Joint Stock Bank of Reconversion and Development

Financial statements in accordance with International Financial Reporting Standards and Independent Auditor's Report
for the year ended 31 December 2018

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Tel.: +375 17 308 74 50
Fax: +375 17 308 74 51
www.bdo.by

BDO LLC
103 Pobediteley ave,
floor 8, office 7
Minsk, Belarus
220020

INDEPENDENT AUDITOR'S REPORT

To the National Bank of the Republic of Belarus, Shareholders,

Board of Directors, Management Board of Joint Stock Bank of Reconversion and Development

Ref. number: 04-05/38/1
Date: 10 May 2019

Opinion

Information about the auditee:

Name: Joint Stock Bank of Reconversion and Development
(abbreviated name of the bank - RDB-Bank)

Location Republic of Belarus, 220034, Minsk, 18 Krasnozvezdnaya str.

Information on the state registration: RDB-Bank was registered by the National Bank of the Republic of Belarus on 22 February 1994, registration No. 37

Payer's identification number: 100361187

We have audited the accompanying financial statements of RDB-Bank (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 RDB-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 RDB-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.

Our responsibilities under those requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the auditee in accordance with the legislation and the ethics standards.

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

BDO LLC is an enterprise established and operating under the legislation of the Republic of Belarus, the member of the international association of independent companies BDO International Limited. The name BDO refers to the companies that are members of BDO International Limited, of British society with the liability limited by the guarantee of the rights of its participants.
BDO is a trademark of the BDO association in general and of each company-participant of the association.

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 and advances to clients, as well as allowance for credit related commitments

Due to the materiality of the allowance for impairment of loans and advances to clients 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 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 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 credit-impaired loans and advances 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 and advances to customers and credit related commitments.

The calculation of estimated credit losses 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.

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 unobservable inputs 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.

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Key audit matters (ending)

Information on the allowance for expected credit losses in respect of loans and advances to customers and credit related commitments is provided in Note 11 "Loans to customers" and Note 34 "Risk management" 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 and advances 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, except for cases where Management intends to liquidate the auditee, to terminate its activities, or where it does not have any viable alternative other than liquidation or termination of activity.

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;

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

- 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.

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 — Natalia Kondratyeva

Auditor-in-charge — Margarita Rassolko

Date of receipt by the auditee: 10 May 2019

Place of issue: Minsk, Republic of Belarus

Date of receipt by the auditee: 10 May 2019

INFORMATION ABOUT THE AUDITOR:

Name:	BDO Limited Liability Company
Location:	8 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

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management of Joint Stock Bank of Reconversion and Development (hereinafter - the "Bank") is responsible for the preparation of financial statements that fairly present in all material respects the financial position of the Bank as at 31 December 2018, as well as its performance, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRSs").

In the preparation of the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with IFRSs is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance;
- Making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and reliable system of internal control throughout the Bank;
- Maintaining accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRSs;
- Maintaining statutory accounting records in compliance with legislation and accounting rules of the Republic of Belarus;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank;
- Preventing and detecting fraud and other irregularities.

The financial statements for the year ended 31 December 2018 are authorized for issue on 10 May 2019 and are signed on behalf of the Management of the Bank.

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Minsk
10 May 2019

Mostyko N.N.
Chief Accountant

STATEMENT OF FINANCIAL POSITION

in thousands of Belarusian rubles

	Notes	31 December 2018	31 December 2017
Assets			
Cash and account balances in the National Bank of the Republic of Belarus	7	36,732	25,356
Derivative financial assets	8	32	19
Due from other banks	9	16,647	5,010
Loans to customers	11	133,188	101,438
Securities measured at fair value through profit or loss	10	14,203	6,924
Securities measured at amortized cost	12	7,264	6,698
Investment property	13	-	10,837
Assets available for sale	16	-	1,745
Property and equipment, intangible assets	14	16,012	14,677
Deferred tax assets	30	2,063	910
Other assets	15	7,109	1,938
Total assets		**233,250**	**175,552**
Liabilities			
Due to other banks	17	2,821	15,054
Due to customers	18	158,947	104,474
Debt securities issued	19	15,223	1,322
Other liabilities	20	2,294	872
Current income tax liability		64	145
Subordinated loans	21	15,251	13,920
Preference shares	22	2,070	1,862
Total liabilities		**196,670**	**137,649**
Equity			
Share capital	23	46,974	46,974
Property and equipment revaluation reserve	14, 30	1	49
Accumulated loss		(10,395)	(9,120)
Total equity		**36,580**	**37,903**
Total liabilities and equity		**233,250**	**175,552**

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Mostyko N.N.
Chief Accountant

Minsk
10 May 2019

The notes on pages 14 to 89 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

in thousands of Belarusian rubles

	Notes	2018	2017
Interest income	24	16,713	15,741
Interest expenses	24	(10,425)	(7,606)
Net interest income		**6,288**	**8,135**
Fee and commission income	25	2,941	2,774
Fee and commission expenses	25	(999)	(792)
Net fee and commission income		**1,942**	**1,982**
Net income from transactions with derivative financial instruments	26	30	143
Net income from foreign exchange operations	27	2,165	1,739
Net income/(expenses) from securities	27	28	(119)
Other income	28	1,158	1,468
Total operating income		**11,611**	**13,348**
Operating expenses	29	(13,109)	(10,097)
Net devaluation of assets received as debt repayment		(31)	(10)
Net recovery / (accrual) of provisions for the impairment of interest bearing financial assets	9, 11	1,444	(750)
Net accrual of allowances for impairment of other financial assets	15	(117)	(121)
Net recovery / (accrual) of allowances for credit related commitments	32	67	(146)
Profit before income tax expense		**(135)**	**2,224**
Income tax expense	30	293	1,451
Net profit for the year		**158**	**3,675**

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Mostyko N.N.
Chief Accountant

Minsk
10 May 2019

The notes on pages 14 to 89 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

in thousands of Belarusian rubles

	Notes	2018	2017
Net profit for the year		**158**	**3,675**
Other comprehensive income			
Other comprehensive income that will not be reclassified to profit or loss in next periods:			
Property and equipment revaluation	14	(64)	-
Income tax related to revaluation of property and equipment	30	16	-
Total other comprehensive income		**(48)**	**-**
Total comprehensive income for the year		**110**	**3,675**

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Mostyko N.N.
Chief Accountant

Minsk
10 May 2019

The notes on pages 14 to 89 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

in thousands of Belarusian rubles

	Notes	Share capital	Additionally paid-in capital	Property and equipment revaluation reserve	Accumulated loss	Total equity
Balance as at 31 December 2016		**46,974**	**3,548**	**49**	**(8,657)**	**41,914**
Net profit for the year		-	-		3,675	3,675
Comprehensive income for the year		**-**	**-**	**-**	**3,675**	**3,675**
Transactions with shareholders, recognized directly in equity						
Effect of closing a subordinated loan received from EBRD	21	-	(3,548)	-	(4,138)	(7,686)
Balance as at 31 December 2017		**46,974**	**-**	**49**	**(9,120)**	**37,903**
Effect of the application of IFRS 9		-	-		(1,433)	(1,433)
Net profit for the year		-	-		158	158
Comprehensive income for the year		**-**	**-**	**-**	**(1,275)**	**(1,275)**
Other comprehensive income						
Property and equipment revaluation		-	-	(48)	-	(48)
Balance as at 31 December 2018		**46,974**	**-**	**1**	**(10,395)**	**36,580**

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Mostyko N.N.
Chief Accountant

Minsk
10 May 2019

The notes on pages 14 to 89 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (DIRECT METHOD)

in thousands of Belarusian rubles

	Notes	2018	2017
Cash flows from / (used in) operating activities			
Interest received		17,271	15,927
Interest paid		(9,791)	(7,636)
Fee and commissions received		2,878	2,722
Fee and commissions paid		(999)	(792)
Income from transactions with derivative financial instruments	26	30	143
Income from foreign currency transactions	27	1,263	1,814
Income received / (expenses paid) on securities measured at amortized cost		28	(119)
(Paid) / received other (expenses) / income		(5,883)	1,294
Operating expenses paid		(11,457)	(9,221)
Income tax (paid) / received		(925)	20
Cash flows from operating activities before changes in operating assets and liabilities		**(7,585)**	**4,152**
Net (increase)/decrease in operating assets:			
Obligatory provisions on accounts in the National Bank of the Republic of Belarus		(1,215)	(580)
Due from other banks		(2,964)	272
Loans to customers		(27,501)	(44,866)
Securities measured at amortized cost		10	65,460
Securities measured at fair value through profit or loss		(6,279)	(6,338)
Other assets		1,937	(489)
Net increase/(decrease) in operating liabilities:			
Due to other banks		(12,797)	10,528
Due to customers		50,572	(16,828)
Other liabilities		1,057	(34)
Net (outflow) / inflow from operating activities		**(4,765)**	**11,277**
Cash flows from / (used in) investment activities			
Acquisition of property and equipment and intangible assets		(218)	(1,768)
Revenue from disposal of property and equipment		51	36
Revenue from disposal of assets available for sale		1,785	689
Revenue from the disposal of investment property		9,297	-
Net inflow from investment activities		**10,915**	**(1,043)**

STATEMENT OF CASH FLOWS (DIRECT METHOD)

in thousands of Belarusian rubles

	Notes	2018	2017
Cash flows from / (used in) financing activities			
Subordinated loans received		-	8,007
Subordinated loans paid		(9)	(8,110)
Placement of debt securities issued		79,030	5,279
Repayment of debt securities issued		(65,651)	(6,962)
Repayment of financial lease debt		(344)	(344)
Net inflow /(outflow) from /(used in) financing activities		**13,026**	**(2,130)**
Effect of changes in foreign exchange rates on cash and cash equivalents		(303)	236
Net increase in cash and cash equivalents		**18,873**	**8,340**
Cash and cash equivalents at the beginning of the year	31	**28,924**	**20,584**
Cash and cash equivalents at the end of the year	31	**47,797**	**28,924**

On behalf of the Management of the Bank:

Drankevich V.V.
Chairman of the Management Board

Mostyko N.N.
Chief Accountant

Minsk
10 May 2019

The notes on pages 14 to 89 form an integral part of these financial statements.

1. General information

Joint Stock Bank of Reconversion and Development (hereinafter — the "Bank") was registered on 22 February 1994 in the form of a joint stock company in accordance with the legislation of the Republic of Belarus. The Bank operates on the basis of the license for banking activity No. 21 issued by the National Bank of the Republic of Belarus on 7 June 2013. The Bank also has a special permit (license) for securities and stock exchange operations No. 02200/5200-1246-1126 dated 29 June 2012, issued by the Ministry of Finance of the Republic of Belarus.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The main activities of the Bank are: providing loans to individuals and legal entities, including individual entrepreneurs; raising resources to deposits from non-banking and banking organizations, legal entities and individuals; management of customer accounts, cash and settlement operations; securities and foreign exchange transactions.

The Bank has a certificate of registration in the state institution Agency of Guaranteed Compensation of Individual Bank Deposits, which guarantees 100% payment of deposits of individuals in case of cancellation of the banking license.

The Bank's registered legal address is Republic of Belarus, 220034 Minsk, 18 Krasnozvezdnaya str.

The average annual number of staff of the Bank in 2018 amounted to 254 people (2017 — 240 people).

The structure of shareholders of the Bank as of 31 December 2018 and 2017 is presented below:

	31 December 2018 % of the total number of ordinary shares	31 December 2017 % of the total number of ordinary shares
LLC "Dikris"	84.50	84.50
Tsybulin V. A.	7.53	7.53
LLC "Speedster-M"	7.25	7.25
Other	0.72	0.72
Total	**100.00**	**100.00**

Detailed information on the share capital of the Bank is provided in Note 23.

Valentin Tsybulin, resident of the Republic of Belarus, is the controlling party of the Bank as at 31 December 2018 and 2017.

2. Basis of preparation of the financial statements

Statement of Compliance

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

General principles of financial reporting

These financial statements have been prepared upon the assumption, that the Bank will continue as a going concern. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on historical experience that short-term liabilities will be refinanced in the normal course of business.

The Bank maintains its accounting in accordance with the requirements of the current legislation of the Republic of Belarus. Financial statements are prepared on the basis of these accounts, with adjustments necessary to align them with IFRSs.

The functional currency and presentation currency of the Bank is the national currency of the Republic of Belarus — the Belarusian ruble.

These financial statements are presented in thousands of Belarusian rubles, unless otherwise specified.

In 2011-2014, the economy of the Republic of Belarus was recognized as hyperinflationary due to the fulfillment of the criteria specified in IAS 29 "Financial Reporting in Hyperinflationary Economies". In accordance with the requirements of the standard, the financial statements of entities whose functional currency is the currency of a country with a hyperinflationary economy were presented in prices reflecting the buying capacity at the end of the reporting period. As at 1 January 2015 the economy of the Republic of Belarus ceased to be considered hyperinflationary, the value of non-monetary assets, liabilities and capital of the Bank, presented in the prices in effect as of 31 December 2014 was used as opening balances as at 1 January 2015.

3. Adoption of new and revised standards and interpretations

The Bank applied IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" 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

In July 2014, the IASB published IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement". The standard introduces new requirements for classification and measurement as well as accounting of impairment and hedging. IFRS 9 came into effect for annual reporting periods beginning on or after 1 January 2018. The requirements of IFRS 9 differ significantly from those of IAS 39. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative information for 2017 is presented in accordance with IAS 39 and is not comparable with the information provided for 2018 and therefore does not reflect the requirements of IFRS 9. The differences arising from the adoption of IFRS 9 were recognized directly in retained earnings as at 1 January 2018.

The business models in which a financial asset is retained were defined on the basis of the facts and circumstances prevailing at the date of initial application.

If a financial asset has a low credit risk on the date of initial application of IFRS 9, the Bank assumes that there has been no significant increase in credit risk on the asset from the moment of its initial recognition.

The following table shows the initial valuation categories in accordance with IAS 39 and the new valuation categories in accordance with IFRS 9 for the Bank's financial assets and liabilities as at 1 January 2018.

	Category of valuation in accordance with IAS 39	Category of valuation in accordance with IFRS 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 account balances in the National Bank of the Republic of Belarus	Loans and receivables	At amortized cost	25,356	-	25,356
Derivative financial assets	FVTPL	FVTPL	19	-	19
Due from other banks	Loans and receivables	At amortized cost	5,010	(22)	4,988
Loans to customers	Loans and receivables	At amortized cost	101,438	(1,537)	99,901
Securities measured at fair value through profit or loss	FVTPL	FVTPL	6,924	-	6,924
Securities measured at amortized cost	Investments held to maturity	At amortized cost	6,698	(64)	6,634
Other financial assets	Loans and receivables	At amortized cost	825	(385)	440
Total financial assets			**146,270**	**(2,008)**	**144,262**
Financial liabilities					
Due to other banks	At amortized cost	At amortized cost	15,054	-	15,054
Due to customers	At amortized cost	At amortized cost	104,474	-	104,474
Debt securities issued	At amortized cost	At amortized cost	1,322	-	1,322
Subordinated loans	At amortized cost	At amortized cost	13,920	-	13,920
Preference shares	At amortized cost	At amortized cost	1,862	-	1,862
Other financial liabilities	At amortized cost	At amortized cost	619	(98)	521
Total financial liabilities			**137,251**	**(98)**	**137,153**

Thus, the table above shows the effect of the transition to IFRS 9 on items of financial assets and liabilities (excluding the tax effect, which in total amounted to 477 thousand rubles).

The table below shows the effect of IFRS 9 on retained earnings as at 1 January 2018.

	Impact of transition to IFRS 9 as at 1 January 2018
Accumulated loss in accordance with IAS 39 (as at 31 December 2017)	(9,120)
Recognition of expected credit losses under IFRS 9 for debt financial assets measured at amortized cost and credit related commitments	(1,433)
Accumulated loss in accordance with IFRS 9 (as at 1 January 2018)	(10,553)

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. In addition, the standard requires to provide detailed disclosures.

The Bank decided to apply IFRS 15 using a modified retrospective method, recognizing the cumulative effect of the transition in retained earnings as at 1 January 2018, without recalculation of comparative information, but this has not had a significant impact on 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 Investments in Associates and Joint Ventures - Clarification that the Decision to Measure Investees at Fair Value through Profit or Loss is an Investment-by-Investment Choice
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 - Elimination of Short-Term Exemptions for First-Time Adopters.

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

New standards, interpretations and amendments not yet effective:

IFRS 16 Leases

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

The lessees will also remeasure the lease liability on occurrence of a certain event (e.g. a change in lease terms or future lease payments resulting from a change in the index or rate used to determine those payments). In most cases, a lessee will account for the amount of the remeasured lease liability as an adjustment 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 a more detailed disclosures as compared with IAS 17.

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

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

IFRS 17 Insurance Contracts

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

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

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

IAS 23 Borrowing Costs - borrowing costs eligible for capitalization

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

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents include cash, balance on accounts in the National Bank of the Republic of Belarus and other credit organizations with original maturity within 90 days which may be freely converted to cash without significant loss in value. Assets with longer maturities at the acquisition date do not become cash equivalents after the remaining period of time to maturity is reduced to 90 days. Amounts for which there are any restrictions on their use are excluded from cash and cash equivalents.

Obligatory provisions on accounts in the National Bank of the Republic of Belarus

Obligatory provisions on accounts in the National Bank of the Republic of Belarus (hereinafter — the "National Bank") are funds deposited in the National Bank and not intended for financing of current operations. Obligatory provisions on accounts in the National Bank are not included in cash and cash equivalents for the purposes of preparing the statement of cash flows.

