the state of the open currency position and its actual size, as well as compliance with the single limits of the open currency position and limits for each type of foreign currency as a whole for the Bank is carried out by the Treasury on the basis of accounting data on balance and off-balance accounts for each day.

The table below provides an analysis of the currency risk of the Bank as of 31 December 2018. The assets and liabilities of the Bank are reflected in the table of value reflected in the statement of financial position by principal currencies:

31 December 2018	BYN	EUR	USD	Other currencies	Total
Financial assets					
Cash and cash equivalents	28,564	8,266	2,977	846	40,653
Precious metals and gemstones	-	-	-	-	-
Due from banks	1,331	-	1,469	-	2,800
Loans to customers	47,499	15,439	50,072	726	113,736
Financial assets measured at amortized cost	-	-	-	-	-
Financial assets measured at fair value through profit or loss	7	-	-	-	7
Financial assets measured at fair value through other comprehensive income	34	-	-	-	34
Other financial assets	317	3	81	-	401
Total financial assets	**77,752**	**23,708**	**54,599**	**1,572**	**157,631**
Financial liabilities					
Due to banks	-	-	-	7	7
Due to customers	48,661	9,001	47,900	1,360	106,922
Debt securities issued	1,607	-	8,141	-	9,748
Finance lease debt	137	-	-	-	137
Subordinated loans	-	-	14,696	-	14,696
Other financial liabilities	471	11	303	-	785
Total financial liabilities	**50, 876**	**9,012**	**71,040**	**1,367**	**132,295**
Net balance sheet position	**26,876**	**14,696**	**(16,441)**	**205**	**25,336**

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

31 December 2017	BYN	EUR	USD	Other currencies	Total
Financial assets					
Cash and cash equivalents	12,344	11,564	2,796	526	27,230
Precious metals and gemstones	30	-	-	-	30
Due from banks	865	390	815	-	2,070
Loans to customers	43,788	10,103	44,175	-	98,066
Financial assets measured at amortized cost	-	-	6,180	-	6,180
Financial assets measured at fair value through profit or loss	-	-	-	-	-
Financial assets measured at fair value through other comprehensive income	570	-	-	-	570
Other financial assets	660	-	284	-	944
Total financial assets	**58,257**	**22,057**	**54,250**	**526**	**135,090**
Financial liabilities					
Due to banks	2,001	7,538	-	-	9,539
Due to customers	25,259	9,766	44,686	1,269	80,980
Debt securities issued	-	-	6,231	-	6,231
Finance lease debt	238	-	-	-	238
Subordinated loans	-	2,709	13,423	-	16,132
Other financial liabilities	306	2	261	1	570
Total financial liabilities	**27,804**	**20,015**	**64,601**	**1,270**	**113,690**
Net balance sheet position	**30,453**	**2,042**	**(10,351)**	**(744)**	**21,400**

The table below presents an analysis of the Bank's sensitivity in 2018 and 2017 to a 10% and 30% weakening of the national currency rate against the US dollar, Euro and other currencies, respectively. The analysis suggests that other factors, such as interest rates, remain unchanged.

	31 December 2018 10%	31 December 2017 30%
Effect on profit before tax		
USD	(1,644)	(3,105)
EUR	1,470	613
Other currencies	21	(223)
Effect on total income including taxation		
USD	(1,233)	(2,329)
EUR	1,102	459
Other currencies	15	(167)

Liquidity risk

Liquidity risk is the risk of difficulties arising from the settlement of financial liabilities through the payment of cash or other financial assets.

The Bank is exposed to the risk due to the daily requirements to have fund for performing settlements transactions n customer accounts, for deposit withdrawals, for loan granting, for settlements on guarantees executed and in derivatives which are settled in cash The Bank does not reserve funds for simultaneous fulfillment of all those obligations based on the practical experience the level of cash and cash equivalents required for meeting obligations can be forecasted with the sufficient probability. The liquidity risk is managed at all levels in the Bank.

The Bank maintains stable financing base, which comprises mainly current accounts and deposits of corporate customers and individuals, loans and other advances from other banks, and invests funds in diversified portfolio of liquid assets in order to have a possibility without delays meet unforeseen liquidity requirements.

