Translation from the original in Russian

“Priorbank” JSC

Consolidated financial statements

Year ended 31 December 2018
together with the audit report of an independent audit firm

Contents

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улучшаем мир

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Audit report of an independent audit firm on the consolidated financial statements of "Priorbank" Joint-Stock Company for the period from 1 January 2018 to 31 December 2018

To the Chairman of the Management Board
of "Priorbank" Joint-Stock Company
Mr. S. A. Kostyuchenko

To the shareholders, Supervisory Board and Audit Committee
of "Priorbank" Joint-Stock Company

Opinion

We have audited the consolidated financial statements of "Priorbank" Joint-Stock Company (JSC) and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with Law No. 56-Z of the Republic of Belarus "On Auditing Activity" dated 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and with International Standards on Auditing (ISA). Our responsibilities under those rules and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Estimation of allowances for expected credit losses on loans to customers in accordance with IFRS 9 Financial Instruments	
The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management. The identification of factors of a significant increase in credit risk, including the identification of any changes in the risk of default occurring over the remaining life of a financial instrument, as well as the estimation of probability of default and loss given default involve significant use of professional judgment and assumptions. The use of various models and assumptions in the calculation of expected credit losses can significantly affect the level of the allowance for expected credit losses on loans to customers. Due to substantial amounts of loans to customers and an extensive use of professional judgment, the estimation of the allowance for expected credit losses is a key audit matter. The information on the allowance for expected credit losses on loans to customers and the Bank's management approach to assessing and managing credit risk are described in Notes 3, 8 and 27 to the consolidated financial statements.	Our audit procedures included the analysis of the methodology for estimating the allowance for expected credit losses on loans to individuals and legal entities, testing of controls over the customer lending process, estimates of allowances for expected credit losses, as well as procedures to identify factors of a significant increase in credit risk and indicators of loan impairment. In respect of the assessment of the allowance for expected credit losses on loans to individuals and legal entities, we analyzed assumptions, tested input data used by the Bank, and analyzed the model for assessing the probability of default, the loss given default and macroeconomic overlay factors ratios. We verified the staging of loans by credit quality and recalculated the allowance for expected credit losses. Our audit procedures also included the recalculation of the allowance for individually significant loans to legal entities and loans with higher credit risk exposure. We analyzed the financial position of customers, their credit ratings, overdue and renegotiated exposures, sufficiency of collateral.

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Key audit matter	How our audit addressed the key audit matter
	We analyzed consistency of management's assumptions applied in calculating the allowance for expected credit losses. We analyzed the information related to the allowance for expected credit losses on loans, disclosed in the notes to the consolidated financial statements.

Responsibility of management and the Supervisory Board of "Priorbank" JSC for the consolidated financial statements

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

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

The Supervisory Board of "Priorbank" JSC is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law No. 56-Z of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit performed in accordance with Law No. 56-Z of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board and the Audit Committee of "Priorbank" JSC 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 the Supervisory Board and the Audit Committee of "Priorbank" JSC 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.

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

Audit partner in charge of the engagement resulting in this independent auditor's report is Y. S. Studynska.

I. V. Stankevich
Deputy General Director - Audit Director,
Ernst & Young LLC, FCCA

O. M. Yarmakovich
Head of Audit Department
Ernst & Young LLC, FCCA

10 May 2019

Details of the audited entity

Name: "Priorbank" Joint-Stock Company
"Priorbank" Joint-Stock Company was registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A.

Details of the audit firm

Name: Ernst & Young Limited Liability Company
Certificate of State Registration No. 190616051 issued by the Minsk City Executive Committee on 15 December 2014.
Address: 220004, Republic of Belarus, Minsk, Klary Tsetkin str., 51a, 15th floor.

Consolidated statement of financial position
As at 31 December 2018

(thousands of Belarusian rubles)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	6	1,148,689	858,102
Amounts due from credit institutions	7	61,602	53,428
Loans to customers	8	2,657,347	2,241,797
Investment securities	9	306,989	244,982
Investment property	10	11,840	16,929
Property and equipment	11	156,550	150,514
Intangible assets	12	33,385	32,622
Current income tax assets		296	224
Deferred income tax assets	13	2,731	-
Other assets	15	63,606	65,647
Total assets		**4,443,035**	**3,664,245**
Liabilities			
Amounts due to credit institutions	16	261,725	349,885
Amounts due to customers	17	3,028,889	2,293,720
Amounts due to international financial institutions	18	60,406	41,948
Debt securities issued	19	68,025	51,732
Current income tax liabilities		297	13,958
Deferred income tax liabilities	13	33,191	47,303
Provisions		2,111	-
Other liabilities	15	116,530	105,500
Total liabilities		**3,571,174**	**2,904,046**
Equity	20		
Share capital		341,828	341,828
Additional paid-in capital		193	193
Foreign currency translation reserve		3,517	2,994
Retained earnings		497,067	399,535
Revaluation reserve for the net pension liability		(6,437)	(10,002)
Revaluation reserve for investment securities		131	-
Total equity attributable to shareholders of the Bank		**836,299**	**734,548**
Non-controlling interest		35,562	25,651
Total equity		**871,861**	**760,199**
Total equity and liabilities		**4,443,035**	**3,664,245**

Signed and authorized for release on behalf of the Management Board of the Bank

Andrey I. Ivankevich — Acting Chairman of the Management Board

Открытое акционерное общество «Приорбанк» Республика Беларусь

10 May 2019

The accompanying notes on pages 6 – 74 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2018

(thousands of Belarusian rubles)

	Notes	*2018*	*2017*
Interest income calculated using the effective interest rate		247,188	257,517
Other interest income		27,842	26,235
Interest expense		(61,335)	(42,597)
Net interest income	22	**213,695**	**241,155**
Credit loss income / (expense)	14	12,423	(857)
Net interest income after credit loss expense		**226,118**	**240,298**
Fee and commission income		166,824	143,223
Fee and commission expense		(94,330)	(68,946)
Net fee and commission income	23	**72,494**	**74,277**
Net gains from foreign currencies:			
- dealing		59,641	19,959
- translation differences		5,557	27,986
Other income	24	17,207	24,338
Non-interest income		**82,405**	**72,283**
Personnel expenses	25	(87,751)	(90,894)
Depreciation and amortization	10,11,12	(24,727)	(21,838)
Other operating expenses	25	(68,251)	(62,775)
Non-interest expense		**(180,729)**	**(175,507)**
Profit before income tax expense		**200,288**	**211,351**
Income tax expense	13	(41,095)	(51,377)
Profit for the year		**159,193**	**159,974**
Attributable to:			
- shareholders of the Bank		149,896	156,289
- non-controlling interest		9,297	3,685
		159,193	**159,974**

The accompanying notes on pages 6 – 74 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2018

(thousands of Belarusian rubles)

	Notes	*2018*	*2017*
Profit for the year		**159,193**	**159,974**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of the financial statements of a foreign subsidiary	20	830	2,064
Net change in the fair value of debt instruments at fair value through other comprehensive income	20	67	-
Effect of income tax	13	(17)	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**880**	**2,064**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain/(loss) on defined pension plan	20	4,753	(7,360)
Gains from equity instruments measured at fair value through other comprehensive income	20	22	-
Effect of income tax	13	(1,194)	1,840
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**3,581**	**(5,520)**
Other comprehensive income for the year, net of tax		**4,461**	**(3,456)**
Total comprehensive income for the year		**163,654**	**156,518**
Attributable to:			
- shareholders of the Bank		154,050	152,070
- non-controlling interest		9,604	4,448
		163,654	**156,518**