Financial instruments

Initial 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.

Date of recognition

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:

- asset measured at fair value through profit or loss (FVTPL);
- asset measured at fair value through other comprehensive income (FVTOCI);
- asset 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.

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

Based on the ECL model, 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 recognised as profit or loss and affects the profit or loss on changes in fair value recognised 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

By applying an 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.

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.

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 credit related commitments is past due by more than 90 days on the principal debt or interest, as well as other types of debt (for example, penalty);
- 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

If the terms of a financial asset changes, the Bank assesses whether the cash flows of such modified asset differ significantly. If cash flows differ significantly, the initial financial asset is derecognized and the new financial asset is recognized and classified in accordance with IFRS 9 (including the testing of cash flows using the SPPI test). Factors leading to the derecognition of a financial asset include changes in the currency of a financial asset; change from the fixed interest rate to a floating interest rate and, vice versa, replacement of the debtor (counterparty) under the contract.

Changes in cash flows of existing financial instruments are not considered to be a modification of the terms if they result from the current terms of the contract, for example, changes in interest rates due to changes in the refinancing rate of the National Bank if the relevant loan agreement allows the Bank to change interest rates. Immaterial modifications also include changes in the term of the contract, changes in the frequency of payments of principal and interest.

As part of its credit risk management activities, the Bank revises the terms for loans to customers experiencing financial difficulties in order to maximize the amount of debt repaid and minimize the risk of default.

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 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.

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 expert assessment to evaluate forecast information. This assessment is also based on external information. External information may include economic data and forecasts published by state bodies and monetary regulatory bodies such as the National Bank of the Republic of Belarus, 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.

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.

Fair value of financial instruments

Fair value is the price that can be obtained from the sale of an asset or paid from the transfer of a liability on a voluntary basis on a principal (or the most advantageous) market at the valuation date in the current market conditions. The price in the principal (or most advantageous) market used to measure the fair value of an asset or liability should not be adjusted for transaction costs, as they are not a characteristic of the asset or liability, but reflect the terms of the transaction in respect of the asset or liability.

To estimate fair value, the Bank uses such methods as are appropriate in the circumstances and for which sufficient data are available, while making maximum use of the observable inputs and minimal use of the unobservable inputs.

The Bank estimates the fair value of financial instruments that are actively traded in organized financial markets on the basis of market quotations, and in their absence - according to external independent sources on the price of demand (supply) for similar financial instruments. The market is considered active when transactions with assets and liabilities are carried out on it with a frequency and volume sufficient to obtain information on estimates on an ongoing basis.

To determine the fair value of financial instruments that are not traded in organized financial markets, the following is used: information (if any) on recent market transactions between independent parties informed, interested in such transactions but not under duress, in a position to participate in such transactions, references to present value of financial instruments similar to a significant extent, the discounted cash flow model, the analysis of financial information on investment objects and other methods, if such methods can provide reliable estimation of the fair value of financial instruments. When using the discounted cash flow model, the Bank applies discount ratios calculated on the basis of prevailing market interest rates for financial instruments with similar conditions, including the creditworthiness of the counterparty, the remaining period of the fixed interest rate, the remaining maturity, currency, collateral, etc.

Where it is difficult to apply a method to determine the fair value of a financial instrument, a professional judgment based on liquidity, concentration, market uncertainty, cost assumptions and other factors affecting the financial instrument is applied.

Derivative financial instruments

Derivative financial instruments used by the Bank include forward contracts and foreign currency swaps. The Bank uses derivative financial instruments to manage currency and liquidity risk.

The Bank does not carry out hedging operations and does not classify derivative financial instruments as hedging instruments, as the Bank does not formally define or document the hedging strategy nor does it assess its effectiveness in order to apply special hedge accounting rules.

Derivative financial instruments are initially and subsequently recognized at fair value. Fair value is determined using the discounted cash flow model. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative. The related transaction costs are recognized in the statement of profit or loss in the period in which they were carried out. Positive and negative results on derivative financial instruments in terms of changes in fair value are included in the statement of profit or loss under the item "Net income / (expenses) from transactions with derivative financial instruments".

Due from other banks

In the normal course of business during various periods the Bank places funds and deposits in other banks. The balances of amounts due from other banks are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is based on the fair value of the amount of the loan issued (deposit placed), calculated with interest rates on similar loans and deposits, effective on the date of the issue of the loan (deposit placement). If a loan is granted (deposit placed) at interest rates higher (lower) than market ones, the difference between the fair and nominal value of the loan (deposit) is reflected in the statement of comprehensive income as the effect of initial recognition of financial instruments at fair value. Balances that do not have a fixed maturities are recognized at amortized cost based on expected maturities. Amounts due from other banks are recognized less allowance for impairment.

Loans to customers

Loans to customers are recorded, starting from the moment cash is granted to borrowers, at the initial cost of the cash provided, taking into account the transaction costs (i.e., the fair value of the compensation paid or received). Loans issued at interest rates other than market rates are measured at fair value at the date of issue, which is the future cash flows on the loan discounted under market rates for similar loans. The difference between fair and nominal value of loans is recorded in the statement of profit or loss as an effect from the initial recognition of financial instruments at fair value.

Subsequently, loans to customers are recognized at amortized cost using the effective interest rate method. Loans to customers are recognized less allowance for impairment.

Investments measured at amortized cost

Investments measured at amortized cost include debt securities. The securities are recognized at fair value upon initial recognition and are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is based on the fair value of the securities calculated using market quotations or interest rates for similar financial instruments effectove on the date of conclusion of the relevant transaction on acquisition of securities. The difference between fair and nominal value of securities is recorded in the statement of profit or loss as an effect from the initial recognition of financial instruments at fair value. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's book value and the present value of estimated future cash flows. The book value of the asset is reduced and the amount of the loss is recognized in profit or loss.
Securities measured at amortized cost are recorded less the allowance for impairment.

Financial assets measured at fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income include debt securities. The securities are recorded at fair value upon initial recognition. Subsequently, securities are recorded at fair value, and revaluation is recognized in other comprehensive income until the time of the sale, when profit / (loss) previously recognized in other comprehensive income is recorded in the statement of profit or loss. Interest income is accrued using the effective interest rate method and is recorded directly in the statement of profit or loss. The Bank uses market quotations to determine the fair value of the Bank's financial assets available for sale. These securities are recognized, net of allowance for impairment.

Impairment of financial assets before 1 January 2018

At each reporting date, the Bank assesses the existence of objective signs of impairment of a financial asset or group of financial assets. Impairment losses are recognized in the statement of profit or loss as they are incurred as a result of one or more events ("loss events") that occurred after the initial recognition of a financial asset and affecting the value or timing of estimated future cash flows that relate to a financial asset or a group of financial assets that can be estimated with sufficient reliability. If the Bank does not have objective evidence of impairment for an individually measured financial asset (regardless of its materiality), the asset is included in the group of financial assets with similar credit risk characteristics and are assessed in conjunction with them for impairment.

The following are the main criteria for determining the existence of objective signs of impairment loss:

- delay in any next payment;
- significant financial difficulties of the borrower, confirmed by financial information available to the Bank;
- threat of bankruptcy or other financial reorganization of the borrower;
- negative changes in national or local economic conditions affecting the borrower;
- breach of contract, for example, refusal or evasion of payment of interest or principal amount of debt;
- provision by the creditor of preferential terms for economic or legal reasons related to the borrower's financial difficulties, which the creditor would not accept under other circumstances.

The main criteria used to determine objective signs of impairment on securities are the ability of the issuer of securities to fulfill its obligations to the Bank, as well as information on the issuer's ability to service its own securities, the state of the securities markets and other information.

For the purpose of collective assessment of impairment, financial assets are grouped according to similar characteristics of credit risk. These characteristics relate to the assessment of future cash flows for groups of such assets and demonstrate the ability of debtors to settle all amounts due under contractual terms for the assets measured.

Impairment losses are always recognized by creating an allowance in the amount necessary to reduce the value of the asset recorded in the statement of financial position to the present value of the expected cash flows (which does not include future credit losses that have not yet been incurred) discounted using the initial effective interest rate on this asset. If the loan is granted at a floating interest rate, the discount rate to measure impairment losses will be the current effective interest rate. If in the subsequent period the amount of impairment loss decreases and this decrease can be objectively attributed to an event that occurred after the impairment has been recognized (such as an increase in the credit rating of the borrower), the previously recorded impairment loss is recovered by adjusting the created allowance in the statement of profit or loss.

Where there is objective evidence of impairment of financial assets held for sale, the accumulated loss previously recognized in other comprehensive income is transferred from other comprehensive income and is recognized in the statement of profit or loss for the period. The impairment loss that relates to events after impairment is recovered in the statement of profit or loss for the reporting period.

Assets, which can not be repaid and for which all necessary procedures have been completed for full or partial recovery and the final amount of loss has been determined, are written off due to the formed allowance for impairment. The debt on loans to individuals is written off from the corresponding allowances after it is classified as debt with the maximum credit risk.

Impairment of financial assets from 1 January 2018

The Bank applies the model of expected credit losses for the purpose of reserving financial debt instruments, the key principle of which is timely reflection of deterioration or improvement of credit quality of debt financial instruments, taking into account current and forecast information.

The Bank estimates the expected credit losses on a financial instrument in a way that 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 forecast information on possible future events available at the reporting date without excessive cost or effort.

The Bank recognizes the estimated allowance for expected credit losses on the following financial instruments, which are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- lease receivables;
- issued financial guarantee agreements; and
- issued loan commitments.

At each reporting date, the Bank assesses financial assets at amortized cost and debt financial assets at fair value through other comprehensive income for their credit impairment. A financial asset is "credit-impaired" when one or more events occur that adversely affect the estimated future cash flows of such a financial asset.

Evidence of credit impairment of a financial asset is, in particular, the following observable inputs:

- significant financial difficulties of the borrower or issuer;
- breach of the terms of the contract, such as default or late payment;

- restructuring by the Bank of a loan or advance payment on terms which the Bank would not consider otherwise;
- the probability of bankruptcy or other financial reorganization of the borrower;
- the disappearance of the active market for the security as a result of financial difficulties.

A loan which terms have been revised as a result of the deterioration of the borrower's financial condition is generally considered to be credit-impaired unless there is evidence that the risk of non-receipt of contractual cash flows has decreased significantly and there are no other signs of impairment.

When assessing investments in government bonds (other financial assets), for which the state is the debtor, for credit impairment, the Bank considers the following factors:

- market assessment of business solvency reflected in the bond yield;
- business solvency assessments made by rating agencies;
- the country's ability to access capital markets to issue new debt;
- the likelihood of debt restructuring resulting in loss incurred by holders as a result of voluntary or forced debt release;
- the existence of international support mechanisms to provide such a country with the necessary support as a "lender of last resort", as well as the intention of public authorities and agencies to use these mechanisms expressed in public statements.

Initially impaired assets (POCI assets)

Purchased or originated credit-impaired (POCI) re financial assets that are credit-impaired at the time of initial recognition.

POCI assets include the following assets:

- new financial assets issued by the Bank as part of the restructuring of the credit-impaired asset (replacement of the credit-impaired asset with another asset with a similar degree of credit risk);
- an asset that arose upon derecognition of a financial asset due to a substantial modification of contract terms as part of the restructuring of the credit-impaired financial assets;
- acquired credit-impaired financial assets;

When POCI assets are initially recognised, they do not have an allowance for impairment. Instead, the amount of expected credit losses for the entire period is included in the calculation of the effective interest rate (hereinafter - "EIR").

The expected cash flows are used to calculate EIR on acquired or created credit-impaired financial assets based on the initial estimate of expected credit losses for the entire term. The estimated amount of cash flows provided for by the contract on the asset is reduced by the amount of expected credit losses for the entire term of its validity. The EIR calculated in this way is called the credit risk adjusted EIR.

The initial recognition of POCI assets (typically created assets) determines the fair value of such loans based on cash flows expected to be received by the Bank as a result of receipt of cash flows and/or realization of collateral.
The subsequent assessment of expected credit losses on POCI assets is always made in the amount equal to expected credit losses over the entire term. The amount, in which an estimated allowance for loss for

such assets is recognized, is equal to the sum of the changes in expected credit losses for the entire period from initial recognition of the corresponding asset.

An amount reflecting positive changes in expected credit losses over the entire period is recognized as impairment gain, even if the amount of these changes is greater than the amount which was previously recognised as an impairment loss in profit or loss, if any. Interest on POCI assets is accrued on the EIR adjusted for credit risk determined at the time of initial recognition of the asset at amortized cost.

Presentation of an allowance for expected credit losses in the statement of financial position

The sums of allowance for expected credit losses is presented in the statement of financial position as follows:

- financial assets measured at amortized cost — as a decrease in the gross book value of these assets;
- loan commitments and financial guarantee contracts - in general, as a provision;
- debt instruments measured at fair value through other comprehensive income — an estimated allowance for expected credit losses is not recognised in the statement of financial position because the book value of these assets is their fair value. However, the estimated allowance for expected credit losses is disclosed and recognised as part of the fair value changes reserve.

Loans and debt securities are subject to write-off (in part or in full) when there is no reasonable expectation of repayment. Typically, this is the case where the Bank determines that the borrower has no assets or sources of income that can generate cash flows sufficient to repay the amounts of debt to be written off. In respect of written-off financial assets, the Bank may continue to pursue debt collection activities in accordance with the recovery policy.

Financial liabilities

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

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

When a liability is returned or settled before maturity, the difference between the value repaid and the value recorded in the statement of financial position is recognized directly in the statement of profit or loss.

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 profit or loss 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 profit or loss.

Preference shares

Preference shares are classified as a financial liability because they involve payment of mandatory fixed dividends. Dividends in this case are recognized as interest expenses in the statement of profit or loss as accrued.

Derecognition of financial liabilities

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

Replacement of one existing financial liability (or part thereof) with another liability owed to the same creditor on substantially different terms or substantial changes to the terms of the existing liability is recorded as the repayment of the initial financial liability and recognition of the new financial liability. The resulting difference between the book value of the liabilities is recognized in the statement of profit or loss.

Offsets of financial instruments

Financial assets and financial 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

The Bank classifies as investment property real estate, including the one being constructed or rebuilt for future use as investment property, which is in possession (as the owner or lessee under the financial lease agreement) for the purpose of obtaining lease payments or capital gains, or both, but not for use in the provision of services or administrative purposes and not for sale in the ordinary course of business. Also this item includes real estate objects whose further purpose at the time of recognition or at the reporting date is not clearly defined.

The initial recognition of the investment property is based on the cost of acquisition, including the direct transaction costs. After initial recognition, the Bank measures the investment property at fair value, recording income and expenses from its changes as a separate item in profit or loss in the period in which they arose.

Fair value of investment property is the price that can be obtained upon the sale of an asset when conducting a transaction on a voluntary basis in the main (or most profitable) market as of the valuation date in the current market environment whether such price is directly observable or is calculated using another valuation technique. The best confirmation of fair value is the effective prices in the active market for identical objects of real estate. In the absence of effective prices in the active market for identical objects, the Bank is guided by the prices in the active market for similar objects of real estate, adjusted for existing differences; recent prices of similar real estate in less active markets adjusted for any changes after the transaction date prior to the reporting date; discounted cash flow forecasts.

When transferring assets to investment property from other asset categories, the investment property object is recognized at fair value as at the date of transfer. If the transfer to investment property is made from property and equipment, the difference between the book value of the asset as property and equipment and the fair value of the asset at the date of transfer is recognized as a revaluation of property and equipment. When the asset is disposed, the revaluation amount is transferred to retained earnings. If the transfer to investment property is made from inventories, the difference between the book value of the asset as inventory and the fair value at the date of transfer is recognized as profit or loss for the period. Income from leasing investment property is recorded in the statement of profit or loss in the item "Other income".

Transfer to the category of investment property or exclusion from this category is made only in case of actual change of purpose of real estate object.

Derecognition of investment property objects occurs at their disposal or final withdrawal from operation, when the disposal of the object is not expected to receive economic benefits.

Property and equipment

Property and equipment are recorded at acquisition cost (property and equipment acquired prior to 1 January 2015 — at acquisition cost adjusted to be recorded in monetary units effective as at 31 December 2014), net of accumulated depreciation and allowances for impairment, if any.

The value of property and equipment consists of:

- its purchase price, including import duties and non-refundable purchase taxes, after deduction of trade discounts and refunds;
- any costs directly related to the delivery of the asset to the place and the creation of conditions for use in accordance with Management's intentions;
- initially estimated costs of dismantling and removing the object, restoration of the site where it was located - a liability that the Bank undertakes either when the object is acquired, or as a result of using the object for a certain period not for administrative purposes.

Profit or loss on disposal of property and equipment 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". Repair and maintenance costs are recognized in the statement of profit or loss as operating expenses at the time they arise.

Depreciation of property and equipment starts from the month following the month of its commissioning. Depreciation is accrued using a straight-line method with the following annual depreciation rates:

- buildings and structures — 1.7 — 11%;
- vehicles — 11.11 — 14.29%;
- office and computer equipment — 10 — 20%;
- other property and equipment — 5 — 25%;
- safes and other engineering equipment (included in other property and equipment) — 2 — 3%.

The residual value of an asset is the estimated amount that the Bank would have received at this time had the asset been sold, less the estimated cost of disposal if the condition and age of the asset corresponded to the age and condition that the asset will have at the end of its useful life. The residual value, depreciation method 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 recognised 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, rights of use of land and other intangible assets.