The Financial Committee is the main body that determines the Bank's policy on managing active and passive operations aimed at increasing the Bank's interest and non-interest income while maintaining adequate liquidity, consistency of assets and liabilities by maturity, compliance with prudential standards established by NB RB, and minimizing the impact of risks inherent to the financial market on the Bank, implementing the relevant policy in the field of liquidity, control and decision-making on effective and high-quality liquidity management.

The Financial Committee carries out the general liquidity management and coordinates the work of the business units, takes actions to minimize the imbalance between assets and liabilities with a floating and fixed interest rate. Constant monitoring (analysis) of the state of short-term liquidity of the Bank's balance and dynamics of its changes, control over the level of liquidity indicators is carried out with the interaction of all participants of the internal control system in accordance with the powers defined in local regulatory legal acts and administrative documents of the Bank.

Information on the maturities of financial assets and liabilities is provided to the Treasury. The Treasury ensures that there is an adequate portfolio of short-term liquid assets, mainly consisting of deposits in banks and other interbank instruments, to maintain a sufficient level of liquidity for the Bank as a whole.

The Treasury controls the daily liquidity position and regularly performs stress-testing on liquidity based on different scenarios, which include ordinary and more negative market conditions.

The tables below show an analysis representing the remaining maturity of financial liabilities calculated for undiscounted cash flows of financial liabilities (principal debt and interest) at the earliest date when the Bank will be obliged to repay the liability as at 31 December 2018.

As at 31.12.2018	Value in the statement of financial position	Undiscounted cash flow	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	More than 1 year
Financial liabilities						
Due to banks	7	7	7	-	-	-
Due to customers	106,922	106,997	44,755	24,956	27,971	9,315
Debt securities issued	9,748	10,756	44	215	8,307	2,190
Finance lease debt	137	137	4	20	24	89
Subordinated loans	14,696	19,585	47	229	281	19,028
Other financial liabilities	785	785	785	-	-	-
Total potential future payments on financial liabilities	**132,295**	**138,267**	**45,642**	**25,420**	**36,583**	**30,622**

The table below shows the analysis of financial liabilities due to their maturities as at 31 December 2017:

As at 31.12.2017	Value in the statement of financial position	Undiscounted cash flow	Up to 1 month	From 1 to 6 months	From 6 months to 1 year	More than 1 year
Financial liabilities						
Due to banks	9,539	9,539	9,539	-	-	-
Due to customers	80,980	82,052	10,011	26,046	31,636	14,359
Debt securities issued	6,231	6,478	81	103	123	6,171
Finance lease debt	238	238	4	22	26	186
Subordinated loans	16,132	17,764	34	163	201	17,366
Other financial liabilities	570	570	570	-	-	-
Total potential future payments on financial liabilities	**113,690**	**116,641**	**20,239**	**26,334**	**31,986**	**38,082**

The Bank has sufficient amount of liquid and current assets to meet its current liabilities as they fall due.

Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the influence of fluctuations in prevailing market interest rates on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes of interest rates can also decrease the interest margin or generate losses. All financial assets and liabilities of the Bank having a floating interest rate are exposed to interest rate risk.

The Bank is subject to interest rate risk mainly on loans granted at floating interest rates in amount and for period which differ from the amounts and periods of fund raising at floating interest rates. In practice interest rates, as a rule, are set for a short-term period. However, although interest rates are mostly fixed in agreements for both financial assets and liabilities they are often reviewed based on mutual agreement in accordance with the current market situation in the short term.

Cash flow sensitivity analysis to changes in interest rates

A change in the interest rate by 1,000 basis points as at the reporting date would have increased /(decreased) income before tax and equity by the amounts indicated below. The analysis implies that all other factors remain constant.

	31 December 2018		31 December 2017	
	Interest rates +10 p.p.	Interest rates -10 p.p.	Interest rates +10 p.p.	Interest rates -10 p.p.
Effect on profit before tax				
Floating interest rate instruments	(2,938)	2,938	(2,809)	2,809
Impact on equity				
Floating interest rate instruments	(2,204)	2,204	(2,107)	2,107

37. CAPITAL MANAGEMENT

The Bank manages its capital to ensure compliance with legal requirements and to ensure the going concern while setting the goal of ensuring profit by optimizing the balance of liabilities and the capital of the Bank.

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the regulatory level of capital with quantitatively expressed risks. The Management of the Bank analyses the capital adequacy and risks of each assets' level.