The accompanying notes on pages 6 – 74 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018

(thousands of Belarusian rubles)

	Attributable to shareholders of the Bank								
	Share capital	*Additional paid-in capital*	*Foreign currency translation reserve*	*Retained earnings*	*Revaluation reserve for the net pension liability*	*Revaluation reserve for investment securities*	*Total*	*Non-controlling interest*	*Total equity*
At 31 December 2016	**341,828**	**193**	**1,693**	**403,226**	**(4,482)**	-	**742,458**	**21,203**	**763,661**
Profit for the year	–-	–-	-	156,289	-	-	**156,289**	3,685	**159,974**
Other comprehensive income/(loss) for the year	–-	–-	1,301	-	(5,520)	-	**(4,219)**	763	**(3,456)**
Total comprehensive income for the year	**–-**	**–-**	**1,301**	**156,289**	**(5,520)**	-	**152,070**	**4,448**	**156,518**
Dividends declared and paid to shareholders of the Bank (Note 20)	-–	–-	-	(159,980)	-	-	**(159,980)**	–	**(159,980)**
At 31 December 2017	**341,828**	**193**	**2,994**	**399,535**	**(10,002)**	-	**734,548**	**25,651**	**760,199**
Effect of applying IFRS 9 (Note 3)	-–	–-	-	(1,903)	-	65	(1,838)	307	(1,531)
Balance as at 1 January 2018 restated in accordance with IFRS 9	**341,828**	**193**	**2,994**	**397,632**	**(10,002)**	**65**	**732,710**	**25,958**	**758,668**
Profit for the year	-–	-–	-	149,896	-	-	**149,896**	9,297	**159,193**
Other comprehensive income/(loss) for the year	-–	-–	523	-	3,565	**66**	**4,154**	307	**4,461**
Total comprehensive income for the year	-–	-–	**523**	**149,896**	**3,565**	**66**	**154,050**	**9,604**	**163,654**
Dividends declared and paid to shareholders of the Bank (Note 20)	–-	-–	-	(50,461)	-	-	**(50,461)**	–	**(50,461)**
At 31 December 2018	**341,828**	**193**	**3,517**	**497,067**	**(6,437)**	**131**	**836,299**	**35,562**	**871,861**

The accompanying notes on pages 6 – 74 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

(thousands of Belarusian rubles)

	Notes	*2018*	*2017*
Cash flows from operating activities			
Interest received		268,146	284,873
Interest paid		(59,988)	(42,857)
Fees and commissions received		166,838	143,817
Fees and commissions paid		(94,297)	(68,868)
Gains less losses from foreign currencies		60,829	21,954
Other income received		12,130	26,242
Personnel expenses paid		(85,490)	(88,633)
Other operating expenses paid		(65,702)	(62,362)
Cash flows from operating activities before changes in operating assets and liabilities		**202,466**	**214,166**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(6,648)	(10,334)
Loans to customers		(330,824)	(212,788)
Other assets		627	13,788
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(101,561)	(95,716)
Amounts due to international financial institutions		16,027	34,448
Amounts due to customers		616,301	370,284
Other liabilities		8,055	18,628
Net cash from operating activities before income tax		**404,443**	**332,476**
Income tax paid		(72,183)	(56,632)
Net cash from operating activities		**332,260**	**275,844**
Cash flows from investing activities			
Purchase of investment securities at amortized cost (previously designated as held to maturity)		(2,315,213)	(3,687,420)
Proceeds from redemption of investment securities at amortized cost (previously designated as held to maturity)		2,314,271	3,613,482
Purchase of securities at FVOCI		(36,282)	-
Proceeds from sale of property and equipment, intangible assets and investment property		25,671	2,993
Purchase of property and equipment, intangible assets and investment property	10,11,12	(40,492)	(50,498)
Net cash used in investing activities		**(52,045)**	**(121,443)**
Cash flows from financing activities			
Proceeds from issue of debt securities		57,965	52,394
Redemption of debt securities issued		(41,712)	(3,718)
Dividends paid to shareholders of the Bank		(50,461)	(159,980)
Net cash used in financing activities	31	**(34,208)**	**(111,304)**
Effect of exchange rates changes on cash and cash equivalents		44,583	15,569
Net increase in cash and cash equivalents		**290,590**	**58,666**
Cash and cash equivalents, beginning		**858,102**	**799,436**
Cash and cash equivalents, ending	6	**1,148,692**	**858,102**

The accompanying notes on pages 6 – 74 are an integral part of these consolidated financial statements.

(thousands of Belarusian rubles)

1. Principal activities

"Priorbank" Joint-Stock Company (hereinafter, "Priorbank" or the "Bank") was founded in 1989 as a public joint-stock company under the laws of the Republic of Belarus. The Bank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in August 2008 and extended in May 2013. The Bank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2011.

The Bank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its head office is located in Minsk, and it has 85 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise the Bank and its subsidiaries (jointly referred to as the "Group"). The list of consolidated subsidiaries is disclosed in Note 2. The Bank's legal address is 31-A, ul. V. Khoruzhey, Minsk, 220002, Republic of Belarus.

As at 31 December 2018 and 2017, Priorbank had the following shareholding structure:

Shareholders	***2018 %***	***2017 %***
Raiffeisen CIS Region Holding GmbH	87.74	87.74
Others	12.26	12.26
Total	**100.00**	**100.00**

Raiffeisen Bank International AG is the ultimate parent company of the Group, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements in accordance with Belarusian accounting and reporting legislation and related instructions. These consolidated financial statements are based on the statutory financial statements and accounting records of the Bank and its subsidiaries, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies. For example, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in thousands of Belarusian rubles ("BYN thousand"), unless otherwise indicated.

Reclassifications

After the application of IFRS 9 (Note 3), the Group changed the presentation of the consolidated statement of profit or loss and presented impairment losses, defined in accordance with IFRS 9, as a single line item. The result of revaluation of the impairment allowances nominated in foreign currencies was presented within net gains from foreign currencies. Therefore, in order to ensure compliance with 2018 presentation principles, the following reclassifications were made in the consolidated statement of profit or loss for 2017:

(thousands of Belarusian rubles)

2. Basis of preparation (continued)

Reclassifications (continued)

	As previously reported	*Reclassification*	*As adjusted*
Charge of allowance for loan impairment	(8,988)	8,988	-
Translation differences	34,068	(6,082)	27,986
Other income	26,285	(1,947)	24,338
Other operating expenses	(62,673)	(102)	(62,775)
Credit loss expense	-	(857)	(857)

Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Ownership, %					
Subsidiary	*2018*	*2017*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Unitary Enterprise "PriortransAgro"	100	100	Belarus	June 1991	Agriculture	June 1991
Unitary Enterprise "Dom Office 2000"	100	100	Belarus	February 2001	Construction	February 2001
"Priorlife" JLLC	100	100	Belarus	April 2001	Insurance	April 2001
Raiffeisen Leasing JLLC	70	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-Leasing Lithuania UAB	90	90	Lithuania	January 2011	Leasing	January 2011
Insurance broker Studiya Strakhovaniya LLC	100	100	Belarus	September 2014	Insurance	September 2014
Extrusion Technologies LLC	100	100	Belarus	November 2017	Manufacturing	November 2017
Estate Management LLC	100	-	Belarus	May 2018	Real estate management	May 2018

In December 2017, "Priorbank" JSC's Supervisory Board decided to establish a legal entity in the form of a limited liability company. In April 2018, the NBRB granted its permission to participate in the share capital of the established legal entity "Estate Management" LLC. The share capital was formed by the Bank by means of monetary contribution of BYN 400 thousand and non-monetary contribution of BYN 8,491 thousand.