Intangible assets acquired individually are recorded at acquisition cost (intangible assets acquired prior to 1 January 2015 — at acquisition cost adjusted to be recorded in monetary units effective as at 31 December 2014), net of accumulated amortization and accumulated impairment losses.

Intangible assets with limited useful life are amortized over their useful life using a straight-line method. Depending on the type of intangible assets, useful life is:

- software — 2.5 — 10 years;
- licenses — 10 years;
- rights of use of land — 4-39 years;
- other — 2-10 years.

The terms and amortization procedure of intangible assets with a limited useful life, as well as the presence of signs of possible impairment of an intangible asset, are reviewed annually at the end of each reporting year.

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".

Impairment of non-financial assets

At each reporting date, the Bank determines the existence of possible signs of impairment of non-financial assets, with the exception of investment property and deferred tax. If such signs exist, the Bank assesses the recoverable value of the asset.

The recoverable value of an asset is defined as the highest of the value derived from use and the net value of sale. In determining the value derived from use, the expected cash flows are discounted to the value recorded in the statement of financial position using a discount rate (before taxation), which reflects the current market estimates of the value of money over time and the risks inherent in the asset.

For non-financial assets, impairment losses arising in prior periods are reviewed at each reporting date for signs that the loss has decreased or no longer exists. Impairment losses are recovered if there are changes in the estimates used to determine recoverable value. Impairment losses are recovered only to the extent that the value of the asset recorded in the statement of financial position does not exceed the value recorded in the statement of financial position that would have been used to account for the asset less amortization/depreciation had the impairment losses not been recognized.

After recognition of impairment, depreciation of property and equipment and amortization of intangible assets for future periods is adjusted to distribute the revised value of the asset as recorded in the statement of financial provision, less liquidation value (if necessary), on a continuous basis for the remainder of the useful life.

Assets available for sale

Where the value of an asset recorded in the statement of financial position is to be recovered as a result of its sale rather than further use, the asset is classified by the Bank as asset available for sale.

In this case, the asset should be available for immediate sale in its present condition under standard terms of sale of such assets, and the sale should be of a high degree of probability, which is confirmed by a management decision to sell the asset, a sales plan, an active offer of the asset in the market, and a search for buyers. The planned completion period of the transaction should not exceed 1 year from the date of asset classification.

Assets available for sale are estimated at the lowest of 2 values: its value recorded in the statement of financial position and fair value less costs of sale. Impairment losses identified upon the initial classification into assets available for sale are recognized as profit or loss for the reporting period.

In estimating fair value, the Bank is guided by the data on current prices in the active market for identical assets and, in its absence, by the prices in the active market for similar real estate objects, adjusted for existing differences; recent prices of similar assets adjusted for any changes after the transaction date prior to the reporting date; discounted cash flow forecasts.

Depreciation is not charged for assets available for sale.

If an asset available for sale is reclassified as an asset intended for use, it is estimated at the lowest of 2 values: the value of the asset recorded in the statement of financial position before it was classified as available for sale, adjusted for any depreciation and impairment losses that would have been recognized if the asset had not been classified as available for sale and its recoverable value as at the date of the decision to refuse sale.

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 loan. 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 (on assets received prior to 1 January 2015 - cost adjusted to record it in cash units in effect as at 31 December 2014) and net sales price. 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 realisable 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.

Operating lease - Bank as lessee

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

Operating lease – Bank as lessor

The Bank records and depreciates the assets that are subject to operating leases as well as other assets similar in use and functions performed. Lease income is recognized evenly over the lease term in the statement of profit or loss in the item "Other income".

Financial lease - Bank as lessee

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.

In a financial lease, when the Bank acts as a lessee, the assets received for the lease are recorded similarly to its own on the date of commencement of the lease term at the lowest of the values: the discounted value of the minimum lease payments or the fair value of the leased property. 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. The depreciation policy for these assets corresponds to the one applied to similar assets owned by the Bank. Depreciation is accrued during the shortest period: the expected useful life of the asset or the lease term, unless there is reasonable assurance that the Bank will take ownership of the asset at the end of the lease term.

Lease liabilities, net of deferred expenses, are recorded in other financial liabilities of the Bank, lease financial expenses — in interest expenses. Lease payments are partially referred to the repayment of the liability and partially to interest expenses in order to ensure a constant interest rate on the balance of the financial lease.

Share capital

Common shares are classified as capital. Costs directly related to the issuance of common shares are recognized as capital reduction, less tax effect.

Share capital is recorded at initial cost (contributions to share capital up to 1 January 2015 — at initial cost adjusted to reflect it in monetary units in effect as at 31 December 2014).

When share fund classified as capital is redeemed, the amount to be paid, which includes direct costs, less the effect of taxation, is deducted from the capital. The purchased shares are classified as own and deducted from the total capital. When own redeemed shares are sold or reissued, the resulting amount is classified as an increase in capital, and the resulting difference is attributable to retained earnings or subtracted from it.

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. However, the likely amount of losses is less than the total amount of unused liabilities, as most of the loan liabilities are due to customer compliance with certain creditworthiness standards.

If the counterparty has a current balance sheet debt, the assessment of the allowances for expected credit losses for credit related commitments is carried out in accordance with the approaches applied to reservation of the balance debt of this counterparty taking into account the credit conversion ratio. If the counterparty has only credit related commitments, the assessment of the estimated allowances for credit losses is carried out depending on the volume of the liability, taking into account the credit conversion ratio, individually or collectively.

Credit related commitments are initially recorded at fair value supported by the amount of commissions received. At each reporting date, liabilities are estimated at the highest of the two values: the unamortized amount of the initial recognition (commission received) or the amount recorded as an allowance. In cases where commissions are accrued periodically in respect of an unrealized liability, they are recognized as revenue for the duration of the relevant liability.

Provisions, contingent liabilities and assets

Provisions are recognized in the financial statements when the Bank has liabilities (legal or constructive) arising from past events. At the same time, there is a high probability that the Bank will require an outflow of economic resources to fulfill these liabilities, and the amount of the liabilities can be reliably estimated.

Provisions are recognized as the best current cost estimate, taking into account the time value of money and, if necessary, the risks inherent in this liability. Provisions are revalued at each reporting date to determine the best estimate of the amount in which the liability will be settled because of changes in the amount or timing of an outflow of resources or a change in the discount rate. Where discounting is applied, the increase in the value of the provision over time is recognized as interest expenses.

A contingent liability is a possible event arising from past events, the existence of which will be confirmed only after the occurrence or non-occurrence of uncertain future events that are not fully under the control of the Bank; or a current liability arising prior to the reporting date and not recognized due to a low probability of disposal of resources that constitute an economic benefit, and it is impossible to assess it in a reliable manner.

A contingent asset is a possible asset arising from past events, the existence of which will be confirmed only after the occurrence or non-occurrence of uncertain future events, which are not fully under the control of the Bank.

The Bank does not recognize contingent assets and contingent liabilities in its financial statements as their existence depends on conditions beyond the control of the Bank.

Contingent liabilities are disclosed in the financial statements, unless the probability of disposals of resources containing economic benefits under contingent liabilities is very low (remote). Contingent assets are to be disclosed when the flow of economic benefits associated with contingent assets is more likely than not.

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.

Taxation

Income tax expenses are recorded in the financial statements in accordance with the requirements of the current legislation of the Republic of Belarus. Income tax expenses include current tax payments and deferred taxes.

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

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 tax benefits, the Bank has certain permanent tax differences. In 2018 and 2017, the Bank applied the following tax benefits provided by the legislation:

- exemption from taxation of income from transactions with government securities, bonds of the National Bank, bonds of other legal entities;

- investment deduction for newly acquired property and equipment, investments in their reconstruction and modernization;
- exemption from taxation of profits aimed at supporting state sports clubs.

Deferred tax is based on the balance sheet method of accounting and constitutes income tax claims or liabilities accrued on the difference between the value of assets and liabilities, as recorded in the statement of financial position and the relevant tax accounting data used to calculate taxable profits.

A deferred tax liability is usually recorded in respect of all temporary differences that increase taxable profits, while a deferred tax asset is recorded in the likelihood of a future taxable profit to realize appropriate temporary differences that reduce taxation.

The value of a deferred tax asset 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 sufficient to recover the asset will be received.

Deferred tax is calculated at the rate expected to be applied during the maturity period of the liability or the disposal of the asset. Deferred tax is recognized in the statement of profit or loss unless it is related to items directly attributable to other comprehensive income, in which case the deferred tax also is recorded in other comprehensive income.

Expenses for taxes other than income tax applied to the 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, the 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, transaction costs, and all other premiums or discounts. Transaction costs are additional costs that are directly related to the acquisition, issuance or disposal of a financial asset or liability.

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. Significant amounts of proceeds from debts written off during the reporting period from established allowances are recorded as the restoration of the allowance for impairment of related financial assets.

Commission income that is not part of the effective interest rate is recognized on an accrual basis as the service is delivered. Commission income for the organization of transactions for third parties is recognised upon completion of the transaction. Income for management and consultancy services is recorded in accordance with the terms of service provision agreements. For services provided over a long period of time or on an on-going basis, commission income is recorded in proportion to the volume of services provided during the reporting period.

Other income is recognized in the statement of profit or loss as the relevant transactions are completed.

Fines (penalties) received by the Bank for non-performance or improper performance of agreements (including credit ones) by counterparties are classified as other income, as this type of income is random, irregular, and constitutes a measure of liability of the parties to the agreement the payment of which is provided for by law and is independent of whether or not it is determined by the relevant agreement.

Foreign currency transactions

Transactions in foreign currencies are initially recorded in the functional currency, converted at the exchange rate of the National Bank at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date.

Non-monetary assets and liabilities, measured at actual cost in foreign currency, are translated at the exchange rate of the National Bank effective on the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency, which are measured at fair value, are translated into Belarusian rubles at the rate of the National Bank as of the date of determination of fair value.

Profit and loss resulting from the translation of foreign currency transactions are recognized in the statement of profit or loss under the item "Net income/(expenses) from foreign currency transactions".

The table below presents the exchange rates of the Belarusian ruble in relation to the main currencies used by the Bank in its operating activities:

Reporting date	US dollar ("USD") / Belarusian ruble ("BYN")	Euro ("EUR") / Belarusian ruble ("BYN")	100 Russian rubles ("RUB") / Belarusian ruble ("BYN")
31 December 2017	1.9727	2.3553	3.4279
31 December 2018	2.1598	2.4734	3.1128

Determination and presentation of operating segments

The Bank determines operating segments and discloses information about them based on internal information provided to the Management Board of the Bank, which adopts key management decisions. Operating segments are defined and disclosed in accordance with IFRS 8 "Operating Segments".

An operating segment is a component that constitutes an operational activity that involves income and expenses and for which financial information regularly assessed by the highest management personnel responsible for making operational decisions in resource allocation and analyzing financial performance is available.

Operations not allocated to segments are general and are disclosed under item "Other/not allocated" to ensure consistent recording in the Bank's financial statements of the activities of segments with the activities of the Bank as a whole.

For segment reporting purposes, interest income and expenses are determined directly on the basis of the actual performance of the segment. The Bank does not use transfer pricing to allocate funds between segments.

Income from foreign currency transactions in terms of income from revaluation of assets and liabilities is not allocated to segments. The Bank does not allocate losses on net monetary position and income tax expenses between segments.

5. Critical accounting estimates and assumptions in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts and the book value of assets and liabilities in the following financial year. Estimates and assumptions are continuously reviewed on the basis of management experience and other factors, including expectations for future events, which management believes are justified in the light of current circumstances. In applying accounting policies, management also uses professional judgments and assessments. Below are presented the professional judgments that have the most significant impact on the amounts reported in the financial statements and the estimates that may result in significant adjustments to the book value of assets and liabilities in the following financial year.

Allowance for impairment of loans to customers

Allowance for impairment of loans to customers assessed for impairment individually is based on the best estimates made by the Bank's management regarding the present value of cash flows that the Bank expects to get. In assessing cash flows, management makes a judgement as to the financial position of the counterparty and the net realizable value of the collateral involved. The calculation of the discounted value of the expected cash flows of the secured financial asset reflects the cash flows that may arise as a result of the creditor's possession of the property of the debtor, less the cost of obtaining and selling the collateral.

The value of the estimated allowance for expected credit losses is defined as the difference between the gross book value before the deduction of the estimated allowance for expected credit losses at the valuation date and the book value less the estimated allowance for expected credit losses on the loan.

Estimation of expected losses in the individual approach to reservation takes into account the time value of money, as well as corroborated information about past, current and forecast future economic conditions. To estimate the book value less the estimated allowance for expected credit losses, the discounted cash flow method is used, based on the expected future payments of the loan using an effective interest rate as a discount rate. The estimated allowance for expected credit losses is based on the estimate of average weighted expected credit losses in the scenarios under consideration.

The allowance for impairment of loans assessed for impairment on a group basis is based on available information indicating a determined decrease in estimated future cash flows for the group of loans. The basic principle of grouping loans to determine the probability of default for reservation purposes implies that debt financial instruments with a similar risk profile should be classified as one portfolio with a similar level of risk. Future cash flows in the credit group, which are collectively assessed for impairment, are determined on the basis of contractual cash flows associated with the assets and on the basis of the statistics available to the management on the amount of overdue debts that will arise as a result of the events of loss (which is not necessarily an indicator of future losses), as well as on the success of repayment of overdue debts. Statistics for the previous years are adjusted on the basis of current observable and forecast data. In case of collective assessment of impairment of loans to individuals based on historical information on the fulfillment of obligations by borrowers, maturity dates, losses received, the Bank does not accept in calculation the collateral taken on these loans.

The methodology and assumptions used to estimate future cash flows are regularly reviewed to reduce the discrepancies between loss estimates and actual results.

An increase or decrease in the discrepancy between actual and estimated losses from impairment of loans to customers by 10% will lead to an increase or decrease in the amount of 4,496 thousand Belarusian rubles in 2018 and 4,852 thousand Belarusian rubles in 2017.

Fair value of investment property

The fair value of real estate objects classified as investment property in 2018 and 2017 was assessed by the Bank independently by the market method (by comparison of sales) on the basis of open source data on active market prices of similar real estate objects adjusted for differences; recent prices of similar real estate objects for less active markets adjusted for any changes after the transaction date before the reporting date.

The assumptions used to determine the fair value of investment property are provided in Note 35. In management's opinion, the actual proceeds from the sale or use of investment property may differ from the value recorded in the statement of financial position.

Recognition of a deferred tax asset

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.

Initial recognition of related parties transactions

In the normal course of business, the Bank carries out operations with related parties. Financial instruments are initially recognized at fair value. In the absence of an active market, professional judgment is used to determine whether operations have been carried out at market or non-market interest rates. The basis for the judgment is the pricing of similar types of operations with unrelated parties and the analysis of the effective interest rate. All operations with related parties are carried out on terms similar to those for operations with independent parties. The terms for operations with related parties are presented in Note 37.

6. Business environment

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 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 3.2417 rubles per 100 Russian rubles; against the US dollar — 2.0402 rubles for 1 US dollar, against Euro — 2.4008 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 (in comparison with 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.

7. Cash and account balances in the National Bank of the Republic of Belarus

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Cash balances with the National Bank of the Republic of Belarus	27,718	21,337
Cash	9,014	4,019
Total cash and account balances in the National Bank of the Republic of Belarus	**36,732**	**25,356**

The maximum credit risk on cash balances with the National Bank of the Republic of Belarus is equal to their value as recorded in the statement of financial position.

Information on cash and cash equivalents is provided in Note 31.

8. Derivative financial instruments

As at 31 December 2018, derivative financial instruments are presented as follows:

in thousands of Belarusian rubles	Nominal value		Fair value	
	Purchased currency	Amount of purchased currency	Assets	Liabilities
Swap transactions with foreign currency				
USD/EUR	USD	8,179	17	-
RUB/EUR	RUB	4,715	15	-
Total derivative financial instruments		**12,894**	**32**	-

As at 31 December 2017, derivative financial instruments are presented as follows:

in thousands of Belarusian rubles	Nominal value		Fair value	
	Purchased currency	Amount of purchased currency	Assets	Liabilities
Swap transactions with foreign currency				
RUB/USD	RUB	5,792	12	-
USD/EUR	USD	4,930	7	-
Total derivative financial instruments		**10,722**	**19**	-

The presence of these derivative financial instruments leads to the Bank's credit risk. The maximum credit risk of an asset arising from its valuation at the fair value of a derivative is equal to its value recorded in the statement of financial position.

As at 31 December 2018, derivative financial assets are represented by transactions with TRANSKAPITALBANK, which does not have a rating assigned by the international rating agency Fitch Ratings.

As at 31 December 2017, derivative financial assets are represented by transactions with PJSC "Asian-Pacific Bank" which has been assigned a "CCC" rating by the international rating agency Fitch Ratings. and TRANSKAPITALBANK, which does not have a rating assigned by the international rating agency Fitch Ratings.

9. Due from other banks

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Nostro accounts	13,270	4,519
Deposits placed in other banks as fulfillment of obligations	698	491
Loans granted to banks under reverse repurchase agreements	2,784	-
Total due from other banks	**16,752**	**5,010**
Allowance for impairment	(105)	-
Total due from other banks less allowance for impairment	**16,647**	**5,010**

As at 31 December 2018, deposits placed in other banks as fulfillment of obligations were guarantee deposits for operations with payment cards and a contribution to the guarantee fund of the foreign exchange market JSC "Belarusian Currency and Stock Exchange". As at 31 December 2017, deposits placed in other banks as fulfillment of obligations were guarantee deposits for operations with payment cards.