The requirement of NB RB for the minimum amount of regulatory capital calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks is to maintain the amount of regulatory capital at a minimum level of 52,75 million rubles with a quarterly adjustment to the value of consumer price index. The regulatory value of regulatory capital as at 1 January 2019 was 54,35 million rubles.

Under the current capital requirements set by NB RB, banks have to maintain a ratio of regulatory capital to risk-weighted assets ("regulatory capital adequacy ratio") above a prescribed minimum level (10%). The table below presents the regulatory capital based on the Bank's financial information prepared in accordance with the requirements of the national accounting rules:

	31 December 2018	31 December 2017
Basic capital	33,287	28,857
Tier 2 capital	27,845	26,598
Total regulatory capital	**61,132**	**55,455**
Risk-weighted assets	137,888	144,934
Capital adequacy ratio	**37,8%**	**38,3%**

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument can be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than forced sale or liquidation. The best evidence of the fair value is the quotation of financial instruments in an active market. As there is no active market for the main part of the financial instruments of the Bank, their fair value is determined based on the current market situation and specific risk attributable to the specific instrument. The estimates presented herein are not necessarily indicative in the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The following table below provide the analysis of financial instruments presented at fair value by the level of the hierarchy of sources of fair value:

31.12.2018	Quotes in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets measured at fair value through profit or loss	-	7	-	7
Financial assets measured at fair value through other comprehensive income	-	34	-	34

31.12.2017	Quotes in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets measured at fair value through profit or loss	-	-	-	-
Financial assets measured at fair value through other comprehensive income	-	570	-	570

Financial instruments recognized at fair value

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

The Bank classified the acquired securities as financial assets available for sale and, upon initial recognition, measured them at the acquisition cost.

In order to reduce the currency and interest rate risks of the bank portfolio, as well as to promptly manage liquidity of the Bank in foreign currency, the financial committee decided to record these securities at fair value.

At the same time, in the absence of an active securities market, the Bank applied the present value on the day of the valuation (revaluation) as the fair value of debt securities circulating on the domestic exchange and/or over-the-counter markets. The allowance for securities measured at fair value was not created.

The table below presents the fair value of the Bank's financial instruments. The table does not include the fair values of non-financial assets and non-financial liabilities:

	Book value as at 31.12.2018	Fair value as at 31.12.2018	Book value as at 31.12.2017	Fair value as at 31.12.2017
Financial assets				
Cash and cash equivalents	40,653	40,653	27,230	27,230
Precious metals and gemstones	-	-	30	30
Due from banks	2,800	2,800	2,070	2,070
Loans to customers	113,736	111,414	98,066	99,400
Financial assets measured at amortized cost	-	-	6,180	6,252
Other financial assets	401	401	944	944
Total financial assets	**157,590**	**155,268**	**134,520**	**135,926**
Financial liabilities				
Due to banks	7	7	9,539	9,539
Due to customers	106,922	106,922	80,980	80,980
Debt securities issued	9,748	9,748	6,231	6,231
Finance lease debt	137	137	238	238
Subordinated loans	14,696	14,696	16,132	16,132
Other financial liabilities	785	785	570	570
Total financial liabilities	**132,295**	**132,295**	**113,690**	**113,690**

Due from banks. The fair value of funds placed at floating interest rates is equal to their value in the statement of financial position. The estimated fair value of funds places at fixed interest rates is based on the calculation of discounted cash flows by applying interest rates on the monetary market for the financial instruments with similar credit risk level and maturity. The Bank Management believes that the fair value of amounts due from banks as at 31 December 2018 and 31 December 2017 did not significantly differ from their value in the statement of financial position.

This fact is evidenced by the short-term nature of influences and the existing practice to review interest rates to reflect current market conditions. As a result interest on a major part of balances is accrued at rates which approximate market interest rates.

Loans to customers Loans to customers are recorded less allowance for impairment. The estimated fair value of loans to customers represents the discounted estimated cash flows. In order to determine the fair value, estimated cash flows are discounted at current interest rates.

Financial assets measured at amortized cost The estimated fair value of financial assets held to maturity is based on calculations of discounted cash flows using interest rates at the reporting date in the monetary market for instruments with a similar credit risk level and maturity.