In 2018, Unitary Insurance Enterprise "Priorlife", the Bank's subsidiary, was reorganized into "Priorlife" JLLC. The reorganization was registered in the Unified State Register of Legal Entities on 3 March 2018.

3. Summary of accounting policies

Changes in accounting policies

The Group applied for the first time IFRS 15 and IFRS 9 and certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of changes resulting from the application of new standards and each amendment are described below:

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. The Group did not restate comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as at 1 January 2018 and are disclosed below.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest on the principal amount outstanding" (SPPI) criterion, are classified at initial recognition as financial assets at fair value through profit or loss (FVPL). According to this criterion, debt instruments that do not meet the definition of a "basic lending arrangement" (such as instruments with embedded conversion options or non-recourse loans) are measured at FVPL. For debt financial assets that meet the SPPI criterion, the classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortized cost
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI)
- Instruments that are managed on another basis, including trading financial assets, are measured at FVPL.

Equity financial assets are required to be classified at initial recognition as measured at FVPL unless an irrevocable designation is made to classify the instrument as measured at FVOCI. For equity investments classified as measured at FVOCI, all realized and unrealized gains and losses, except for dividend income, are recognized in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing the IAS 39 incurred loss approach with the forward-looking expected credit loss (ECL) approach. Starting from 1 January 2018, the Group recognizes the ECL allowance for all loans and other debt financial assets not measured at FVPL, as well as for loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECL associated with the probability of default in the next 12 months (12-month ECL) unless there has been a significant increase in credit risk since origination. In the latter case, the ECL allowance is calculated based on expected credit losses over the life of the asset (lifetime ECL). If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset. Both lifetime and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying basic portfolio of financial instruments. The impairment model applied by the Group is detailed in Note 27. The quantitative information on the effect of adopting IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(c) Effect of transition to IFRS 9

The effect of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018, including the implications of replacing the incurred credit loss model in IAS 39 with the ECL model in IFRS 9, is set out below.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		*Reclassifica-*	*Remeasurement*		*IFRS 9 measurement*	
Financial assets	***Ref.***	***Category***	***Amount***	***tion***	***ECL***	***Other (B)***	***Amount***	***Category***
Cash and cash equivalents		L&R[1]	858,102	-	(45)	-	858,057	Amortized cost
Loans to customers		L&R[1]	2,241,797	-	6,697	(5,057)	2,243,437	Amortized cost
Investment securities		HTM[2]	244,982	-	(3,445)	-	241,537	Amortized cost
Investment securities	A	AFS[3]	-	1,104	-	86	1,190	FVOCI (equity instruments)
Non-financial assets								
Other assets			65,647	(1,104)	-	-	64,543	
Total assets			**3,410,528**	**-**	**3,207**	**(4,971)**	**3,408,764**	
Non-financial liabilities								
Deferred tax liabilities			47,303	-	-	(699)	46,604	
Provisions			-	416	466	-	882	
Other liabilities			105,500	(416)	-	-	105,084	
Total liabilities			**152,803**	**-**	**466**	**(699)**	**152,570**	

[1] L&R – loans and receivables

[2] HTM – held to maturity

[3] AFS – available for sale.

A The Group made an irrevocable election to reclassify equity instruments previously classified as available for sale to equity instruments at FVOCI.

B Column "Other" includes changes in line items that are not associated with remeasurement of ECL, including the effect of recognition of POCI assets, accrual of interest on non-performing loans (gross presentation), the effect of revaluation of investment securities at FVOCI and the respective effect on deferred tax liabilities.

The impact of transition to IFRS 9 on equity is as follows:

	Equity
Revaluation reserve for investment securities	
Balance at the end of the period under IAS 39 (31 December 2017)	-
Revaluation resulting from reclassification of equity investment securities from available for sale to measured at FVOCI	86
Related deferred tax	(21)
Balance at the beginning of the period under IFRS 9 (1 January 2018)	**65**
Retained earnings	
Balance at the end of the period under IAS 39 (31 December 2017)	**399,535**
Interest accrued on non-performing loans (gross presentation) and recognition of POCI assets	(5,057)
Recognition of ECL under IFRS 9, including those from instruments measured at FVOCI	2,434
Related deferred tax	720
Balance at the beginning of the period under IFRS 9 (1 January 2018)	**397,632**
Non-controlling interests	
Balance at the end of the period under IAS 39 (31 December 2017)	**25,651**
Recognition of ECL under IFRS 9, including those from instruments measured at FVOCI	307
Balance at the beginning of the period under IFRS 9 (1 January 2018)	**25,958**
Total changes in equity due to adoption of IFRS 9	**(1,531)**

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9.

	Allowance for loan impairment under IAS 39 / IAS 37 at 31 December 2017	***Remeasurement***	***ECL under IFRS 9 at 1 January 2018***
Impairment allowance			
Cash and cash equivalents	-	45	45
Loans and receivables measured at amortized cost	124,942	(6,697)	118,245
Held-to-maturity securities under IAS 39 / investment securities at amortized cost under IFRS 9	-	3,445	3,445
	124,942	**(3,207)**	**121,735**
Credit-related commitments	416	466	882
	125,358	**(2,741)**	**122,617**

IFRS 15 Revenue from Contracts with Customers

IFRS 15, issued in May 2014, and amended in April 2016, establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is 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. However, the standard does not apply to revenue associated with financial instruments and leases, and therefore, does not impact the majority of the Group's revenue including interest income, gains /(losses) on operations with securities, lease income which are covered by IFRS 9 *Financial Instruments* and IAS 17 *Leases*. The adoption of this standard did not have any impact on the Group's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

Amendments to IAS 40 – Transfers of Investment Property

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

Amendments to IAS 28 Investments in Associates and Joint Ventures — clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect to measure its investments in associates and joint ventures at fair value through profit or loss. This election is made separately for each investment at initial recognition. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments had no impact on the Group's consolidated financial statements.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Fair value measurement

The Group measures financial instruments recorded at FVPL and FVOCI and non-financial assets, such as investment property, at fair value at each reporting date.

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date, i.e. the date that the Group commits to purchase the asset or the liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under a contract that requires delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model used for managing the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVPL.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Group classifies all its financial assets based on the business model used to manage the assets and the asset's contractual terms, measured at either:

- Amortized cost
- FVOCI
- FVPL

The Group classifies and measures its derivative and trading instruments at FVPL. The Group may designate financial instruments as at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Before 1 January 2018, the Group classified its financial assets as: loans and receivables (amortized cost), FVPL, and held-to-maturity (amortized cost).