(a) Credit quality of amounts due from other banks

Analysis of the credit quality of amounts due from other banks, some of which are classified according to the current credit ratings assigned by the international rating agency Fitch Ratings, as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	Nostro accounts	Deposits placed in other banks as fulfillment of obligations	Loans granted to other banks under reverse repurchase agreements	Total
BB+	432	-	-	432
B	6,191	598	2,784	9,573
BB-	12	-	-	12
No rating	6,635	100	-	6,735
Total due from other banks	**13,270**	**698**	**2,784**	**16,752**
Allowance for impairment	(39)	(13)	(53)	(105)
Total due from other banks less allowance for impairment	**13,231**	**685**	**2,731**	**16,647**

The analysis of the credit quality of amounts due from other banks in accordance with the classification using the ECL model as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total
Nostro accounts	13,270	-	-	13,270
Deposits placed in other banks as fulfillment of obligations	698	-	-	698
Loans granted to banks under reverse repurchase agreements	2,784	-	-	2,784
Total due from other banks	**16,752**			**16,752**
Allowance for impairment	(105)	-	-	(105)
Total due from other banks less allowance for impairment	**16,647**	-	-	**16,647**

Analysis of credit quality of amounts due from other banks as at 31 December 2017 is presented in the following table:

in thousands of Belarusian rubles	Nostro accounts	Deposits placed in other banks as fulfillment of obligations	Total
BB+	68	-	68
B	7	-	7
B-	2,821	491	3,312
CCC	16		16
No rating	1,607	-	1,607
Total due from other banks	**4,519**	**491**	**5,010**
Allowance for impairment	-	-	-
Total due from other banks less allowance for impairment	**4,519**	**491**	**5,010**

As at 31 December 2018 and 2017, amounts due from other banks without a rating are represented by resources placed in Belarusian banks and non-resident banks with a good reputation.

(b) Movement of the allowance for impairment of amounts due from other banks

The movement of the allowance for impairment of amounts due from other banks in 2018 and 2017 is presented below (the comparative period is presented in accordance with IAS 39):

	2018				2017
in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total	Total
Balance as at 1 January	-	-	-	-	-
Effect of the application of IFRS 9	22	-	-	22	-
Accrued for the year	131	-	-	131	-
Write-off	(48)	-	-	(48)	-
Balance as at 31 December	**105**	-	-	**105**	-

(c) Concentration of amounts due from banks

As at 31 December 2018 the Bank had balances of one bank exceeding 10% of the Bank's equity. The total amount as at 31 December 2018 was 5,024 thousand rubles. As at 31 December 2017, the Bank had no significant concentration of amounts due from other banks.

(d) Maximum exposure to credit risk

The maximum credit risk on amounts due from other banks is equal to their net value, as recorded in the statement of financial position.

10. Securities measured at fair value through profit or loss

As at 31 December 2018, securities measured at fair value through profit or loss are represented by bonds of the National Bank of the Republic of Belarus denominated in US dollars with a maturity range from July to November 2019 and an interest rate ranging from 3.8368 to 3.8961% per annum.

As at 31 December 2017, securities measured at fair value through profit or loss are represented by bonds of the National Bank of the Republic of Belarus denominated in US dollars with a maturity in December 2018 and an interest rate of 2.6294% per annum.

The maximum credit risk on securities measured at fair value through profit or loss is equal to their value recorded in the statement of financial position.

11. Loans to customers

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Loans to corporate clients	101,744	76,584
Loans to individuals	37,183	30,485
Total loans to customers	**138,927**	**107,069**
Allowance for impairment	(5,739)	(5,631)
Total loans to customers less allowance for impairment	**133,188**	**101,438**

(a) Quality of loans to customers

The analysis of the credit portfolio in accordance with the classification using the ECL model as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total
Loans to corporate clients	19,386	82,358	-	101,744
Allowance for impairment	(733)	(2,705)	-	(3,438)
Loans to corporate clients less allowance for impairment	**18,653**	**79,653**	**-**	**98,306**
Loans to individuals	8,783	28,400	-	37,183
Allowance for impairment	(348)	(1,953)	-	(2,301)
Loans to individuals less allowance for impairment	**8,435**	**26,447**	**-**	**34,882**
Total loans to customers	**27,088**	**106,100**	**-**	**133,188**

The analysis of the loan portfolio quality as of 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	Loans to corporate clients	Loans to individuals	Total
Unexpired and not individually impaired loans			
Standard	6,925	32,079	39,004
Watch	3,509	570	4,079
Substandard	3	722	725
Doubtful	103	520	623
Loss	114	415	529
Total unexpired and not individually impaired loans	**10,654**	**34,306**	**44,960**
Individually impaired loans			
Unexpired	85,533	2,745	88,278
Overdue less than 1 month	5,557	57	5,614
Overdue from 1 to 3 months	-	25	25
Overdue from 3 to 6 months	-	50	50
Total individually impaired loans	**91,090**	**2,877**	**93,967**
Total loans to customers	**101,744**	**37,183**	**138,927**
Allowance for impairment	(3,438)	(2,301)	(5,739)
Total loans to customers less estimated allowance for losses	**98,306**	**34,882**	**133,188**

The analysis of the loan portfolio quality as of 31 December 2017 is presented in the following table:

in thousands of Belarusian rubles	Loans to corporate clients	Loans to individuals	Total
Unexpired and not individually impaired loans			
Newly issued loans	8,349	4,211	12,560
Standard	11,097	22,039	33,136
Watch	13,806	362	14,168
Substandard	-	154	154
Doubtful	254	179	433
Loss	67	563	630
Total unexpired and not individually impaired loans	**33,573**	**27,508**	**61,081**
Individually impaired loans			
Unexpired	43,011	2,865	45,876
Overdue less than 1 month	-	74	74
Overdue from 1 to 3 months	-	38	38
Total individually impaired loans	**43,011**	**2,977**	**45,988**
Total loans to customers	**76,584**	**30,485**	**107,069**
Allowance for impairment	(4,483)	(1,148)	(5,631)
Total loans to customers less estimated allowance for losses	**72,101**	**29,337**	**101,438**

In assessing the quality of the loan portfolio, the Bank uses classification of loans to customers into five risk groups. In classifying loans to corporate customers to a certain credit risk group, such criteria as debt servicing, financial indicators, and other analytical information are taken into account. Payment discipline is a fundamental factor in classifying loans to individuals.

The Standard risk group includes loans to borrowers with a stable financial position who are able to pay their obligations on time and in full. Watch group includes loans to borrowers with a slight deterioration of the financial situation, or allowing for some short periods of overdue debt. Substandard group includes loans to borrowers with a certain degree of risk, but able to fulfill their obligations independently. Doubtful group includes troubled borrowers with increased risk of non-repayment of debts. Loss group includes borrowers with unsatisfactory financial condition, with a high risk of non-repayment of debts.

(b) Movement of allowance for impairment of loans to customers

The movement of allowance for impairment of loans to customers for the year ended 31 December 2018 is as follows:

in thousands of Belarusian rubles	**12-month period of loss**	**Period of loss for the whole term — not impaired**	**Period of loss for the whole term — impaired**	**Total**
Loans to corporate clients				
Allowance for impairment as at 1 January	**334**	**4,149**	**-**	**4,483**
Effect of the application of IFRS 9	55	677	-	732
Decrease for the year	478	(2,281)	-	(1,803)
Write-off	(161)	-	-	(161)
Recovery from previous years	27	160	-	187
Allowance for impairment as at 31 December	**733**	**2,705**	**-**	**3,438**
Loans to individuals				
Allowance for impairment as at 1 January	**149**	**999**	**-**	**1,148**
Effect of the application of IFRS 9	-	805	-	805
Accrued for the year	88	134	-	222
Write-off	(31)	(789)	-	(820)
Recovery from previous years	142	804	-	946
Allowance for impairment as at 31 December	**348**	**1,953**	**-**	**2,301**
Total allowance for impairment as at 31 December	**1,081**	**4,658**	**-**	**5,739**

The movement of the allowance for impairment of loans to customers for the year ended 31 December 2017 is presented as follows (the comparative period data is presented in accordance with IAS 39):

in thousands of Belarusian rubles	Loans to corporate clients	Loans to individuals	Total
Allowance for impairment as at 1 January 2017	**1,696**	**1,238**	**2,934**
Accrual / (recovery) for the year	977	(227)	750
Write-off	(73)	(869)	(942)
Recovery from previous years	1,883	1,006	2,889
Allowance for impairment as at 31 December 2017	**4,483**	**1,148**	**5,631**

(c) Financial effect of withheld collateral on loans to customers

Collateral on loans allows the Bank to minimize its credit risks. The tables below provide an analysis of loans to customers by type of collateral. The below amounts represent the value of the loans reflected in the statement of financial position and not the fair value of the collateral. Other collateral is mainly equipment, transport and goods in circulation. The financial effect of withheld collateral is represented by the amount of allowances for impairment, taking into account the accepted collateral and the estimated amount of allowances for impairment less collateral.

Analysis of loans to customers by type of collateral as at 31 December 2018:

in thousands of Belarusian rubles	Loan amount	Allowance for impairment	Estimated allowance for impairment less collateral
Loans to corporate clients			
Real estate	38,133	1,557	3,591
Guarantees	32,595	1,041	1,413
Other collateral	26,259	514	901
Guarantee deposit of money	871	4	43
Insurance of the risk of non-repayment of the loan	73	-	-
Unsecured loans	3,813	322	305
Total loans to corporate customers	**101,744**	**3,438**	**6,253**
Loans to individuals			
Guarantees	1,508	124	118
Other collateral	7,384	289	214
Unsecured loans	28,291	1,888	1,835
Total loans to individuals	**37,183**	**2,301**	**2,167**
Total loans to customers	**138,927**	**5,739**	**8,420**

Analysis of loans to customers by type of collateral as at 31 December 2017:

in thousands of Belarusian rubles	Loan amount	Allowance for impairment	Estimated allowance for impairment less collateral
Loans to corporate clients			
Real estate	33,707	2,944	7,301
Guarantees	27,469	1,023	2,786
Other collateral	11,419	332	854
Guarantee deposit of money	1,858	-	-
Unsecured loans	2,131	184	180
Total loans to corporate customers	**76,584**	**4,483**	**11,121**
Loans to individuals			
Guarantees	2,438	85	85
Other collateral	10,888	255	281
Unsecured loans	17,159	808	808
Total loans to individuals	**30,485**	**1,148**	**1,174**
Total loans to customers	**107,069**	**5,631**	**12,295**

Minor financial effect of withheld collateral on loans to individuals is due to the fact that in calculating the allowance for impairment of loans to individuals the accepted collateral, if any, is taken into account only for individually impaired loans (Note 5).

(d) Analysis of loans to customers by economic sectors

Below is an analysis of loans to customers by economic sectors as at 31 December 2018 and 2017:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Individuals	37,183	30,485
Trade	44,327	24,220
Operations with real estate	27,040	27,425
Leasing	14,964	9,139
Industry and other material production activities	5,798	6,989
Agriculture and food processing	1,264	828
Vehicles	992	2,570
Construction	484	41
Other	6,875	5,372
Total loans to customers	**138,927**	**107,069**
Allowance for impairment	(5,739)	(5,631)
Total loans to customers less estimated allowance for losses	**133,188**	**101,438**

(e) Significant credit exposures

As at 31 December 2018, the Bank had seven borrowers with the amount of debt exceeding 10% of the Bank's equity. The total amount of loans to these borrowers as of 31 December 2018 amounted to 36,754 thousand rubles.

As at 31 December 2017, the Bank had four borrowers with the amount of debt exceeding 10% of the Bank's equity. The total amount of loans to these borrowers as of 31 December 2017 amounted to 22,414 thousand rubles.

(f) Maximum exposure to credit risk

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

12. Securities measured at amortized cost

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Government long-term bonds of the Republic of Belarus	7,334	6,698
Allowance for impairment	(70)	-
Total securities measured at amortized cost	**7,264**	**6,698**

As at 31 December 2018 and 2017, securities measured at amortized cost are represented by state long-term bonds of the Republic of Belarus denominated in US dollars.

The analysis of the securities measured at amortized cost in accordance with the classification using the ECL model as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total
Government long-term bonds of the Republic of Belarus	7,334	-	-	7,334
Allowance for impairment	(70)	-	-	(70)
Total amounts due from other banks less allowance for impairment	**7,264**	**-**	**-**	**7,264**

The movement of the allowance for impairment of securities measured at amortized cost for the years ended 31 December 2018 and 2017, respectively, is presented as follows (data of the comparative period are presented in accordance with IAS 39):

in thousands of Belarusian rubles	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**
Balance as at 1 January	-	-	-	-	-
Effect of the application of IFRS 9	64	-	-	64	-
Accrued for the year	6	-	-	6	-
Balance as at 31 December	**70**	-	-	**70**	-

The maximum credit risk on securities measured at amortized cost is equal to their net value recorded in the statement of financial position.

13. Investment property

in thousands of Belarusian rubles	2018	2017
Balance as at 1 January	**10,837**	**10,818**
Acquisition	-	-
Transfer from property and equipment	-	19
Transfer to property and equipment	(1,660)	-
Sales	(9,177)	-
Balance as at 31 December	-	**10,837**

In 2018, objects worth 1,660 thousand Belarusian rubles were transferred from investment real estate to property and equipment, investment property worth 9,177 thousand Belarusian rubles was sold. The initial recognition of the investment property objects was carried out at the cost of acquisition. In 2017, real estate worth 19 thousand Belarusian rubles which was decided to use for leasing was transferred to investment real estate. The Bank's approaches to estimating the fair value of investment property objects are set out in Note 35.

The table below provides information on the amounts of lease income and direct operating expenses associated with investment property and included in profit or loss for the period:

in thousands of Belarusian rubles	2018	2017
Lease income received from investment property	510	685
Direct operating costs (including repairs and maintenance) related to investment property generating lease income	(350)	(412)
Net profit from investment property	**160**	**273**

The table below provides information on the minimum amounts of future payments for operating leases of investment property, which is not subject to unconditional cancellation, in cases where the Bank acts as a lessor:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Less than 1 year	5	61
Total operating lease payments receivable	**5**	**61**

Most lease agreements are concluded on standard terms, according to which the lessee has the right to terminate the lease agreement early by notifying the Bank about it at least 30 days in advance. Payments receivable on operating lease of real estate which is an object of investment property, which is not subject to cancellation in an unconditional manner, are calculated in accordance with the terms of the lease agreements. The Bank believes that early termination of these agreements is unlikely.

14. Property and equipment, intangible assets

The movement of property and equipment and intangible assets for the year ended 31 December 2018 is presented below:

in thousands of Belarusian rubles	Buildings and structures	Vehicles	Office and computer equipment, other property and equipment	Intangible assets	Capital expenses and investments in intangible assets	Total
Residual value as at 1 January 2018	**11,115**	**212**	**1,310**	**1,227**	**813**	**14,677**
Initial cost						
Balance as at 1 January 2018	12,006	462	3,600	1,603	813	18,484
Acquisition	-	-	-	-	417	417
Transfer between groups	14	-	171	590	(775)	-
Transfer from investment property	1,661	-	-	-	-	1,661
Disposal	(34)	-	(109)	(24)	-	(167)
Balance as at 31 December 2018	**13,647**	**462**	**3,662**	**2,169**	**455**	**20,395**
Accumulated depreciation						
Balance as at 1 January 2018	891	250	2,290	376	-	3,807
Accrued for the year	223	36	299	144	-	702
Accumulated depreciation on disposal	(1)	-	(101)	(24)	-	(126)
Balance as at 31 December 2018	**1,113**	**286**	**2,488**	**496**	**-**	**4,383**
Residual value as at 31 December 2018	**12,534**	**176**	**1,174**	**1,673**	**455**	**16,012**

The movement of property and equipment and intangible assets for the year ended 31 December 2017 is presented below:

in thousands of Belarusian rubles	**Buildings and structures**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Intangible assets**	**Capital expenses and investments in intangible assets**	**Total**
Residual value as at 1 January 2017	**10,516**	**164**	**1,218**	**693**	**1,017**	**13,608**
Initial cost						
Balance as at 1 January 2017	11,311	427	3,287	1,046	1,017	17,088
Acquisition	-	-	-	-	1,782	1,782
Transfer between groups	834	92	372	688	(1,986)	-
Transfer to investment property	(20)	-	-	-	-	(20)
Transfer to assets available for sale	-	-	23	-	-	23
Disposal	(119)	(57)	(82)	(131)	-	(389)
Balance as at 31 December 2017	**12,006**	**462**	**3,600**	**1,603**	**813**	**18,484**
Accumulated depreciation						
Balance as at 1 January 2017	795	263	2,069	353	-	3,480
Accrued for the year	208	41	294	139	-	682
Disposal of accumulated depreciation on transfer to investment property	(1)	-	-	-	-	(1)
Disposal of accumulated depreciation on transfer to assets available for sale	-	-	2	-	-	2
Accumulated depreciation on disposal	(111)	(54)	(75)	(116)	-	(356)
Balance as at 31 December 2017	**891**	**250**	**2,290**	**376**	**-**	**3,807**
Residual value as at 31 December 2017	**11,115**	**212**	**1,310**	**1,227**	**813**	**14,677**

As at 31 December 2018, the Bank had fully depreciated objects of property and equipment in the amount of 1,913 thousand Belarusian rubles, intangible assets in the amount of 123 thousand Belarusian rubles (as at 31 December 2017 — 1,357 thousand Belarusian rubles and 117 thousand Belarusian rubles respectively).