39. ANALYSIS OF MATURITIES OF ASSETS AND LIABILITIES

The table below presents assets and liabilities by expected maturities:

	2018			2017		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Assets						
Cash and cash equivalents	40,653	-	40,653	27,230	-	27,230
Precious metals and gemstones	-	-	-	30	-	30
Due from banks	1,331	1,469	2,800	1,257	813	2,070
Loans to customers	51,583	62,153	113,736	38,364	59,702	98,066
Financial assets measured at amortized cost	-	-	-	6,180	-	6,180
Financial assets measured at fair value through profit or loss	7	-	7	-	-	-
Financial assets measured at fair value through other comprehensive income	-	34	34	-	570	570
Investment property	-	235	235	-	3,441	3,441
Property and equipment and intangible assets	-	14,574	14,574	-	11,734	11,734
Other assets	2,742	-	2,742	4,386	-	4,386
Total assets	96,316	78,465	174,781	77,447	76,260	153,707
Liabilities						
Due to banks	7	-	7	9,539	-	9,539
Due to customers	80,421	26,501	106,922	39,803	41,177	80,980
Debt securities issued	8,142	1,606	9,748	6,231	-	6,231
Finance lease debt	137	-	137	-	238	238
Subordinated loans	-	14,696	14,696	-	16,132	16,132
Other liabilities	1,445	-	1,445	1,510	-	1,510
Total liabilities	90,152	42,803	132,955	57,083	57,547	114,630
Net long balance sheet position	6,164	35,662	41,826	20,364	18,713	39,077

Information on the contractual undiscounted liabilities of the Bank before maturity is disclosed in Note 36 "Risk Management".

40. RELATED PARTIES TRANSACTIONS

In the ordinary course of business the Bank carries out transactions with its shareholders, management of the Bank and other related parties. These transactions include settlements, lending, raising of deposits, financing of trade and foreign currency transactions. Based on the Bank's policy all transactions with related parties are carried out on the same terms as those with third parties.

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

	31 December 2018	31 December 2017
Loans to customers	10,611	8,355
Allowance for impairment on loans to customers	(294)	(408)
Total	**10,317**	**7,947**

As at 31 December 2018 loan liabilities to the Bank are owned by JLLC "Intersportproekt", UE "Technohimtreid", CJSC "Holography Industry".

As collateral under the two loan agreements, the following are presented: pledge of real estate, pledge of property and equipment.

The following are the funds raised from related parties:

	31 December 2018	31 December 2017
Due to customers	19 206	19,026
Subordinated loans	14,696	16,132
Own securities issued	5,946	5,114
Total	**39,848**	**40,272**

The amounts included in the statement of comprehensive income on transactions with related parties were as follows:

	31 December 2018	31 December 2017
Interest income and expenses		
Interest income	252	779
Interest expenses	(596)	(445)
Total	**(344)**	**334**

Remuneration to key management personnel of the Bank for 2018 amounted to 485 thousand rubles (including salary in the amount of 482 thousand rubles, interest on deposits in the amount of3 thousand rubles), remuneration to the members of the Supervisory Board amounted to 173 thousand rubles).

Remuneration to key management personnel of the Bank for 2017 amounted to 385 thousand rubles (including salary in the amount of 383 thousand rubles, interest on deposits in the amount of 2 thousand rubles), remuneration to the members of the Supervisory Board amounted to 164 thousand rubles).

Composition of the controlling party: legal entities – JLLC "Intersportproekt", JV "Saturninfo", Alm Investment FZE; individuals members of the Supervisory Board of the Bank.

	31 December 2018	31 December 2017
Remuneration to key management personnel, Supervisory Board	655	547
Total	**655**	**547**

41. SUBSEQUENT EVENTS

As of the date of approval of these financial statements for issue, the refinancing rate of the National Bank of the Republic of Belarus was 10% (the refinancing rate is set since 27 June 2018). During 2018, the refinancing rate decreased 2 times (on 01 January 2018 it was 11%, since 14 February 2018 - 10.5%, since 27 June 2018 - 10.0%). In 2019, inflation is within the forecast trajectory.

Economic activity continues to recover.

The disinflation influence on the part of demand factors is reduced, primarily due to the outrunning growth of wages over the growth of labor productivity. High inflationary expectations of economic agents remain. Their level exceeds the target for inflation.