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investment securities measured at amortized cost

Before 1 January 2018, amounts due from credit institutions and loans to customers included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term
- That the Group, upon initial recognition, designated as at FVPL or as available for sale
- Those for which the Group could collect the amount substantially less than the amount of its initial investment for reasons other than deterioration of the asset's credit quality. Such assets were classified as available for sale.

From 1 January 2018, the Group measures amounts due from credit institutions, loans to customers, and other financial investments at amortized cost, only when the following two conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If after the initial recognition the cash flows are realized in a way different from the Group's expectations, the Group does not change the classification of the remaining financial assets held within this business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of a financial asset to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of a financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

From 1 January 2018, the Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in the fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would be accrued if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

From 1 January 2018, upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other income when the right to the dividend has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the consolidated statement of profit or loss, and – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Held-to-maturity investments

Before 1 January 2018, non-derivative financial assets with fixed or determinable payments and fixed maturity were classified as held to maturity when the Group had the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this category. Held-to-maturity investments were subsequently measured at amortized cost. Gains and losses were recognized in profit or loss when the investments were impaired, as well as through the amortization process.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Loans and receivables

Before 1 January 2018, loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were not entered into with the intention of immediate or short-term resale and were not classified as trading securities or investment securities available for sale. Such assets were carried at amortized cost using the effective interest rate method. Gains and losses were recognized in profit or loss when the loans and receivables were derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Before 1 January 2018, available-for-sale financial assets were those non-derivative financial assets that were designated as available for sale or were not classified in any of the three preceding categories. After initial recognition available-for sale financial assets were measured at fair value with gains or losses being recognized in other comprehensive income until the investment was derecognized or until the investment was determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income was reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method was recognized in profit or loss.

Reclassification of financial assets and liabilities

From 1 January 2018, the Group does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Group changes its business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify its financial assets or liabilities in 2017.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB (excluding obligatory reserves) and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss within net gains from foreign currencies, translation differences position.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, amounts due to international financial institutions, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of profit or loss when the borrowings are derecognized as well as through the amortization process.
If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated statement of profit or loss.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Leases

i. Finance − Group as lessor

The Group recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Group presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of lease receivables.

ii. Operating − Group 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 other operating expenses.

iii. Operating – Group as lessor

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated statement of profit or loss on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- The normal course of business
- The event of default, and
- The event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreeing new loan conditions.

From 1 January 2018, the Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:

- A change in the currency of a loan
- A change in the counterparty
- Whether the modification is such that the instrument no longer meets the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group recognizes gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the consolidated statement of profit or loss before the impairment loss is recognized.

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39

Before 1 January 2018, the Group assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if, and only if, there was objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or the group of financial assets that could be reliably estimated. Evidence of impairment might include indications that the borrower or a group of borrowers was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they would enter bankruptcy or other financial reorganization and where observable data indicated that there was a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlated with defaults. For available-for-sale financial instruments, evidence of impairment also included significant or prolonged decline in the fair value of the investment below its cost.

The Group assessed whether objective evidence of impairment existed individually for financial assets that were individually significant, or collectively for financial assets that were not individually significant.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred), discounted using the original effective interest rate, or, for available-for-sale financial assets, as the difference between the cost of the investment and its fair value. The carrying amount of the asset was reduced, and the amount of the loss was recognized in profit or loss. Interest income continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for available-for-sale financial assets, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Assets together with the associated allowance were written off when there was no realistic prospect of future recovery and all collateral had been realized or transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss decreased because of an event occurring after the impairment had been recognized, the previously recognized impairment loss was reversed in the consolidated statement of profit or loss, except for equity investments available for sale, for which the increase in their fair value after impairment was recognized in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Group's internal credit grading system that considered credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that were collectively evaluated for impairment were estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience was adjusted on the basis of current observable data to reflect the effects of current conditions that had not affected the years on which the historical loss experience was based and to remove the effects of conditions in the historical period that did not exist currently. Estimates of changes in future cash flows reflected, and were directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that were indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Information on impairment assessment under IFRS 9 is presented in Note 27.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities

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

Where the Group 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 Group'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 Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied to the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

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

Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus applicable to the Group companies operating in the Republic of Belarus, including the representative office of Raiffeisen-leasing Lithuania UAB. Current income tax of the subsidiary Raiffeisen-leasing Lithuania UAB is calculated and paid in accordance with the applicable legislation of Lithuania.

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Taxation (continued)

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are recognized on the level of each of the Group's companies. Assets of one company of the Group may not be offset against the liabilities of the other Group company.

Belarus also has various operating taxes, which are assessed on the Group's activities. These taxes are recognized within other operating expenses in the consolidated statement of profit or loss.

Property and equipment

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

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

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

	Years
Buildings	25-50
Furniture, fixtures and other	5-10

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Investment property

Investment property is a building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business.

Investment property is recognized at cost, including transaction costs.

Earned rental income is recorded within other income in the consolidated statement of profit or loss.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Investment property (continued)

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50-100

Intangible assets

Intangible assets include computer software and other intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, as adjusted for hyperinflation.

The useful lives of intangible assets are finite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 6 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

Inventories

Inventories include property transferred to the Group as a repayment of loans, as well as blocks of apartments and construction-in-progress owned by the Group. Inventories are recorded at the lower of cost and net realizable value.

Impairment, reversal and realization of inventories are recognized in other income or other expenses of the Group.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Retirement and other employee benefit obligations

The Group participates in the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Group operates a defined benefit plan through its wholly owned subsidiary "Priorlife" JLLC, which provides eligible employees with retirement benefits upon reaching the retirement age of 63 for men and 58 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in the consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the statement of comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations (continued)

Past services costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Group recognizes restructuring-related costs.

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities.

The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated statement of profit or loss as personnel expenses:

- Service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan
- Net interest gains or losses.

Share capital

Share capital

Ordinary shares and preferred shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are recognized at cost adjusted for hyperinflation.

Dividends

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

Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not owned by the Group.

Segment reporting

The Group's segment reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest income and expenses

From 1 January 2018, the Group calculates interest income on debt financial assets measured at amortized cost or FVOCI, applying the effective interest rate to the gross carrying amount of financial assets, except for credit-impaired assets (prior to 1 January 2018: applying the effective interest rate to the amortized cost of financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortized cost of the financial asset. The credit-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The interest income for all financial assets at FVPL is recognized with the use of a contractual interest rate in "Other interest income" in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

- *Fee and commission income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee and commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Income is recognized when the Group's right to receive the payment is established.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as "Net gains from foreign currencies – translation differences". Non-monetary items that are measured in terms of actual cost in a foreign currency are translated using the exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates as at 31 December 2018 and 2017 were 2.1598 Belarusian rubles and 1.9727 Belarusian rubles to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Belarusian rubles at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss.

Standards issued but not yet effective

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

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it 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 lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g. computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

In addition, IFRS 16, which becomes effective for annual periods beginning on 1 January 2019, requires lessors and lessees to make more extensive disclosures than under IAS 17.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Group plans to apply IFRS 16 retrospectively and recognize the cumulative effect of initial application of IFRS 16 at the date of initial application. The Group will apply this standard to agreements that were previously identified as lease agreements with the application of IAS 17 and IFRIC 4. Accordingly, the Group will not apply the standard to agreements that were not previously identified as lease agreements with the application of IAS 17 and IFRIC 4.