15. Other assets

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Other non-financial assets		
Assets transferred to the Bank as repayment of debt	470	501
Advance payments	157	237
Prepayments on taxes (except income tax)	123	239
Prepayments on capital investments	33	126
Other	3	10
Total other non-financial assets	**786**	**1,113**
Other financial assets		
Settlements with customers	6,119	184
Accrued commission income and penalties	853	892
Receivables for the return of state duties	178	195
Other receivables	172	155
Total other financial assets	**7,322**	**1,426**
Allowance for impairment	(999)	(601)
Total other financial assets less allowance for impairment	**6,323**	**825**
Total other assets	**7,109**	**1,938**

(a) Credit quality of other financial assets

The analysis of the credit quality of other financial assets in accordance with the classification using the ECL model as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total
Settlements with customers	1,140	4,979	-	6,119
Accrued commission income and penalties	-	853	-	853
Receivables for the return of state duties	-	178	-	178
Other receivables	-	172	-	172
Total other financial assets	**1,140**	**6,182**	**-**	**7,322**
Allowance for impairment	(33)	(966)	-	(999)
Total other financial assets less allowance for impairment	**1,107**	**5,216**	**-**	**6,323**

The analysis of the credit quality of other financial assets as at 31 December 2018 is presented in the following table:

in thousands of Belarusian rubles	Accrued commission income and penalties	Receivables for the return of state duties	Settlements with customers	Other accounts receivable	Total
Other financial assets unexpired and not individually impaired	**838**	**141**	**-**	**169**	**1,148**
Other financial assets overdue but not impaired					
Overdue less than 1 month	5	7	-	1	13
Overdue from 1 to 3 months	2	10	-	1	13
Overdue from 3 to 6 months	2	10	-	-	12
Overdue from 6 months to 1 year	6	10	-	1	17
Total other financial assets overdue but not impaired	**15**	**37**	**-**	**3**	**55**
Other financial assets individually impaired					
Unexpired	-	-	6,119	-	6,119
Total other financial assets individually impaired	**-**	**-**	**6,119**	**-**	**6,119**
Total other financial assets	**853**	**178**	**6,119**	**172**	**7,322**
Allowance for impairment	(576)	(150)	(198)	(75)	(999)
Total other financial assets less allowance for impairment	**277**	**28**	**5,921**	**97**	**6,323**

The analysis of the credit quality of other financial assets as at 31 December 2017 is presented in the following table:

in thousands of Belarusian rubles	Accrued commission income and penalties	Receivables for the return of state duties	Settlements with customers	Other accounts receivable	Total
Other financial assets unexpired and not individually impaired	**863**	**134**	**-**	**83**	**1,080**
Other financial assets overdue but not impaired					
Overdue less than 1 month	1	5	-	5	11
Overdue from 1 to 3 months	8	14	-	5	27
Overdue from 3 to 6 months	4	23	-	11	38
Overdue from 6 months to 1 year	15	18	-	3	36
Overdue more than 1 year	-	-	-	12	12
Total other financial assets overdue but not impaired	**28**	**60**	**-**	**36**	**124**
Other financial assets individually impaired					
Overdue more than 1 year	1	1	184	36	222
Total other financial assets individually impaired	**1**	**1**	**184**	**36**	**222**
Total other financial assets	**892**	**195**	**184**	**155**	**1,426**
Allowance for impairment	(372)	(97)	(92)	(40)	(601)
Total other financial assets less allowance for impairment	**520**	**98**	**92**	**115**	**825**

The main factors that the Bank takes into account when considering impairment of other financial assets are the existence and duration of overdue debt and the possibility of enforcement of collateral, if any.

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.

As at 31 December 2018, other financial assets include unexpired debts of buyers of capital buildings (objects of investment property and assets available for sale).

As at 31 December 2017, other financial assets include a debt of the buyer of capital buildings (poultry houses) overdue since March 2016. An allowance for impairment of 50% of the debt has been made for this asset. The allowance is based on the best estimates made by management regarding the present value of cash flows that the Bank expects to receive.

(b) Movement of the allowance for impairment of other financial assets

The movement of the allowance for impairment of other financial assets for the years ended 31 December 2018 and 2017, respectively, is presented as follows (data of the comparative period are presented in accordance with IAS 39):

	2018				2017
in thousands of Belarusian rubles	12-month period of loss	Period of loss for the whole term — not impaired	Period of loss for the whole term — impaired	Total	Total
Balance as at 1 January	**-**	**601**	**-**	**601**	**480**
Effect of the application of IFRS 9	-	385	-	385	-
Accrued for the year	33	84	-	117	121
Write-off	-	(104)	-	(104)	-
Balance as at 31 December	**33**	**966**	**-**	**999**	**601**

16. Assets available for sale

in thousands of Belarusian rubles	2018	2017
Balance as at 1 January	**1,745**	**-**
Transfer from inventories	-	2,201
Sales	(1,745)	(456)
Balance as at 31 December	**-**	**1,745**

As at 31 December 2018, property classified as assets available for sale had been sold. As at 31 December 2017, assets available for sale include constructed apartments transferred to the Bank in repayment of debt and recorded at book value in the amount of 2,201 thousand Belarusian rubles. During 2017, the Bank sold one apartment worth 456 thousand Belarusian rubles.

17. Due to other banks

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Loans and deposits of other banks	2,784	15,010
Correspondent accounts of other banks	37	44
Total amounts due to other banks	**2,821**	**15,054**

As at 31 December 2018, the Bank has no balances of counterparty banks representing a significant concentration. As at 31 December 2017 the Bank had balances of two counterparty banks exceeding 10% of the Bank's equity. The total amount of these funds as of 31 December 2017 was 12,051 thousand Belarusian rubles.

18. Due to customers

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Legal entities		
Term deposits	102,073	58,195
Current accounts	25,553	18,806
Total due to legal entities	**127,626**	**77,001**
Individuals		
Term deposits	25,989	22,259
Current/on-demand accounts	5,332	5,214
Total due to individuals	**31,321**	**27,473**
Total due to customers	**158,947**	**104,474**

The structure of amounts due to customers by economic sectors is presented below:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Individuals	31,321	27,473
Industry and other material production activities	34,914	26,459
Real estate	34,376	15,408
Trade	26,087	15,857
Insurance	8,165	4,184
Vehicles	4,608	2,140
Construction	4,547	5,928
Data-processing and technology services	1,050	555
Non-profit organizations	656	921
Advertising activities	364	788
Education and scientific activities	359	175
Healthcare and physical education	345	232
Leasing	298	778
Communications and telecommunications	30	45
Publishing activities	25	118
Other	11,802	3,413
Total due to customers	**158,947**	**104,474**

As at 31 December 2017 the Bank had balances of five and two customers exceeding 10% of the Bank's equity. The total amount of these funds as at 31 December 2018 and 2017 was 61,307 and 25,593 thousand rubles, respectively.

19. Debt securities issued

As at 31 December 2018, the issued debt securities are represented by bonds of the fourth to seventh issues in Belarusian rubles and US dollars with maturity dates in 2020 and 2021. Bond holders are legal entities.

Issue No.	Maturity	Issue currency	Interest rate
4	18.09.2020	BYN	8,5%
5	05.10.2020	USD	4,5%
6	06.08.2021	BYN	11,5%
7	15.11.2021	BYN	11,5%

As at 31 December 2017, the issued debt securities are represented by the fifth issue bonds in US dollars at a fixed rate of 4.5% with maturity in 2020. Bond holders are legal entities.

20. Other liabilities

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Other non-financial liabilities		
Tax accruals, other than income tax	1,007	88
Deferred income	223	126
Deductions to the Guarantee Fund for the Protection of Individuals Funds	45	39
Total other non-financial liabilities	**1,275**	**253**
Other financial liabilities		
Provision for unpaid vacations and other staff remuneration liabilities	110	123
Payables to suppliers	62	86
Allowance for credit related commitments	42	209
Financial lease receivables	-	127
Other	805	74
Total other financial liabilities	**1,019**	**619**
Total other liabilities	**2,294**	**872**

The movement of the allowance for credit related commitments is presented in Note 32.

21. Subordinated loans

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Subordinated loan from LLC "Speedster-M"	8,723	5,958
Subordinated loan from LLC "Dikris"	6,528	7,962
Total subordinated loans	**15,251**	**13,920**

In 2015, the Bank was granted a subordinated loan from LLC "Dikris" in the amount of 3,000 thousand US dollars at a USD LIBOR floating rate for 12 months plus 6 percentage points.

In January 2017, the EBRD ceded the rights of claim under the subordinated loan agreement to the resident LLC "Speedster-M". The amount of the subordinated loan is 4,009 thousand US dollars, a floating interest rate is set based on the LIBOR rate for 12 months plus 6 percentage points.

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

22. Preference shares

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Number of preference shares	6,886,084	6,886,084
Nominal value of 1 share, Belarusian rubles	0,160	0,160
Nominal value of preference shares	1,102	1,102
Accrued dividends on preference shares	968	760
Total preference shares	**2,070**	**1,862**

Preference shares entitle to participate in net assets. The annual minimum fixed dividend on preference shares is equivalent to 0.01394 US dollars per preference share.

The annual General Meeting of Shareholders of the Bank on 26 March 2019 (Minutes No. 01 dated 26 March 2019) decided to pay dividends on preference shares according to the results of 2013-2018.

23. Share capital

Share capital as at 31 December 2018 and 2017 was presented as follows:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Amount of ordinary (common) shares	120,791,295	120,791,295
Nominal value of 1 share, Belarusian rubles	0,160	0,160
Nominal value of ordinary (common) shares	19,326	19,326
Inflation effect	27,648	27,648
Total share capital	**46,974**	**46,974**

All common (ordinary) shares (hereinafter — shares) are fully paid, each share gives the right to one vote, as well as the right to receive dividends and participate in net assets. All shares have equal rights with respect to net assets.

In 2018 and 2017 the Bank did not issue new shares. The nominal value of the share for 2018 and 2017 is 0.160 (zero Belarusian rubles 16 kopecks).

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. The Bank did not determine diluted earnings per share, as the Bank does not have financial instruments with potential diluting effect.

	2018	2017
Profit for the period owned by shareholders, rubles	158,000	3,675,000
Average weighted number of ordinary shares in circulation, pieces	120,791,295	120,791,295
Basic earnings per ordinary share, rubles	**0,0013**	**0,0304**

24. Interest income and expenses

in thousands of Belarusian rubles	2018	2017
Interest income		
Loans to customers	15,873	12,315
Securities measured at amortized cost	378	2,430
Securities measured at fair value through profit or loss	297	779
Due from other banks	106	139
Funds in the National Bank of the Republic of Belarus	59	78
Total interest income	**16,713**	**15,741**
Interest expenses		
Due to customers	(5,817)	(5,461)
Subordinated loans	(1,254)	(1,367)
Debt securities issued	(590)	(26)
Due to other banks	(235)	(497)
Preference shares	(189)	(188)
Financial lease	-	(66)
Funds of the National Bank of the Republic of Belarus	(69)	-
Other	(2,271)	(1)
Total interest expenses	**(10,425)**	**(7,606)**
Net interest income	**6,288**	**8,135**

Interest income includes interest income on impaired loans to customers in the amount of 15,208 thousand Belarusian rubles for 2018 and 8,525 thousand Belarusian rubles for 2017.

25. Fee and commission income and expenses

in thousands of Belarusian rubles	2018	2017
Fee and commission income		
Settlement and cash operations commissions	2,831	2,214
Commissions on foreign currency transactions	11	27
Other	99	533
Total fee and commission income	**2,941**	**2,774**
Fee and commission expenses		
Commission on settlement operations and operations with bank cards	(803)	(628)
Commissions on foreign currency transactions	(114)	(42)
Other	(82)	(122)
Total fee and commission expenses	**(999)**	**(792)**
Net fee and commission income	**1,942**	**1,982**

26. Net income from transactions with derivative financial instruments

in thousands of Belarusian rubles	2018	2017
Income from swap transactions with other banks	30	143
Total net income from transactions with derivative financial instruments	**30**	**143**

27. Net income from foreign exchange operations and securities

Net income from foreign exchange operations

in thousands of Belarusian rubles	2018	2017
Net income from foreign exchange operations	1,263	1,814
Net income / (expenses) from revaluation of assets and liabilities	902	(75)
Net income from foreign exchange operations	**2,165**	**1,739**

During 2018, the devaluation of the Belarusian ruble against the US dollar and the Euro amounted to 9.5% and 5.0%, respectively (2017: 0.7% and 15.2% respectively). In 2018, the Belarusian ruble decreased by 9.2% against the Russian ruble (2017: by 5.7%).

Net income/(expenses) from securities

in thousands of Belarusian rubles	2018	2017
Income from securities transactions	42	465
Expenses on securities transactions	(14)	(584)
Net income/(expenses) from securities transactions	**28**	**(119)**

28. Other income

in thousands of Belarusian rubles	2018	2017
Operating lease income	510	685
Fines, penalties received	494	411
Income from the sale of property	(84)	236
Other	238	136
Total other income	**1,158**	**1,468**

29. Operating expenses

in thousands of Belarusian rubles	2018	2017
Personnel expenses	(4,251)	(3,387)
Taxes other than income tax	(1,952)	(489)
Contributions to the Social Protection Fund	(1,408)	(1,122)
Software expenses	(882)	(728)
Management costs	(815)	(583)
Depreciation of property and equipment and amortization of intangible assets	(709)	(681)
Communication and information services	(603)	(464)
Professional services (consulting, auditing, legal, other)	(332)	(358)
Repair and maintenance	(307)	(281)
Advertising and marketing	(294)	(313)
Lease payments	(277)	(278)
Sponsorship	(210)	(214)
Office expenses	(160)	(213)
Deductions to the Guarantee Fund for the Protection of Funds of Individuals	(159)	(170)
Security	(105)	(88)
Expenses on delivery and collection	(48)	(63)
Other	(597)	(665)
Total operating expenses	**(13,109)**	**(10,097)**

30. Income tax

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

The income tax rate for Belarusian banks for the years ended 31 December 2018 and 2017 was 25%. The deferred tax liability (deferred tax asset) is calculated using the rate expected to be in effect during the period of repayment of the deferred tax liability (disposal of the deferred tax asset) — 25%.

Income tax expenses are presented as follows:

in thousands of Belarusian rubles	2018	2017
Current income tax expense	(367)	(231)
Effect of the application of IFRS 9	(477)	-
Deferred income tax expense	1,137	1,682
Income tax expense	**293**	**1,451**

Deferred tax reflects the net tax effect of temporary differences between the value of assets and liabilities recognized for the purposes of the financial statements and the amounts determined for tax purposes.

For each type of temporary differences, the amounts of deferred tax assets and liabilities recognized in the statement of financial position, as well as the amounts of income or expenses under deferred tax recognized as profit or loss or as other comprehensive income are presented below:

in thousands of Belarusian rubles	1 January 2017	Recognized as profit or loss in 2017	31 December 2017	Effect of the application of IFRS 9	In accordance with IFRS 9 2017	Recognized as profit or loss in 2018	Recognized as other comprehensive income in 2018	31 December 2018
Deductible temporary differences:								
Due from banks	-	-	-	5	5	17	-	22
Loans to customers	518	111	629	384	1,013	(368)	-	645
Securities measured at amortized cost	-	-	-	16	16	1	-	17
Property and equipment and intangible assets	835	135	970	-	970	(388)	16	598
Other assets and liabilities	148	(117)	31	72	103	855	-	958
Assets available for sale	-	69	69	-	69	(69)	-	-
Total deferred tax asset	**1,501**	**198**	**1,699**	**477**	**2,176**	**48**	**16**	**2,240**
Taxable temporary differences:								
Loans to banks and customers	(1)	-	(1)	-	(1)	1	-	-
Investment property	(434)	(122)	(556)	-	(556)	556	-	-
Accrued income	(129)	(78)	(207)	-	(207)	30	-	(177)
Other assets and liabilities	-	(25)	(25)	-	(25)	25	-	-
Subordinated loans	(1,709)	1,709	-	-	-	-	-	-
Total deferred tax liability	**(2,273)**	**1,484**	**(789)**	**-**	**(789)**	**612**	**-**	**(177)**
Total net deferred tax (liability)/asset	**(772)**	**1,682**	**910**	**477**	**1,387**	**660**	**16**	**2,063**

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

in thousands of Belarusian rubles	**2018**	**2017**
Profit before tax	(135)	2,224
Income tax at the statutory rate	**(34)**	**556**
Tax effect of permanent differences:		
Tax benefits	(226)	(802)
Tax effect of expenses not involved in taxation	281	551
Tax effect of recovery of investment deduction	1	-
The effect of changing the tax base of property and equipment and intangible assets caused by the revaluation carried out according to the Belarusian accounting rules	-	(47)
Effect of loss of tax base of assets and liabilities	(315)	(1,709)
Income tax expense	**(293)**	**(1,451)**

31. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents are presented as follows:

in thousands of Belarusian rubles	**31 December 2018**	**31 December 2017**
Cash and account balances in the National Bank of the Republic of Belarus	36,732	25,356
Nostro accounts	13,231	4,519
Less obligatory provision in the National Bank of the Republic of Belarus	(2,166)	(951)
Total cash and cash equivalents	**47,797**	**28,924**

32. Contingent liabilities

Tax legislation. Tax and other legislation of the Republic of Belarus, effective or factually entered into force at the end of the reporting period, allows for different interpretations in regard to transactions and activities of the Bank. In this regard, the interpretation of tax legislation used by the management of the Bank and the official documentation justifying tax positions can be successfully challenged by the relevant authorities. Tax periods remain open for inspection by the relevant tax authorities for payment of taxes for an indefinite period.

Management currently believes that as at 31 December 2018 and 2017 all the necessary tax charges have been made, and that the tax positions and interpretations of the Bank may be confirmed but there is a risk that an outflow of resources in the form of payment would be required if these tax positions and interpretations of legislation were challenged by the relevant authorities. The impact of any such contentious situations cannot be assessed with sufficient reliability, but it may be material for the financial position and/or operations of the Bank as a whole.

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:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Less than 1 year	28	30
Total operating lease liabilities	**28**	**30**

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's credit-related commitments are presented as follows:

in thousands of Belarusian rubles	31 December 2018	31 December 2017
Unused credit lines	7,279	10,627
Guarantees issued	8,449	4,252
Total credit related commitments	**15,728**	**14,879**
Allowance for credit related commitments	(42)	(209)
Total credit related commitments less allowance	**15,686**	**14,670**

The movement of the allowance for credit related commitments for the years ended 31 December 2018 and 2017 is presented as follows:

in thousands of Belarusian rubles	2018	2017
Allowance for credit related commitments		
Balance as at 1 January	209	84
Effect of the application of IFRS 9	(98)	-
(Recovery) / accrual for the year	(67)	146
Commission reclassification	(2)	(21)
Balance as at 31 December	**42**	**209**

33. Capital management

The Bank manages the capital to comply with the requirements of the legislation, to maintain the level necessary to achieve an 8% capital adequacy ratio in accordance with the Basel agreement, going concern, while setting the task of ensuring profit to shareholders by optimizing the ratio of liabilities and capital of the Bank.

The requirement of the National Bank of the Republic of Belarus for the minimum amount of regulatory capital calculated on the basis of accounting records prepared in accordance with the Belarusian legislation for banks is to maintain the amount of regulatory capital at a minimum level of 45 million Belarusian rubles with a quarterly adjustment to the value of consumer price index. The regulatory value of regulatory capital as at 1 January 2019 was 55.39 million Belarusian rubles. The actual value of the Bank's regulatory capital as of 1 January 2019 in accordance with the Belarusian legislation amounted to 60.17 million Belarusian rubles.

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 (risk assets). The management of the Bank assesses the amount of capital necessary to achieve the strategic goals of the bank and allows to ensure in the planned future the necessary asset growth, as well as the optimal ratio of profitability and capital adequacy taking into account the requirements of shareholders, partners of the Bank and the banking supervision and regulation bodies. The Bank's management analyzes the average weighted cost of capital, as well as the risks associated with each asset class, and regulates the structure of the Bank's capital by raising additional liabilities and repaying existing ones.

As at 31 December 2018 and 2017, a reserve fund in the amount of 5,615 thousand Belarusian rubles and 1,174 thousand Belarusian rubles respectively was recorded in the capital according to the national accounting rules. The reserve fund is the funds reserved in accordance with the legislation of the Republic of Belarus to cover losses on the Bank's operations and is not subject to distribution among shareholders.

Under the current capital requirements set by the National Bank, 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 belows presents the regulatory capital based on the Bank's financial information prepared in accordance with the requirements of the national accounting rules:

in thousands of Belarusian rubles	**31 December 2018**	**31 December 2017**
Level I Main capital	38,180	32,602
Level 2 Capital	21,987	23,546
Total capital	**60,167**	**56,148**
Total risk-weighted assets	195,034	150,567
Capital adequacy ratio (%)	**30.849**	**37.292**

The table below provides an analysis of the Bank's regulatory capital sources to determine capital adequacy under the Basel Agreement:

in thousands of Belarusian rubles	**31 December 2018**	**31 December 2017**
Tier 1 capital		
Share capital	46,974	46,974
Unrecovered loss	(10,395)	(9,120)
Intangible assets	(2,124)	(1,994)
Total tier 1 capital	**34,455**	**35,860**
Tier 2 capital		
Subordinated loans	15,251	13,920
Preference shares	2,070	1,862
Property and equipment revaluation reserve	1	49
Total tier 2 capital	**17,322**	**15,831**
Total capital	**51,777**	**51,691**
Total risk-weighted assets	194,445	152,416
Capital adequacy ratio (%)	**26.6**	**33.9**

In calculating capital adequacy as at 31 December 2018 and 2017, the Bank included in the capital calculation the received subordinated loan with an initial maturity of more than five years (Note 21). In the last five years remaining until maturity, the subordinated loan is taken into account equity at the value reflected in the statement of financial position minus 20% for each full year ended. In case of bankruptcy or liquidation of the Bank, the subordinated loan is repaid after fulfillment of the Bank's obligations to all other creditors.

Also, as at 31 December 2018 and 2017, the Bank included in the capital calculation preference shares (Note 22) that have no fixed maturity with a fixed dividend amount. Failure of the Bank to pay dividends on preference shares does not entail bankruptcy or liquidation of the Bank. In calculating capital adequacy, the Bank excluded the value of intangible assets from Level 1 capital (Note 14) as required by the Basel Agreement.

34. Risk management

The Bank has established an effective risk management system in accordance with international requirements and standards, including management of the risk inherent in banking activities, taking into account the materiality factor — a criterion that characterizes the degree of influence of a certain type of banking risk on the financial stability of the Bank.

The Bank recognizes the following types of risks as definitively significant risks: credit risk, liquidity risk, interest risk rate of the bank portfolio, currency risk, commodity risk, operational risk, strategic risk, reputational risk. Other types of banking risks (market risks: stock risk and interest rate risk of the trading portfolio; country risk) are recognized by the Bank as significant when they reach certain parameters as a result of the Bank's activities in one or another period of their development, or they may be recognized as such on the basis of reasoned judgment. The risk of concentration is considered by the Bank as part of the definitively significant risks of the Bank.

The Bank assesses risks at the stage of preliminary, current and subsequent control, as well as identifies management bodies, structural units and officials responsible for risk management.

Systems of management of banking risk types that the Bank has recognized as material for itself, including definitions, goals, objectives, stages, procedures, management participants, as well as approaches to stress testing, are regulated by separate local legal acts.

The main documents regulating the system and approaches to risk management in the Bank are the Bank Risk Management Strategy and the General Risk Policy.

The General Risk Policy includes the following strategic risk management objectives:

- identification of the main types of risks of the Bank and confirmation that the current areas of banking business and its further plans for the development of new types of business correspond to the preparedness of the Bank to these risks;
- optimization of risks that are directly related to the activities of the Bank, as well as organization of an effective and independent internal control system;
- development of an effective risk management structure for the further successful development of the Bank.

In order to effectively manage bank risks, the Bank has developed a system of powers that allow for the allocation of responsibility for each significant type of risk among the management bodies, divisions and employees of the Bank. Regardless of the type of banking risk, the system of powers necessarily includes the Board of Directors of the Bank, the Risk Committee, the Management Board of the Bank, the Officer responsible for risk management, Credit and Finance Committees, Risk Management, including risk managers, Internal Audit Service, Internal Control Service, Structural divisions of the Bank.

The Board of Directors ensures the organization of the banking risk management system, monitors its adequate functioning and overall level of risks, approves the General Risk Policy.

The Risk Committee, established by the Board of Directors, monitors and controls the implementation of the Risk Management Strategy; assesses the effectiveness of the risk management system; controls timeliness and quality of risk reporting, as well as the completeness and adequacy of measures taken by the Management Board of the Bank to minimize risks.

The Management Board of the Bank ensures the functioning of the risk management system in order to meet the goals and objectives set by the Board of Directors in the field of risk management; approves the General Risk Policy, local regulatory legal acts regulating methods and procedures of managing certain types of risks, as well as the procedure of decision-making, interaction of divisions, distribution and delegation of powers in the process of risk management; ensuring their effective application in practice; making management decisions aimed at limiting the risk propensity of units generating risks, maintaining the risk profile of the bank, adequate to the nature and scope of the activities carried out.

The Officer responsible for risk management coordinates the actions of all participants in the risk management process, ensures information exchange between them in order to adopt the necessary management decisions; regularly reports to the Board on the extent of certain bank risks, compliance with risk propensity for risk generating units, compliance with established risk tolerance and maintaining the Bank's risk profile; regular (at least once a year) reports to the Risk Committee on the functioning of the risk management system and the degree of individual bank risks; ensures disclosure of information about the organization of the risk management system in accordance with the procedures adopted in the Bank.

The Finance Committee and the Credit Committee conduct monitoring and analysis of the risk level.

The Risk Management is responsible for the organization of an effective risk management system, monitoring the timely identification, measurement, monitoring, control and limiting of the level of bank risks. This unit monitors compliance with procedures for managing each of the type of risks. In order to control and manage critical situations that may have undesirable consequences for the Bank, the risk manager of the Bank carries out stress testing and assessment of the impact of changes in external and internal factors of corresponding risk on the stability of the Bank's functioning.

The Internal Audit Service is responsible for conducting regular audit of certain elements of the risk management system and assessing the effectiveness of risk management, as well as control compliance of actions and operations carried out by the management and employees of the Bank, with the requirements of the current legislation. The results of the audits and the assessment of effectiveness are reported to the Board of Directors.

The Internal Control Service verifies compliance by authorized bodies and employees of the Bank with the procedure for controlling each type of risk, as well as compliance with local regulatory legal acts of the Bank containing the strategy, policy, methods and procedures of risk management.

Structural divisions of the Bank carry out the current management of bank risks within the limits of their powers.

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 purpose of credit risk management is to ensure maximum safety of assets on the basis of reduction of possible losses.

The purpose of credit risk management is to ensure maximum safety of assets on the basis of reduction (exclusion) of possible losses, which is achieved on the basis of a systematic, integrated approach by implementing the following tasks:

- separation of powers and responsibilities between management bodies, committees, officials and divisions of the Bank in the sphere of credit risk management;
- organization of a system of crediting of customers of the Bank that is adequate and in the interests of the Bank; system of setting limits on credit related operations, counterparty banks;
- organization of a system of fair assessment of collateral on credit related operations;

- organization of independent primary and secondary examination of credit projects and counterparty banks limit projects;
- organization of effective claim-related work and work with overdue debts;
- implementation of qualitative and timely analysis of the status and dynamics of the loan portfolio, safe functioning standards characterizing the level of credit risk, including sectoral analysis and analysis of the concentration of the loan portfolio, setting limits on sectors with a high level of credit risk;
- organization of stress testing system;
- creation of a system of regular and timely informing of management bodies and committees of the Bank about efficiency of credit risk management system;
- creation of a system of rapid and adequate response, aimed at preventing the credit risk getting critical for the Bank (risk minimization).

Identification and assessment of the level of credit risk is realized through the primary and secondary examination of credit projects (draft limits on the counterparty bank), which is achieved by the resolution of the conflict of interest in the decision-making process.

The primary examination (analysis (assessment) of the financial condition of the counterparty bank and development of a limit for carrying out active operations with the counterparty bank) is carried out by the economic service on the basis of the assessment of the financial condition of the counterparty bank and the ability to timely and in full return the funds transferred to it. Based on the analysis, a draft limit for active operations with a counterparty bank is being developed. When performing active credit related operations with customers, the primary examination is carried out by the credit worker at the stage of preparation for consideration by the Credit Committee of the loan project and collateral provided by the borrower.

Secondary examination is carried out by the risk manager during the period of development of the limit on the counterparty bank and subsequent monitoring. When performing active credit related operations with customers, the secondary examination is carried out by the risk manager during the consideration of the loan project and during the monitoring of the lender, financed transaction and collateral provided by the borrower.

Determination of the acceptable level of credit risk is carried out jointly by the Credit and Finance Committees of the Bank in accordance with the functions assigned to them.

To prevent the level of credit risk from increasing, 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 and their products. In order to forecast changes in the level of credit risk, the Bank carries out regular stress testing, the essence of which is to assess the consequences of active impact on the Bank's activities of external and internal credit risk factors. The Bank simulates the default situation for all or most of the lenders of homogeneous groups, taking into account industry, ownership and other homogeneous characteristics, develops scenarios of the impact of default (credit events) on the change in the level of credit risk, forecasts changes in portfolio quality and safe functioning indicators of the Bank, which characterize the level of credit risk. The results of stress testing are provided to the Finance Committee of the Bank for appropriate management decisions to minimize credit risk.
Credit risk is managed by the relevant structural units through regular analysis of the ability of existing and potential borrowers to repay interest payments and the amount of the principal debt, as well as by obtaining collateral and guarantees of companies and individuals. The Bank carries out loan analysis by maturities and the subsequent control of overdue balances. In this regard, the management is provided with the data on the terms of debt as presented in Note 11. Types of activity that are subject to credit risk and bear the corresponding maximum credit risk include:

- providing loans and borrowings to customers and placing deposits in other organizations, investing in financial instruments held to maturity. In these cases, the maximum credit risk is equal to the value of the relevant financial assets, as recorded in the statement of financial position (Notes 9, 11, 12);
- conclusion of contracts for derivative financial instruments, such as foreign exchange transactions. The maximum credit risk at the end of the reporting period will be equal to the value as recorded in the statement of financial position (Note 8);
- 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 (Note 32);
- the provision of a credit related commitment 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 recorded in Note 32.

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 contingent liabilities 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.

In order to minimize credit risk, the Bank uses methods of diversification of the loan portfolio by sectors of the economy, by types of collateral, by credit products, by forms of cash disbursement, by types of transactions, currencies and maturity dates.

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 the 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 financial assets and liabilities of the Bank as at 31 December 2018:

in thousands of Belarusian rubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and account balances in the National Bank of the Republic of Belarus	36,732	-	-	36,732
Derivative financial assets	-	-	32	32
Due from other banks	9,700	4,520	2,427	16,647
Loans to customers	133,188	-	-	133,188
Securities measured at amortized cost	7,264	-	-	7,264
Securities measured at fair value through profit or loss	14,203	-	-	14,203
Other financial assets	6,323	-	-	6,323
Total financial assets	**207,410**	**4,520**	**2,459**	**214,389**
Liabilities				
Due to other banks	2,789	-	32	2,821
Due to customers	153,477	3,162	2,308	158,947
Debt securities issued	15,223	-	-	15,223
Other financial liabilities	1,019	-	-	1,019
Subordinated loans	15,251	-	-	15,251
Preference shares	2,070	-	-	2,070
Total financial liabilities	**189,829**	**3,162**	**2,340**	**195,331**
Net balance sheet position	**17,581**	**1,358**	**119**	

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

in thousands of Belarusian rubles	Belarus	OECD countries	Other countries	Total
Assets				
Cash and account balances in the National Bank of the Republic of Belarus	25,356	-	-	25,356
Derivative financial assets	-	-	19	19
Due from other banks	3,481	1,314	215	5,010
Loans to customers	101,438	-	-	101,438
Securities measured at amortized cost	6,698	-	-	6,698
Securities measured at fair value through profit or loss	6,924	-	-	6,924
Other financial assets	825	-	-	825
Total financial assets	**144,722**	**1,314**	**234**	**146,270**
Liabilities				
Due to other banks	15,014	-	40	15,054
Due to customers	102,942	329	1,203	104,474
Debt securities issued	1,322	-	-	1,322
Other financial liabilities	619	-	-	619
Subordinated loans	13,920	-	-	13,920
Preference shares	1,862	-	-	1,862
Total financial liabilities	**135,679**	**329**	**1,243**	**137,251**
Net balance sheet position	**9,043**	**985**	**(1,009)**	

Liquidity risk. Liquidity risk is the risk of difficulties in meeting financial obligations related to the payment of cash or provision of financial assets. The purpose of liquidity risk management is to achieve an optimal (acceptable) balance of financial assets and financial liabilities, which is ensured by implementing the following tasks:

- separation of powers and responsibilities between authorized and executive bodies, committees, officials and divisions of the Bank in the sphere of liquidity risk management;
- organization of a system of management of financial assets and financial liabilities that is adequate and in the interests of the Bank;
- organization of qualitative and timely monitoring and analysis of the current state of liquidity, standards of safe functioning, characterizing the level of liquidity risk, structure and dynamics of resource base and financial investments, liquidity gaps;
- organization of the Bank's cash flow forecasting system in the short term;
- assessment of the level of liquidity risk and the quality of liquidity risk management;
- organization of stress testing and early warning system to identify the causes and factors influencing changes in liquidity risk, and modeling the behavior of liquidity indicators in perspective;
- creation of a system of rapid and adequate response aimed at minimization of liquidity risk, development of plans of actions of the Bank in unforeseen situations connected with increase of liquidity risk.

The Bank maintains stable financing base, which comprises mainly amounts due to other banks, current accounts and deposits of legal entities and individuals, long-term and subordinated loans, and invests funds in diversified portfolio of liquid assets in order to have a possibility without delays meet unforeseen liquidity requirements.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank. Such ratios as at 31 December 2017 include:

- *Quick liquidity ratio*, which is calculated as the ratio of demand assets to demand and overdue liabilities (minimum allowable ratio of 20%). As at 31 December 2017, this ratio amounted to 186.7%,
- *Current liquidity ratio, which* is calculated as the ratio of the amount of assets with the remaining maturity of up to 30 days, including demand assets, and liabilities with the remaining repayment period of up to 30 days, including demand liabilities (minimum allowable ratio value is 70%). As at 31 December 2017, this ratio amounted to 110.4%,
- *Short-term liquidity ratio*, which is calculated as the ratio of assets with maturities of up to 1 year and liabilities with maturity of up to 1 year (minimum allowable value of the ratio is 1). As at 31 December 2017, this ratio amounted to 1.1,
- *The ratio of liquid to total assets*, which is calculated as the ratio of demand assets with maturity of up to 30 days to the total value of assets (minimum allowable value of the ratio is 20%). As at 31 December 2017, this ratio amounted to 24.1%.