The Group will use exemptions specified in the standard with regard to lease agreements that expire within 12 months from the date of initial application, as well as with regard to leases of low-value underlying assets. For example, the Group has lease agreements for ATM areas, the value of which is considered low.

3. Summary of accounting policies (continued)

The estimated effect of the adoption of IFRS 16 on the Group's consolidated statement of financial position is presented below:

	1 January 2019
Assets	
Property and equipment (right-of-use assets)	4,261
Other assets (prepayment)	-
Total assets	4,261
Liabilities	
Other liabilities (lease liabilities)	4,261
Deferred tax liabilities	-
Total liabilities	4,261
Net effect on equity	-

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model supplemented by:

- Certain modifications related to insurance contracts with direct participation features (variable compensation method)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17. In 2018, the Group will continue to assess the effect of this standard on the consolidated financial statements.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The Group will apply this interpretation from its effective date. The Group does not expect any impact on its consolidated financial statements.

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments are applied retrospectively and become effective for annual periods beginning on 1 January 2019, with early application permitted. These amendments have no impact on the consolidated financial statements of Group.

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

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

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

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

The amendments also clarify that the entity is to determine firstly the past service cost or gain/loss on settlement under this plan, not taking into consideration the impact of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

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

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

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

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

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

Annual improvements 2015-2017 cycle (issued in December 2017)

These improvements include:

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

An entity should apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted. These amendments will be applied to future business combinations of the Group.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted. At present, these amendments are not applicable to the Group but may apply to future transactions.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity must recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating past operations or events.

The entity must apply these amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted. On initial application, an entity must apply these amendments to income tax consequences of dividends recognized on or after the commencement date of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019. Early application is permitted. Since the Group's current practice is in line with the amendments, the Group does not expect any effect on its consolidated financial statements.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant judgments and estimates are as follows:

Expected credit losses from impairment of financial assets

The assessment of losses under IFRS 9, as well as under IAS 39, by all categories of financial assets requires judgment to be applied. In particular, when determining ECL/ impairment losses and assessing a significant increase in credit risk, it is necessary to assess the amount and timing of future cash flows, and the value of collateral. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

(thousands of Belarusian rubles)

4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL calculation models that are considered accounting judgments and estimates include:

- The Group's internal credit grading model, which assigns PDs to individual grades
- The Group's criteria for assessing if there has been a significant increase in credit risk, so allowances for impairment of financial assets should be measured on the lifetime ECL basis, and qualitative assessment
- Segmentation of financial assets when their ECL are assessed on a collective basis
- Development of ECL models, including various formulas and the choice of inputs
- Determination of interrelations between macroeconomic scenarios and economic data. For example, the interrelation between the unemployment rate and the collateral value, as well as the impact on the probability of default (PD), exposure at default (EAD), and loss given default (LGD)
- Selection of forecast macroeconomic scenarios and weighing of their probability to obtain economic inputs for ECL assessment models

The allowance recognized in the consolidated statement of financial position as at 31 December 2018 was BYN 106,027 thousand (2017: BYN 125,358 thousand). More details are provided in Notes 8, 9, 15 and 21.

Assessment of payment liabilities under the pension plan of "Priorlife" JLLC

A defined benefit obligation is assessed on actuarial basis using projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ. Sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 26.

Deferred tax assets

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Group. Further details regarding taxation issues are provided in Note 13.

5. Segment information

For management purposes, the Group identifies three operating segments based on its products and service, as follows:

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services.

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers, except for banking financial institutions.

Other – Treasury and International Department (transactions with banks) and other central functions that are not directly allocated.

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements. Income taxes are accounted for on a group basis and are not allocated to operating segments.

(thousands of Belarusian rubles)

5. Segment information (continued)

In 2018 and 2017, the Group had no interest income or expense from transactions with one external customer or counterparty, which would amount to 10% or more of total income and expense of each segment.

Non-current non-financial assets and deferred tax assets are related to the Republic of Belarus. Generally, all income is earned from sources in the Republic of Belarus.

The following tables present income, profit and certain asset and liability information regarding the Group's operating segments:

2018	***Retail banking***	***Corporate banking***	***Other/ unallocated***	***Total***
External income				
Interest income	82,335	170,733	21,962	**275,030**
Interest expense	(17,033)	(19,470)	(24,832)	**(61,335)**
Net interest income	**65,302**	**151,263**	**(2,870)**	**213,695**
Allowance for loan impairment	2,179	9,253	991	**12,423**
Net interest income after allowance for loan impairment	**67,481**	**160,516**	**(1,879)**	**226,118**
Net fee and commission income	23,020	55,711	(6,237)	**72,494**
Net gains from foreign currencies	16,944	28,402	19,852	**65,198**
Other non-interest income	-	-	17,207	**17,207**
Non-interest expense	(74,634)	(85,923)	(20,172)	**(180,729)**
Segment financial results	**32,811**	**158,706**	**8,771**	**200,288**
Income tax expense				**(41,095)**
Profit for the year				**159,193**
Assets and liabilities				
Segment assets	634,861	2,123,797	1,684,377	**4,443,035**
Total assets				**4,443,035**
Segment liabilities	1,423,616	1,673,298	474,260	**3,571,174**
Total liabilities				**3,571,174**
Other segment information				
Capital expenditure	3,688	860	29,110	**33,658**
Depreciation and amortization	(3,467)	(5,382)	(15,878)	**(24,727)**

(thousands of Belarusian rubles)

5. Segment information (continued)

2017	*Retail banking*	*Corporate banking*	*Other/ unallocated*	*Total*
External income				
Interest income	80,210	175,268	28,274	**283,752**
Interest expense	(18,006)	(5,926)	(18,665)	**(42,597)**
Net interest income	**62,204**	**169,342**	**9,609**	**241,155**
Allowance for loan impairment	3,266	(4,123)	–	**(857)**
Net interest income after allowance for loan impairment	**65,470**	**165,219**	**9,609**	**240,298**
Net fee and commission income	25,540	51,977	(3,240)	**74,277**
Net gains from foreign currencies	13,289	31,905	2,751	**47,945**
Other non-interest income	-	-	24,338	**24,338**
Non-interest expense	(76,380)	(97,623)	(1,504)	**(175,507)**
Segment financial results	**27,919**	**151,478**	**31,954**	**211,351**
Income tax expense				**(51,377)**
Profit for the year				**159,974**
Assets and liabilities				
Segment assets	434,300	1,807,497	1,422,448	**3,664,245**
Total assets				**3,664,245**
Segment liabilities	1,101,895	1,243,557	558,594	**2,904,046**
Total liabilities				**2,904,046**
Other segment information				
Capital expenditure	4,422	3,907	30,256	**38,585**
Depreciation and amortization	(3,412)	(2,989)	(15,437)	**(21,838)**

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2018	*2017*
Cash on hand	124,619	117,944
Current accounts with credit institutions	268,572	224,249
Current accounts with the NBRB	305,790	270,989
Time deposits with credit institutions up to 90 days	449,711	244,920
Total cash and cash equivalents	**1,148,692**	**858,102**
Less allowance for impairment	(3)	**-**
Cash and cash equivalents	**1,148,689**	**858,102**

As at 31 December 2018, liquid funds were represented by short-term deposits with five foreign banks (2017: two Belarusian banks and two foreign banks).