As at 31 December 2018, the Bank calculates the following liquidity indicators:

- *Liquidity coverage ratio*, which is calculated as the ratio of the amount of highly liquid assets to the net expected cash outflow within the next 30 days (minimum allowable ratio value is 100%). As at 31 December 2018, this ratio amounted to 195.5%,
- *The net stable funding ratio*, which is calculated as the ratio of available and required stable funding (the minimum allowable ratio value is 100%). As at 31 December 2018, this ratio amounted to 122.9%.

The tables below show an analysis representing the remaining maturity of financial liabilities calculated for undiscounted cash flows of financial liabilities (the principal debt and interest) based on the contractual terms as at the reporting date, as well as inflows and outflows of funds on derivative financial instruments.

The table below shows the analysis of financial liabilities due to their maturities as at 31 December 2018:

in thousands of Belarusian rubles	On demand and less than 1 month	1-3 months	3-6 months	6 months — 1 year	1 year — 5 years	More than 5 years	Unlimited	Total
Non-derivative financial liabilities								
Due to other banks	37	-	2,810	-	-	-	-	2,847
Due to customers	41,407	24,082	20,147	57,625	19,811	-	-	163,072
Other financial liabilities	1,022	4	4	4	-	-	-	1,034
Debt securities issued	-	255	402	679	17,926	-	-	19,262
Subordinated loans	117	224	345	697	5,494	20,161	-	27,038
Preference shares	-	-	1,797	-	-	-	1,102	2,899
Credit-related commitments	7,382	2,496	151	2,307	3,350	-	-	15,686
Total potential future payments on non-derivative financial liabilities	**49,965**	**27,061**	**25,656**	**61,312**	**46,581**	**20,161**	**1,102**	**231,838**
Derivative financial instruments to be calculated on a gross basis								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total potential future payments on financial liabilities	**49,965**	**27,061**	**25,656**	**61,312**	**46,581**	**20,161**	**1,102**	**231,838**

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

in thousands of Belarusian rubles	On demand and less than 1 month	1-3 months	3-6 months	6 months — 1 year	1 year — 5 years	More than 5 years	Unlimited	Total
Non-derivative financial liabilities								
Due to other banks	15,065	-	-	-	-	-	-	15,065
Due to customers	23,636	13,083	29,580	17,492	23,442	277	-	107,510
Other financial liabilities	486	38	30	55	25	-	-	634
Debt securities issued	-	-	-	-	1,486	-	-	1,486
Subordinated loans	97	184	283	573	4,514	17,629	-	23,280
Preference shares	-	-	-	-	1,518	-	1,102	2,620
Credit-related commitments	10,631	778	833	1,767	660	-	-	14,669
Total potential future payments on non-derivative financial liabilities	**49,915**	**14,083**	**30,726**	**19,887**	**31,645**	**17,906**	**1,102**	**165,264**
Derivative financial instruments to be calculated on a gross basis								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total potential future payments on financial liabilities	**49,915**	**14,083**	**30,726**	**19,887**	**31,645**	**17,906**	**1,102**	**165,264**

Preference shares are financial liabilities that are not limited by maturity. The maximum period that the Bank accepts for calculation of undiscounted cash flows on payment of annual mandatory dividends on them is 5 years.

The tables above include payments in respect of derivative financial instruments, which are calculated on a gross basis, as these calculations will be accompanied by corresponding inflows and outflows of cash.

Amounts due to customers are recorded in this analysis by terms remaining to maturity. However, in accordance with the Banking Code of the Republic of Belarus, individuals have the right to withdraw funds from their accounts prior to maturity.

The Bank does not use the above analysis of financial liabilities by maturity not taking into account discounting on an ongoing basis. Instead, the Bank monitors contractual maturities and expected liquidity gap based on the analysis of financial assets and liabilities presented in the tables below:

in thousands of Belarusian rubles	**On demand and less than 1 month**	**1-3 months**	**3-6 months**	**6 months — 1 year**	**1 year — 5 years**	**More than 5 years**	**Past due**	**Unlimited**	**Total as at 31 December 2018**
Assets									
Cash and account balances in the National Bank of the Republic of Belarus	34,566	-	-	-	-	-	-	2,166	36,732
Derivative financial assets	32	-	-	-	-	-	-	-	32
Due from other banks	13,186	-	2,763	-	-	-	-	698	16,647
Loans to customers	5,255	26,591	23,060	20,928	56,546	383	425	-	133,188
Securities measured at amortized cost	-	-	91	-	7,173	-	-	-	7,264
Securities measured at fair value through profit or loss	-	-	-	14,203	-	-	-	-	14,203
Other financial assets	354	-	49	-	5,851	22	47	-	6,323
Total financial assets	**53,393**	**26,591**	**25,963**	**35,131**	**69,570**	**405**	**472**	**2,864**	**214,389**
Liabilities									
Due to other banks	36	-	2,785	-	-	-	-	-	2,821
Due to customers	40,926	23,257	19,169	56,088	19,507	-	-	-	158,947
Other financial liabilities	1,019	-	-	-	-	-	-	-	1,019
Debt securities issued	-	255	80	-	14,888	-	-	-	15,223
Subordinated loans	113	-	-	-	-	15,138	-	-	15,251
Preference shares	-	-	968	-	-	-	-	1,102	2,070
Total financial liabilities	**42,094**	**23,512**	**23,002**	**56,088**	**34,395**	**15,138**	**-**	**1,102**	**195,331**
Liquidity gap	11,299	3,079	2,961	(20,957)	35,175	(14,733)			
Cumulative expected liquidity gap	**11,299**	**14,378**	**17,339**	**(3,618)**	**31,557**	**16,824**			

in thousands of Belarusian rubles	On demand and less than 1 month	1-3 months	3-6 months	6 months — 1 year	1 year — 5 years	More than 5 years	Past due	Unlimited	Total as at 31 December 2017
Assets									
Cash and account balances in the National Bank of the Republic of Belarus	24,405	-	-	-	-	-	-	951	25,356
Derivative financial assets	19	-	-	-	-	-	-	-	19
Due from other banks	4,519	-	-	-	-	-	-	491	5,010
Loans to customers	7,335	11,279	16,952	13,624	50,504	1,035	709	-	101,438
Securities measured at amortized cost	-	-	82	-	6,616	-	-	-	6,698
Securities measured at fair value through profit or loss	-	-	-	6,924	-	-	-	-	6,924
Other financial assets	266	-	-	-	-	-	559	-	825
Total financial assets	**36,544**	**11,279**	**17,034**	**20,548**	**57,120**	**1,035**	**1,268**	**1,442**	**146,270**
Liabilities									
Due to other banks	15,054	-	-	-	-	-	-	-	15,054
Due to customers	23,259	12,399	28,779	16,754	23,283	-	-	-	104,474
Other financial liabilities	483	34	26	51	25	-	-	-	619
Debt securities issued	-	-	-	-	1,322	-	-	-	1,322
Subordinated loans	93	-	-	-	-	13,827	-	-	13,920
Preference shares	-	-	-	-	760	-	-	1,102	1,862
Total financial liabilities	**38,889**	**12,433**	**28,805**	**16,805**	**25,390**	**13,827**	**-**	**1,102**	**137,251**
Liquidity gap	(2,345)	(1,154)	(11,771)	3,743	31,730	(12,792)			
Cumulative expected liquidity gap	**(2,345)**	**(3,499)**	**(15,270)**	**(11,527)**	**20,203**	**7,411**			

According to the management of the Bank, the overlap and/or controlled mismatch between the placement and maturity terms and interest rates on assets and liabilities is a fundamental factor for the success of management of the Bank. In banks, as a rule, there is no complete overlap on these positions, as transactions often have uncertain maturity dates and different nature. The mismatch of these positions potentially increases the profitability of the activity, and at the same time increases the risk of losses.

In recent economic conditions in the Republic of Belarus (high devaluation expectations) long-term resources in Belarusian rubles are being replaced by short-term ones. The Bank manages liquidity in the face of significant liquidity gaps in the short term, raising available and most profitable resources in Belarusian rubles to maintain liquidity. The main sources of the Bank's resource base are the raised funds of legal entities. Additional current sources of coverage of short-term liquidity gaps are also borrowings in the interbank loan market, the conclusion of swap transactions and currency exchange transactions with banks, as well as issuance of own debt securities.

In order to prevent the outflow of amounts due to customers, as well as to extend the terms of their use, the Bank promptly revises the terms of existing products and develops new ones, works on attracting new customers. At the same time, the terms of credit products are also being revised to diversify the loan portfolio in terms of the principal repayment mechanism.

Market risk. Market risk is the risk of the Bank's losses, non-receipt of planned income from changes in the value of balance sheet and off-balance sheet positions related to the trading portfolio, as well as positions denominated in foreign currency and goods due to changes in market prices of financial instruments and goods caused by changes in foreign exchange rates, market interest rates and other factors. I.e. it is the risk of changing values of market parameters, such as interest rates, exchange rates, stock or commodity prices, correlation between different market parameters and volatility of these parameters. The Bank considers market risk as a set of currency, commodity, interest rate, trading portfolio and stock risks.

Commodity risk is the probability of the Bank's losses, non-receipt of planned income from changes in the value of goods.

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

Currency risk management is carried out using the following methods:

- separation of powers and responsibilities between management bodies, committees, officials and divisions of the Bank in the sphere of currency risk management;
- organization of limit policy;
- organization of a system of tracking the status and dynamics of an open currency position — total and by types of currencies, as well as a system of rapid response aimed at minimizing currency risk;
- organization of stress testing system;
- creation of a system of regular and timely informing of management bodies and committees of the Bank about efficiency of currency risk management system;
- creation of a system of rapid and adequate response aimed at minimization of currency risk, development of a plan of actions of the Bank in unforeseen situations connected with currency risk.

The Bank sets limits on the level of accepted risk in terms of types of currencies and in general for all foreign currencies, both at the end of each day and within one day, and monitors compliance with them on a daily basis. The Treasury controls the state of an open currency position and its actual size, based on the accounting data on balance sheet and off-balance sheet accounts for each day. The procedure for calculating the amount of open currency position of the Bank and including the amount of currency risk when calculating capital adequacy is determined in accordance with the requirements of the National Bank.

The table below provides an analysis of the currency risk of the Bank as of 31 December 2018:

in thousands of Belarusian rubles	BYN	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and account balances in the National Bank of the Republic of Belarus	31,103	1,298	1,301	3,030	-	36,732
Derivative financial assets	32	-	-	-		32
Due from other banks	98	6,346	8,856	1,320	27	16,647
Loans to customers	53,418	56,301	22,395	1,074	-	133,188
Securities measured at amortized cost	-	7,264	-	-	-	7,264
Securities measured at fair value through profit or loss	-	14,203	-	-	-	14,203
Other financial assets	6,174	149	-	-	-	6,323
Total financial assets	**90,825**	**85,561**	**32,552**	**5,424**	**27**	**214,389**
Liabilities						
Due to other banks	33	2,788	-	-	-	2,821
Due to customers	54,939	74,081	20,130	9,797	-	158,947
Other financial liabilities	205	190	620	-	4	1,019
Debt securities issued	13,255	1,968	-	-	-	15,223
Subordinated loans	-	15,251	-	-	-	15,251
Preference shares	2,070	-	-	-	-	2,070
Total financial liabilities	**70,502**	**94,278**	**20,750**	**9,797**	**4**	**195,331**
Open balance net position	**20,323**	**(8,717)**	**11,802**	**(4,373)**	**23**	**19,058**
Requirements on derivative financial instruments	-	8,179	-	4,715	-	12,894
Liabilities on derivative financial instruments	-	-	(12,862)	-	-	(12,862)
Net position on derivative financial instruments	**-**	**8,179**	**(12,862)**	**4,715**	**-**	**32**
Total open currency position	**20,323**	**(538)**	**(1,060)**	**342**	**23**	

The table below provides an analysis of the currency risk of the Bank as of 31 December 2017:

in thousands of Belarusian rubles	BYN	USD	EUR	RUB	Other currencies	Total
Assets						
Cash and account balances in the National Bank of the Republic of Belarus	23,663	340	656	697	-	25,356
Derivative financial assets	19	-	-	-		19
Due from other banks	-	1,806	1,418	1,520	266	5,010
Loans to customers	46,360	40,853	13,868	357	-	101,438
Securities measured at amortized cost	-	6,698	-	-	-	6,698
Securities measured at fair value through profit or loss	-	6,924	-	-	-	6,924
Other financial assets	673	145	7	-	-	825
Total financial assets	**70,715**	**56,766**	**15,949**	**2,574**	**266**	**146,270**
Liabilities						
Due to other banks	8,145	6,909	-	-	-	15,054
Due to customers	48,818	35,307	11,601	8,748	-	104,474
Other financial liabilities	618	-	1	-	-	619
Debt securities issued	-	1,322	-	-	-	1,322
Subordinated loans	-	13,920	-	-	-	13,920
Preference shares	1,862	-	-	-	-	1,862
Total financial liabilities	**59,443**	**57,458**	**11,602**	**8,748**	**-**	**137,251**
Open balance net position	**11,272**	**(692)**	**4,347**	**(6,174)**	**266**	**9,019**
Requirements on derivative financial instruments	-	4,930	-	5,792	-	10,722
Liabilities on derivative financial instruments	-	(5,780)	(4,923)	-	-	(10,703)
Net position on derivative financial instruments	**-**	**(850)**	**(4,923)**	**5,792**	**-**	**19**
Total open currency position	**11,272**	**(1,542)**	**(576)**	**(382)**	**266**	

The Bank calculates the ratio of open currency position and its regulation on the basis of the nominal value of financial instruments in accordance with the requirements of the National Bank.

The bank provided 59.9% (54.3% in 2017) of loans in foreign currency. Depending on the currency of cash flows received by the borrower, the growth of foreign exchange rates against the Belarusian ruble may have a negative impact on the ability of borrowers to carry out repayment of loans, which in turn increases the probability of losses on loans.

The table below provides an analysis of the sensitivity of profit before tax and capital to significant possible changes in exchange rates used at the end of the reporting period for the functional currency of the Bank, taking into account the assumptions that all other variable characteristics will remain unchanged:

	31 December 2018	
in thousands of Belarusian rubles	**Effect on profit before tax**	**Influence on capital (including income tax at 25% rate)**
Strengthening of the US dollar by 20%	(108)	(81)
Weakening of the US dollar by 10%	54	41
Strengthening of the Euro by 20%	(212)	(159)
Weakening of the Euro by 10%	106	80
Strengthening of the Russian ruble by 20%	68	51
Weakening of the Russian ruble by 10%	(34)	(26)
Strengthening of other currencies by 20%	5	4
Weakening of other currencies by 10%	(2)	(2)

	31 December 2017	
in thousands of Belarusian rubles	**Effect on profit before tax**	**Influence on capital (including income tax at 25% rate)**
Strengthening of the US dollar by 20%	(308)	(231)
Weakening of the US dollar by 10%	154	116
Strengthening of the Euro by 20%	(115)	(86)
Weakening of the Euro by 10%	58	44
Strengthening of the Russian ruble by 20%	(76)	(57)
Weakening of the Russian ruble by 10%	38	29
Strengthening of other currencies by 20%	53	40
Weakening of other currencies by 10%	(27)	(20)

Exchange rate sensitivity analysis was conducted for items denominated in currencies other than the Bank's functional currency. In fact, there is a connection between the assumptions and other factors. It should also be noted that the sensitivity has a non-linear nature, so interpolation or extrapolation of the received results shall not be implemented.

Interest rate risk of the bank's portfolio. Interest rate risk of the bank portfolio is the probability of the Bank's losses arising from changes in the value of the Bank's balance sheet and off-balance sheet positions that are not part of the trading portfolio, due to the changes in interest rates.

Risk of interest rate change is managed by the following methods:

- separation of powers and responsibilities between management bodies, committees, officials and divisions of the Bank in the sphere of interest rate risk management;
- organization of a system of management of financial assets and financial liabilities sensitive to changes in the interest rate;
- organization of interest policy that is adequate and in the interests of the Bank;
- organization of the management system of financial assets and financial liabilities sensitive to changes in the interest rate, analysis of the structure and dynamics of the resource base and active investments;
- organization of stress testing system;
- creation of a system of rapid and adequate response aimed at minimization of interest rate risk, development of a plan of actions of the Bank in unforeseen situations connected with the risk of changes in the interest rate.

The table below provides a general analysis of the Bank's interest rate risk. It reflects the total amounts of interest rate sensitive financial assets and liabilities recorded in the statement of financial position by maturity:

in thousands of Belarusian rubles	On demand and less than 1 month	1-3 months	3-6 months	6 months — 1 year	1 year — 5 years	More than 5 years	Total
31 December 2018							
Total financial assets on which interest is accrued	9,325	26,591	25,914	35,131	63,719	383	161,063
Total financial liabilities on which interest is accrued	39,645	23,512	23,002	56,088	34,395	15,138	191,780
Interest rate gap as at 31 December 2018	**(30,320)**	**3,079**	**2,912**	**(20,957)**	**29,324**	**(14,755)**	**(30,717)**
31 December 2017							
Total financial assets on which interest is accrued	10,043	11,279	17,034	20,548	57,120	1,035	117,059
Total financial liabilities on which interest is accrued	36,451	12,427	28,800	16,797	25,386	13,827	133,688
Interest rate gap as at 31 December 2017	**(26,408)**	**(1,148)**	**(11,766)**	**3,751**	**31,734**	**(12,792)**	**(16,629)**

During the current monitoring, the Bank also analyzes the composition and dynamics of financial assets and financial liabilities, analyzes the interest rates that were in force earlier and in force in the present moment in the monetary markets of the Republic of Belarus and the countries whose residents are the Bank's main counterparties, and their impact on the change in the level of interest risk.

The floating interest rate financial instruments as at 31 December 2018 and 2017 are presented below:

	31 December 2018		31 December 2017	
in thousands of Belarusian rubles	BYN	USD/EUR/ RUB	BYN	USD/EUR/ RUB
Assets				
Due from other banks	-	497	-	82
Loans to customers	1,343	-	1,003	-
Total floating interest rate assets	**1,343**	**497**	**1,003**	**82**
Liabilities				
Subordinated loans	-	15,251	-	13,920
Total floating interest rate liabilities	**-**	**15,251**	**-**	**13,920**

The Bank is not exposed to the risk of changing the fair value of fixed-rate financial instruments, as the Bank has a contractual right to unilaterally change interest rates on such instruments.

The table below provides an analysis of the sensitivity of profit before tax and capital to significant possible changes in floating interest rates used at the end of the reporting period, taking into account the assumptions that all other variable characteristics will remain unchanged:

	31 December 2018		31 December 2017	
in thousands of Belarusian rubles	**Effect on profit before tax**	**Influence on capital (including income tax at 25% rate)**	**Effect on profit before tax**	**Influence on capital (including income tax at 25% rate)**
Increase by 1,000 basis points of interest rate on financial instruments in Belarusian rubles	134	101	100	75
Decrease by 1,000 basis points of interest rate on financial instruments in Belarusian rubles	(134)	(101)	(100)	(75)
Increase by 100 basis points of interest rate on financial instruments in other currencies	(148)	(111)	(138)	(104)
Decrease by 100 basis points of interest rate on financial instruments in other currencies	148	111	138	104

Operational risk is the risk of losses incurred by the Bank as a result of non-compliance, established by internal documents of the Bank of the procedures for performing banking operations and other transactions to the legislation of the Republic of Belarus or their violation by the Bank's employees, incompetence or errors of the Bank's employees, inconsistency or failure of the systems used by the Bank, including information systems, and also as a result of external factors. Operational risk management is a continuous process in the Bank for identification, evaluation, monitoring, control and reporting to the management bodies of the Bank. Control of the level of operational risk is carried out within the framework of the internal control system and is based on the principles of comprehensive and multilevel internal control, coverage of control procedures of all structural divisions of the Bank.

Information on changes in liabilities related to financial activities.

The table below provides a reconciliation of liabilities arising from financial activities as at 31 December 2018 and 31 December 2017:

in thousands of Belarusian rubles	**Debt securities issued**	**Subordinated loans**	**Total liabilities from financing activities**
Book value as at 31 December 2016	**3,124**	**6,396**	**9,520**
Acquisition	5,279	8,007	13,286
Repayment	(6,962)	(424)	(7,386)
Foreign exchange differences	(84)	103	19
Other	(35)	(162)	(197)
Book value as at 31 December 2017	**1,322**	**13,920**	**15,242**
Acquisition	79,030	-	79,030
Repayment	(65,651)	(9)	(65,660)
Foreign exchange differences	188	1,320	1,508
Other	334	20	354
Book value as at 31 December 2018	**15,223**	**15,251**	**30,474**

Item "Other" includes the effect of accrued but not yet paid interest on issued debt securities and subordinated loans. The Bank classifies paid interest as cash flows from operating activities.

35. Fair value measurement

The Bank follows the following hierarchy of initial data used in determining fair value:

- Level 1 — initial data for fair value measurement are unadjusted active market quotes for identical assets and liabilities that the Bank may access on the date of assessment. An active market is defined as a market in which instruments are traded regularly and in sufficient volume to provide information on assessments on a continuous basis. Any adjustment to the level 1 initial data results in a lower level fair value assessment.
- Level 2 — The initial data for fair value assessment are data other than quoted prices included in Level 1, observed directly (prices) or indirectly (price derivatives), includes instruments assessed using quotations in active markets for similar financial instruments, quotations for identical or similar financial instruments in non-active markets, or other valuation methods for which all essential initial data are directly or indirectly available on the basis of market information. If significant level 2 initial data are adjusted using material, non-observed data, the fair value obtained is assigned to level 3.
- Level 3 — The initial data for fair value measurement are non-observed data that should reflect all assumptions that would be used by market participants in setting the price of the instrument, including risk assumptions. The fair value, calculated from a combination of different valuation methods, relates to level 3.

When using initial data from different levels of the hierarchy, the Bank considers fair value as a whole to the lowest level to which the initial data relates.

The bank records any transfers between fair value levels at the end of the reporting period.

The table below presents the hierarchy of sources of fair value estimates of the Bank's assets and liabilities at fair value:

in thousands of Belarusian rubles

31 December 2018	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	-	32	-	**32**
Securities measured at fair value through profit or loss	10	-	14,203	-	**14,203**

31 December 2017	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	-	19	-	**19**
Securities measured at fair value through profit or loss	10	-	6,924	-	**6,924**
Investment property	13	-	-	10,837	**10,837**

For the years ended 31 December 2018 and 2017, the Bank did not have transfers between the levels of the hierarchy of sources of fair value estimates of assets and liabilities.

(a) Fair value of financial instruments

Below is a comparison of the value recorded in the statement of financial position and the fair value of the Bank's financial instruments as at 31 December 2018 and 2017:

	31 December 2018		31 December 2017	
in thousands of Belarusian rubles	Value recorded in the statement of financial position	Fair value	Value recorded in the statement of financial position	Fair value
Cash and account balances in the National Bank of the Republic of Belarus	36,732	36,732	25,356	25,356
Derivative financial assets	32	32	19	19
Due from other banks	16,647	16,647	5,010	5,010
Loans to customers	133,188	133,188	101,438	101,438
Securities measured at amortized cost	7,264	7,264	6,698	6,698
Securities measured at fair value through profit or loss	14,203	14,203	6,924	6,924
Other financial assets	6,323	6,323	825	825
Total financial assets	**214,389**	**214,389**	**146,270**	**146,270**
Liabilities				
Due to other banks	2,821	2,821	15,054	15,054
Due to customers	158,947	158,947	104,474	104,474
Debt securities issued	15,223	15,223	1,322	1,322
Other financial liabilities	1,019	1,019	619	619
Subordinated loans	15,251	7,258	13,920	6,878
Preference shares	2,070	2,070	1,862	1,862
Total financial liabilities	**195,331**	**187,338**	**137,251**	**130,209**

The following describes the methods and assumptions used by the Bank in determining the fair value of financial instruments.

(a) (i) Financial instruments recorded at fair value in the statement of financial position

As at 31 December 2018 and 31 December 2017, the fair value of financial assets measured at fair value and derivative financial instruments is calculated at using a discounted cash flow model in which the most significant input data are available on the market for identical or similar financial instruments (level 2). The fair value of short-term currency swaps with other banks for up to 10 days is recognized as zero.

a) (ii) Financial instruments not recorded at fair value in the statement of financial position

Financial instruments whose fair value is approximately equal to their value as recorded in the statement of financial position. For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their book value approximates their fair value. This assumption also applies to interbank loans, demand deposits and current accounts, as well as other short-term receivables and payables.

Financial instruments with floating and fixed interest rates. The fair value of financial instruments placed at floating interest rates is approximately equal to their value recognized in the statement of financial position. The estimated fair value of financial instruments places at fixed interest rates is based on the calculation of discounted cash flows by applying interest rates for the financial instruments with similar conditions, credit risk level and maturity.

The fair value of financial instruments not recorded in the statement of financial position at fair value corresponds to level 2 of the hierarchy of valuation sources other than cash and funds in accounts in the National Bank corresponding to level 1.

(b) Fair value of investment property

The fair value of investment property was calculated on the basis of a comparative method of valuation in 2015-2018 by the Bank independently, in 2014 — with the involvement of a professional independent appraiser.

The comparative method is based on information on market prices for similar objects (excluding property sale as repayment of debts) adjusted for existing differences.

The valuation of fair value as at 31 December 2017 is based on the market prices of similar objects adjusted for comparison elements (location, technical condition, etc.). The range of considered prices was 570 — 1,450 US dollars per square meter as at 31 December 2017. Increase (decrease) of market prices for real estate by 10%, excluding interrelation with other factors, will lead to an increase (decrease) in the cost of investment real estate by 1,084 thousand Belarusian rubles as at 31 December 2017. A 20% strengthening (10% weakening) of the US dollar against the Belarusian ruble in 2017, without taking into account the relationship with other factors, will lead to an increase by 2,167 thousand Belarusian rubles (decrease by 1,084 thousand Belarusian rubles) of the value of investment real estate.

Due to the lack of investment property in the Bank as at 31 December 2018, the fair value is zero.

A reconciliation of the fair value balances of investment property recorded in the statement of financial position as at 31 December 2018 and 2017 is provided in Note 13.

36. Operating segments

The Bank's segment reporting is based on the following operating segments: services to individuals, services to legal entities, treasury operations.

- services to individuals — maintaining current accounts, accepting deposits, granting loans, making settlements on behalf of individuals, servicing bank payment cards, safekeeping services;
- services to legal entities - settlement and cash services of enterprises and organizations (residents and non-residents of the Republic of Belarus), raising of deposits, placement of own issued debt securities, granting loans and other types of financing, documentary operations, securities transactions on behalf of customers;
- treasury operations — operations with the National Bank, maintenance of correspondent accounts of banks, raising and placement of funds in the interbank market, operations with securities on behalf of the Bank (including repurchase transactions), transactions with derivative financial instruments, purchase, sale and conversion of foreign currency.

Comparative information on the operational segments for 2018 is presented below:

in thousands of Belarusian rubles	Services to individuals	Services to legal entities	Treasury operations	Other / not allocated	Total
Interest income	7,436	8,437	840	-	16,713
Interest expenses	(1,425)	(6,242)	(303)	(2,455)	(10,425)
Net interest income	6,011	2,195	537	(2,455)	6,288
Fee and commission income	512	2,157	12	260	2,941
Fee and commission expenses	(57)	(8)	(296)	(638)	(999)
Net fee and commission income	455	2,149	(284)	(378)	1,942
Net income from transactions with derivative financial instruments	-	-	30	-	30
Net income from foreign exchange operations	-	-	1,263	902	2,165
Net income from securities transactions	-	2	26	-	28
Other income	587	76	-	495	1,158
Operating income	7,053	4,422	1,572	(1,436)	11,611
Operating expenses	(188)	(61)	-	(12,860)	(13,109)
Net devaluation of assets received as debt repayment	-	-	-	(31)	(31)
Net recovery of provisions for the impairment of interest bearing financial assets	(222)	1,803	(137)	-	1,444
Net accrual of allowances for impairment of other financial assets	22	(106)	-	(33)	(117)
Net recovery of allowances for credit related commitments	(2)	69	-	-	67
Financial result of the segment before income tax expenses	6,663	6,127	1,435	(14,360)	(135)
Profit before income tax expense					(135)
Income tax expense					293
Net profit for the year					158
Segment assets	35,314	104,096	72,712	21,128	233,250
Segment liabilities	31,450	128,606	18,044	18,570	196,670
Other segment information					
Cash and account balances in the National Bank of the Republic of Belarus	-	-	34,566	2,166	36,732
Derivative financial assets	-	-	32	-	32
Securities measured at fair value through profit or loss	-	-	14,203	-	14,203
Due from other banks	-	-	16,647	-	16,647
Loans to customers	34,882	98,306	-	-	133,188
Securities measured at amortized cost	-	-	7,264	-	7,264
Other assets	432	5,790	-	887	7,109
Debt securities issued	-	-	15,223	-	15,223
Due to other banks	-	-	2,821	-	2,821
Due to customers	31,321	127,626	-	-	158,947
Other liabilities	129	980	-	1,185	2,294

Comparative information on the operational segments for 2017 is presented below:

in thousands of Belarusian rubles	Services to individuals	Services to legal entities	Treasury operations	Other / not allocated	Total
Interest income	5,965	6,350	3,426	-	15,741
Interest expenses	(1,852)	(3,953)	(497)	(1,304)	(7,606)
Net interest income	4,113	2,397	2,929	(1,304)	8,135
Fee and commission income	533	2,023	32	186	2,774
Fee and commission expenses	(101)	(5)	(139)	(547)	(792)
Net fee and commission income	432	2,018	(107)	(361)	1,982
Net income from transactions with derivative financial instruments	-	-	143	-	143
Net income from foreign exchange operations	-	-	1,813	(74)	1,739
Net expenses on securities held to maturity	-	3	(122)	-	(119)
Other income	441	69	-	958	1,468
Operating income	4,986	4,487	4,656	(781)	13,348
Operating expenses	(275)	(77)	-	(9,745)	(10,097)
Net devaluation of assets received as debt repayment	-	-	-	(10)	(10)
Net accrual of provisions for the impairment of interest bearing financial assets	227	(977)	-	-	(750)
Net accrual of allowances for impairment of other financial assets	(124)	49	-	(46)	(121)
Net accrual of allowances for credit related commitments	(2)	(144)	-	-	(146)
Financial result of the segment before income tax expenses	4,812	3,338	4,656	(10,582)	2,224
Profit before income tax expense					2,224
Income tax expense					1,451
Net profit for the year					3,675
Segment assets	29,727	72,331	43,056	30,438	175,552
Segment liabilities	27,579	77,301	16,376	16,393	137,649
Other segment information					
Cash and account balances in the National Bank of the Republic of Belarus	-	-	24,405	-	24,405
Derivative financial assets	-	-	19	-	19
Securities measured at fair value through profit or loss	-	-	6,924	-	6,924
Due from other banks	-	-	5,010	-	5,010
Loans to customers	29,337	72,101	-	-	101,438
Securities measured at amortized cost	-	-	6,698	-	6,698
Other assets	390	230	-	-	620
Debt securities issued	-	-	1,322	-	1,322
Due to other banks	-	-	15,054	-	15,054
Due to customers	27,473	77,001	-	-	104,474
Other liabilities	106	300	-	-	406

Information on the structure of interest and commission income and expenses of the Bank by type of activity is provided in Notes 24, 25. Analysis of the geographical structure of the Bank's financial assets and liabilities is presented in Note 34.

37. Related parties transactions

In the ordinary course of business the Bank carries out operations with its shareholders, management of the Bank and other related parties. These operations include loans, fund raising and other operations. Based on the Bank's policy all operations with related parties are carried out on the same terms as those with third parties. As at 31 December 2018, the average rates on loans granted to related parties in Belarusian rubles were 11% per annum, granted in foreign currency — 7% per annum; average rates on fund-raising were 6% per annum on instruments in Belarusian rubles, 2.5% per annum on instruments in foreign currency.

The balances on operations with related parties as at 31 December 2018 are presented below:

in thousands of Belarusian rubles	Shareholders	Companies under common control	Key management personnel
Loans to customers	17	2,730	132
Allowance for impairment	-	-	(1)
Loans to customers less allowance for impairment	17	2,730	131
Other financial assets	3,829	1,113	-
Subordinated loans	15,251	-	-
Due to customers	824	90	340

The balances on operations with related parties as at 31 December 2017 are presented below:

in thousands of Belarusian rubles	Shareholders	Companies under common control	Key management personnel
Loans to customers	704	5,555	50
Allowance for impairment	(16)	(1,220)	-
Loans to customers less allowance for impairment	688	4,335	50
Subordinated loans	13,920	-	-
Due to customers	136	92	319

The credit related commitments for operations with related parties as at 31 December 2018 and 2017 are presented below:

in thousands of Belarusian rubles	Shareholders	Companies under common control	Key management personnel
Unused credit lines as at 31 December 2018	5	-	124
Unused credit lines as at 31 December 2017	3	-	85

The items of income and expenses for operations with related parties for 2018 are presented below:

in thousands of Belarusian rubles	Shareholders	Companies under common control	Key management personnel
Interest income	14	1,232	9
Interest expenses	(1,306)	-	(5)
Fee and commission income	5	8	-
Income on settlements with customers	448	127	-
Operating lease expenses	(71)	(176)	-

The items of income and expenses for operations with related parties for 2017 are presented below:

in thousands of Belarusian rubles	Shareholders	Companies under common control	Key management personnel
Interest income	20	67	28
Interest expenses	(1,374)	(2)	(7)
Fee and commission income	4	8	-
Operating lease expenses	(75)	(201)	-

The information on remuneration payments to key management personnel and members of the Board of Directors for 2018 and 2017 is presented below:

in thousands of Belarusian rubles	2018	2017
Salary and other short-term payments	1,115	916
Remuneration to members of the Board of Directors	815	584

38. Subsequent events

During 2018, the refinancing rate of the National Bank was reduced from 11% to 10% per annum (26 June 2018). As at 1 May 2019 the Belarusian ruble against major currencies has changed since the beginning of the year as follows: it strengthened against the US dollar by 2.50%, against the Euro by 4.71%, weakened by 4.87% against the Russian ruble.

On 26 March 2019 the General Meeting of Shareholders of the Bank decided to distribute profit for 2018 to replenish the Bank's reserve fund and reserve payroll fund in accordance with the requirements of the legislation of the Republic of Belarus. It was decided to pay dividends on preference shares of RDB-Bank based on the results of 2013-2018.

The rating agency Fitch Ratings confirmed the long-term and short-term sovereign credit ratings of Belarus for liabilities in foreign and national currency at the level of "B" and gave a forecast of "stable".