As at 1 January 2018 and 31 December 2018, balances of cash equivalents are included in Stage 1. In 2018, there were no transfers between stages. Movements in ECL allowances for the year are as follows:

	2018
Allowance for ECL at 1 January 2018	**45**
Changes in ECL	(42)
Foreign exchange differences	-
Allowance for ECL at 31 December 2018	**3**

(thousands of Belarusian rubles)

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2018	*2017*
Obligatory reserves with the NBRB	36,914	24,197
Time deposits for more than 90 days	24,688	29,231
Amounts due from credit institutions	**61,602**	**53,428**

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

As at 31 December 2018, the Bank had time deposits with four Belarusian banks (2017: four Belarusian banks).

8. Loans to customers

Loans to customers comprise:

	2018	*2017*
Corporate lending	1,619,800	1,600,395
Consumer lending	548,225	397,054
Small business lending	503,997	332,044
Residential mortgages	86,636	37,246
Total loans to customers at amortized cost	**2,758,658**	**2,366,739**
Less allowance for impairment	(101,311)	(124,942)
Loans to customers at amortized cost	**2,657,347**	**2,241,797**

Allowance for impairment of loans to customers

Movements in the gross carrying amount and respective ECL related to corporate lending for the year ended 31 December 2018 are as follows:

Corporate lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount as at 1 January 2018	**1,328,706**	**158,506**	**98,680**	**8,936**	**1,594,828**
New originated or purchased assets	1,142,954	41,277	-	-	**1,184,231**
Assets redeemed	(1,108,234)	(117,658)	(19,711)	(6,489)	**(1,252,092)**
Transfers to Stage 1	3,765	(3,765)	-	-	**-**
Transfers to Stage 2	(6,099)	6,099	-	-	**-**
Transfers to Stage 3	-	(3,325)	3,325	-	**-**
Unwinding of discount	39,744	187	6,163	1	**46,095**
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(10)	(2)	**(12)**
Amounts written off	-	-	(20,961)	(291)	**(21,252)**
Foreign exchange differences	54,514	7,114	5,865	509	**68,002**
At 31 December 2018	**1,455,350**	**88,435**	**73,351**	**2,664**	**1,619,800**

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**4,122**	**4,157**	**75,233**	**1,853**	**85,365**
New originated or purchased assets	3,276	452	-	-	**3,728**
Assets redeemed	(3,148)	(2,793)	(10,416)	(783)	(17,140)
Transfers to Stage 1	58	(58)	-	-	-
Transfers to Stage 2	(221)	221	-	-	-
Transfers to Stage 3	-	(327)	327	-	-
Effect on period-end ECL due to transfers between stages during the period	(38)	(162)	2,941	-	2,741
Changes in inputs used for ECL calculations	(186)	(813)	3,921	593	3,515
Unwinding of discount (recorded in interest income)	-	-	5,083	291	5,374
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(12)	(2)	(14)
Amounts written off	-	-	(20,961)	(291)	(21,252)
Foreign exchange differences	83	106	4,781	1	4,971
At 31 December 2018	**3,946**	**783**	**60,897**	**1,662**	**67,288**

Movements in the gross carrying amount and respective ECL related to small business lending for the year ended 31 December 2018 are as follows:

Small business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount as at 1 January 2018	**298,988**	**15,274**	**15,320**	**1,251**	**330,833**
New originated or purchased assets	377,508	14,347	86	-	**391,941**
Assets redeemed	(217,583)	(9,629)	(6,149)	(312)	**(233,673)**
Transfers to Stage 1	2,407	(2,407)	-	-	**-**
Transfers to Stage 2	(12,790)	12,790	-	-	**-**
Transfers to Stage 3	(1,698)	(2,037)	3,735	-	**-**
Unwinding of discount	7,233	1,298	2,912	-	**11,443**
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(5)	-	**(5)**
Amounts written off	-	-	(2,501)	-	**(2,501)**
Foreign exchange differences	5,576	94	289	-	**5,959**
At 31 December 2018	**459,641**	**29,730**	**13,687**	**939**	**503,997**

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Small business lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2018	**2,281**	**213**	**12,004**	**1,160**	**15,658**
New originated or purchased assets	2,702	112	57	-	**2,871**
Assets redeemed	(1,147)	(86)	(1,690)	(243)	**(3,166)**
Transfers to Stage 1	59	(59)	-	-	**-**
Transfers to Stage 2	(164)	164	-	-	**-**
Transfers to Stage 3	(18)	(25)	43	-	**-**
Effect on period-end ECL due to transfers between stages during the period	(42)	(27)	2,191	-	**2,122**
Changes in inputs used for ECL calculations	(61)	(16)	966	-	**889**
Unwinding of discount (recorded in interest income)	-	-	536	22	**558**
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(5)	-	**(5)**
Amounts written off	-	-	(2,501)	-	**(2,501)**
Foreign exchange differences	28	1	230	-	**259**
At 31 December 2018	**3,638**	**277**	**11,831**	**939**	**16,685**

Movements in the gross carrying amount and respective ECL related to consumer lending for the year ended 31 December 2018 are as follows:

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount as at 1 January 2018	**372,788**	**14,596**	**11,391**	**-**	**398,775**
New originated or purchased assets	300,403	3,260	317	-	**303,980**
Assets redeemed	(143,406)	(6,032)	(3,384)	-	**(152,822)**
Transfers to Stage 1	3,452	(3,374)	(78)	-	**-**
Transfers to Stage 2	(9,873)	10,462	(589)	-	**-**
Transfers to Stage 3	(2,146)	(1,489)	3,635	-	**-**
Unwinding of discount	6	(1)	-	-	**5**
Amounts written off	-	-	(2,127)	-	**(2,127)**
Foreign exchange differences	307	28	79	-	**414**
At 31 December 2018	**521,531**	**17,450**	**9,244**	**-**	**548,225**

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Consumer lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**3,887**	**2,455**	**9,561**	**-**	**15,903**
New originated or purchased assets	3,627	386	191	-	**4,204**
Assets redeemed	(1,488)	(953)	(3,987)	-	**(6,428)**
Transfers to Stage 1	537	(466)	(71)	-	**-**
Transfers to Stage 2	(145)	523	(378)	-	**-**
Transfers to Stage 3	(45)	(314)	359	-	**-**
Effect on period-end ECL due to transfers between stages during the period	(501)	945	2,008	-	**2,452**
Changes in inputs used for ECL calculations	(1,095)	(86)	723	-	**(458)**
Unwinding of discount (recorded in interest income)	3	36	1,505	-	**1,544**
Changes in contractual cash flows due to modification not resulting in derecognition	-	(2)	(40)	-	**(42)**
Amounts written off	-	-	(2,127)	-	**(2,127)**
Foreign exchange differences	2	-	81	-	**83**
At 31 December 2018	**4,782**	**2,524**	**7,825**	**-**	**15,131**

Movements in the gross carrying amount and respective ECL related to residential mortgages for the year ended 31 December 2018 are as follows:

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount as at 1 January 2018	**34,860**	**998**	**1,388**	**-**	**37,246**
New originated or purchased assets	56,472	-	52	-	**56,524**
Assets redeemed	(7,406)	(77)	(43)	-	**(7,526)**
Transfers to Stage 1	15	(9)	(6)	-	**-**
Transfers to Stage 2	(97)	112	(15)	-	**-**
Transfers to Stage 3	(709)	(101)	810	-	**-**
Unwinding of discount	32	-	-	-	**32**
Changes in contractual cash flows due to modification not resulting in derecognition	-	(2)	(40)	-	**(42)**
Foreign exchange differences	249	74	79	-	**402**
At 31 December 2018	**83,416**	**995**	**2,225**	**-**	**86,636**

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2018	**218**	**13**	**1,088**	**-**	**1,319**
New originated or purchased assets	510	-	52	-	**562**
Assets redeemed	(32)	(1)	(123)	-	**(156)**
Transfers to Stage 1	-	-	-	-	**-**
Transfers to Stage 2	(1)	1	-	-	**-**
Transfers to Stage 3	(5)	(1)	6	-	**-**
Effect on period-end ECL due to transfers between stages during the period	-	1	261	-	**262**
Changes in inputs used for ECL calculations	(10)	5	63	-	**58**
Unwinding of discount (recorded in interest income)	-	-	92	-	**92**
Foreign exchange differences	1	1	68	-	**70**
At 31 December 2018	**681**	**19**	**1,507**	**-**	**2,207**

A reconciliation of the allowance for impairment of loans to customers by class for the year ended 31 December 2017 is as follows:

	Corporate lending	*Small business lending*	*Consumer lending*	*Residential mortgages*	*Total*
At 31 December 2016	**95,726**	**18,834**	**12,359**	**3,126**	**130,045**
Charge for the year	2,028	2,235	(655)	(702)	**2,906**
Amounts written off	(8,169)	(2,497)	(3,425)	-	**(14,091)**
Foreign exchange differences	5,498	580	-	4	**6,082**
At 31 December 2017	**95,083**	**19,152**	**8,279**	**2,428**	**124,942**
Individual impairment	83,345	14,381	6,977	2,376	**107,079**
Collective impairment	11,738	4,771	1,302	52	**17,863**
	95,083	**19,152**	**8,279**	**2,428**	**124,942**
Gross amount of loans individually determined to be impaired before deducting any individually assessed impairment allowance	**113,456**	**16,750**	**6,977**	**2,376**	**139,559**

Modified and restructured loans to customers

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Group recognizes a gain or loss from modification before an impairment loss is recognized.

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Modified and restructured loans to customers (continued)

Renegotiated loans and respective losses incurred by the Group in 2018 are shown in the table below.

	2018
Loans to customers modified during the period	**66,604**
Amortized cost before modification	67,258
Net loss/gain on modification	(654)

Collateral and other credit risk enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventories and receivables
- For retail lending, mortgages over residential properties, cars, sureties

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

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

The table below presents the analysis of the current fair value of collateral and credit enhancements for credit-impaired assets (Stage 3 assets). Depending on the level of collateral, ECL for some assets of Stage 3 may not be assessed individually when the expected value of collateral exceeds the LGD level, even if subsequently the value of collateral is projected using multiple economic scenarios. However, Stage 3 ECL can be higher than net exposure shown below when the future value of collateral measured using multiple economic scenarios is expected to decline.

	Maximum exposure to credit risk	*Fair value of collateral held under the base scenario*					
		Cash/ deposits	*Property*	*Other**	*Total collateral*	*Net exposure*	*Associated ECL*
31 December 2018	**102,110**	**1,338**	**12,412**	**2,301**	**16,051**	**86,059**	**84,661**
Corporate lending	76,015	1,201	10,742	1,513	13,456	62,559	62,559
Small business lending	14,626	137	952	767	1,856	12,770	12,770
Consumer lending	9,244	-	-	21	21	9,223	7,825
Residential mortgages	2,225	-	718	-	718	1,507	1,507

* Vehicles, machinery, other fixed assets, inventories and receivables.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use. The carrying amount of the assets repossessed and held as at the reporting date is as follows:

	2018	*2017*
Investment property	9,239	14,950
Property and equipment	157	132
Other assets	8,388	9,876
Total repossessed collateral	**17,784**	**24,958**

(thousands of Belarusian rubles)

8. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2018, the Bank had a concentration of loans represented by BYN 646,689 thousand due from the ten largest third party borrowers (23% of gross loan portfolio) (2017: BYN 643,408 thousand or 27%). An allowance of BYN 571 thousand (2017: BYN 3,044 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	2018	*2017*
Private companies	1,720,369	1,511,920
Individuals	634,861	434,300
State companies	403,428	420,519
Loans to customers	**2,758,658**	**2,366,739**

Loans are made principally in the Republic of Belarus in the following industry sectors:

	2018	*2017*
Manufacturing, including:	774,758	758,168
Other manufacturing	180,760	170,736
Coking coal, oil products	164,095	203,163
Chemicals, rubber, plastics	153,647	145,900
Food, beverages, tobacco products	145,734	108,039
Wood processing	45,248	26,944
Metals and metalware production	20,303	15,662
Machinery, equipment	20,162	38,232
Electric equipment	19,717	10,756
Textile industry	11,288	23,898
Pulp and paper industry	7,563	7,796
Pharmaceutical industry	4,891	1,228
Transport facilities	1,350	5,814
Individuals	634,861	434,300
Wholesale trade	525,728	498,357
Retail trade	275,945	202,034
Transport	165,714	109,046
Mineral development and extraction	122,873	112,247
Real estate	74,127	57,123
Construction	70,114	88,984
Energy, gas, water supply	29,647	35,644
Other	84,891	70,836
Loans to customers	**2,758,658**	**2,366,739**

Finance lease receivables

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2018 are analyzed below:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	126,893	195,384	47,765	**370,042**
Unearned future finance income on finance leases	(23,762)	(33,099)	(18,754)	**(75,615)**
Net investment in finance leases	**103,131**	**162,285**	**29,011**	**294,427**

Finance lease receivables as at 31 December 2017 are analyzed below:

	Not later than 1 year	*From 1 year to 5 years*	*Later than 5 years*	*Total*
Investment in finance leases	106,746	162,948	16,632	**286,326**
Unearned future finance income on finance leases	(20,115)	(26,289)	(2,278)	**(48,682)**
Net investment in finance leases	**86,631**	**136,659**	**14,354**	**237,644**

(thousands of Belarusian rubles)

9. Investment securities

Investment securities comprise the following:

	2018	*2017*
Debt securities measured at amortized cost (previously classified as held to maturity)		
Bonds of the Ministry of Finance of the Republic of Belarus	56,619	60,754
Bonds of the NBRB	214,524	183,868
Bonds of BPS-Sberbank OJSC	295	360
	271,438	**244,982**
Less allowance for impairment	(2,605)	-
Debt securities measured at amortized cost (previously classified as held to maturity)	**268,833**	**244,982**
Debt securities at FVOCI		
USA Federal Government Bonds	36,816	-
Debt securities at FVOCI	**36,816**	**-**
Equity instruments at FVOCI	**1,340**	**-**

Movements in the gross carrying amount and related allowances for ECL on debt securities measures at amortized cost are presented below:

Debt securities measured at amortized cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2018	**244,982**	**-**	**-**	**244,982**
New purchased or originated assets	2,386,934	-	-	**2,386,934**
Assets redeemed	(2,383,317)	-	-	**(2,383,317)**
Unwinding of discount (recorded in interest income)	1,320	-	-	**1,320**
Foreign exchange differences	21,519	-	-	**21,519**
At 31 December 2018	**271,438**	**-**	**-**	**271,438**

Debt securities measured at amortized cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2018	**3,445**	**-**	**-**	**3,445**
New purchased or originated assets	2,605	-	-	**2,605**
Assets redeemed	(3,554)	-	-	**(3,554)**
Foreign exchange differences	109	-	-	**109**
At 31 December 2018	**2,605**	**-**	**-**	**2,605**

Movements in the gross carrying amount of debt securities measured at FVOCI are as follows:

Debt securities measured at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount at 1 January 2018	**-**	**-**	**-**	**-**
New purchased or originated assets	36,282	-	-	**36,282**
Unwinding of discount (recorded in interest income)	112	-	-	**112**
Foreign exchange differences	422	-	-	**422**
At 31 December 2018	**36,816**	**-**	**-**	**36,816**

(thousands of Belarusian rubles)

9. Investment securities (continued)

The Group at its discretion designated certain investments in equity instruments previously classified as available for sale as investments in equity instruments at FVOCI based on the fact that they are not held for trading. Such investments primarily include mandatory investments in the capital of stock exchanges and clearing companies and investments arising from debt securities received by the Group in exchange for debt repayment.

In 2018, the Group received dividends on equity instruments at FVOCI in the amount of BYN 130 thousand, which were recognized within other income in the consolidated statement of comprehensive income.

10. Investment property

Investment property represents buildings and equipment received as a repayment of bad debt and transferred under operating leases.

The movements in investment property are as follows:

	2018	*2017*
Cost		
At 1 January	17,847	-
Additions	1,867	14,889
Disposals	(15,975)	-
Transfer from property and equipment	-	2,958
Transfer from other assets	8,491	-
At 31 December	**12,230**	**17,847**
Accumulated depreciation		
At 1 January	(918)	-
Depreciation charge	(428)	(413)
Depreciation of disposed items	956	-
Transfer from property and equipment	-	(505)
At 31 December	**(390)**	**(918)**
Net book value		
At 1 January	**16,929**	**-**
At 31 December	**11,840**	**16,929**

	2018	*2017*
Rental income from investment property	4,495	4,053
Direct operating expenses on investment property that generates rental income	(959)	(776)
	3,536	**3,277**

The Group is not subject to any contractual liabilities to buy, construct, develop, repair, maintain or improve any items of investment property.

As at 31 December 2018, the Group has investment property pledged as collateral under general agreement on the cooperation in the course of financing small and medium-sized enterprises with Development Bank of the Republic of Belarus OJSC with historical cost of BYN 2,169 thousand.

(thousands of Belarusian rubles)

11. Property and equipment

The movements in property and equipment were as follows

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2017	**113,454**	**133,323**	**246,777**
Additions	10,430	17,594	**28,024**
Disposals	(5,177)	(14,856)	**(20,033)**
At 31 December 2018	**118,707**	**136,061**	**254,768**
Accumulated depreciation			
At 31 December 2017	**(25,503)**	**(70,760)**	**(96,263)**
Depreciation charge	(2,767)	(11,703)	**(14,470)**
Disposals	374	12,141	**12,515**
At 31 December 2018	**(27,896)**	**(70,322)**	**(98,218)**
Net book value			
At 31 December 2017	**87,951**	**62,563**	**150,514**
At 31 December 2018	**90,811**	**65,739**	**156,550**

	Buildings	*Furniture, fixtures and other*	*Total*
Cost			
At 31 December 2016	**103,391**	**119,415**	**222,806**
Additions	13,516	23,705	**37,221**
Disposals	(495)	(9,797)	**(10,292)**
Transfer to investment property	(2,958)	-	**(2,958)**
At 31 December 2017	**113,454**	**133,323**	**246,777**
Accumulated depreciation			
At 31 December 2016	**(23,923)**	**(66,716)**	**(90,639)**
Depreciation charge	(2,125)	(10,643)	**(12,768)**
Disposals	40	6,599	**6,639**
Transfer to investment property	505	-	**505**
At 31 December 2017	**(25,503)**	**(70,760)**	**(96,263)**
Net book value			
At 31 December 2016	**79,468**	**52,699**	**132,167**
At 31 December 2017	**87,951**	**62,563**	**150,514**

As at 31 December 2018, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYN 27,126 thousand (2017: BYN 33,480 thousand).

(thousands of Belarusian rubles)

12. Intangible assets

The movements in intangible assets were as follows:

	Computer software	*Other*	*Total*
Cost			
At 31 December 2017	**74,304**	**605**	**74,909**
Additions	10,449	152	**10,601**
Disposals	(1)	(14)	**(15)**
At 31 December 2018	**84,752**	**743**	**85,495**
Accumulated depreciation			
At 31 December 2017	**(42,192)**	**(95)**	**(42,287)**
Depreciation charge	(9,768)	(61)	**(9,829)**
Disposals	1	5	**6**
At 31 December 2018	**(51,959)**	**(151)**	**(52,110)**
Net book value			
At 31 December 2017	**32,112**	**510**	**32,622**
At 31 December 2018	**32,793**	**592**	**33,385**

	Computer software	*Other*	*Total*
Cost			
At 31 December 2016	**60,564**	**455**	**61,019**
Additions	14,128	153	**14,281**
Disposals	(388)	(3)	**(391)**
At 31 December 2017	**74,304**	**605**	**74,909**
Accumulated depreciation			
At 31 December 2016	**(33,641)**	**(65)**	**(33,706)**
Depreciation charge	(8,626)	(31)	**(8,657)**
Disposals	75	1	**76**
At 31 December 2017	**(42,192)**	**(95)**	**(42,287)**
Net book value			
At 31 December 2016	**26,923**	**390**	**27,313**
At 31 December 2017	**32,112**	**510**	**32,622**

13. Taxation

The corporate income tax expense comprises:

	2018	*2017*
Current tax charge	58,450	73,172
Deferred tax charge – origination and reversal of temporary differences	(16,144)	(23,635)
Including: deferred tax recognized in other comprehensive income	(1,211)	1,840
Income tax expense	**41,095**	**51,377**

	2018	*2017*
Net gains/(losses) on debt instruments measured at FVOCI	17	-
Net (gains)/losses on equity instruments designated at the Group's discretion as measured at FVOCI	6	-
Actuarial gain/(loss) on defined pension plan	1,188	(1,840)
Income tax recognized in other comprehensive income	**1,211**	**(1,840)**

(thousands of Belarusian rubles)

13. Taxation (continued)

Belarusian legal entities must file individual tax returns. In 2018 and 2017, the income tax rate for banks was 25%. In 2018 and 2017, the income tax rate for the Bank's subsidiaries in the Republic of Belarus was 18%. In 2018 and 2017, the income tax rate for the foreign subsidiary in the Republic of Lithuania was 15%.

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

	2018	*2017*
Profit before tax	**200,288**	**211,351**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**50,072**	**52,838**
Effect of changes in legislation on accounting for lease operations	(14,902)	-
Tax exemption for expenses related to supporting agricultural enterprises	(3,335)	(1,834)
Tax exemption for operations with securities	(2,668)	(5,628)
Other tax exemptions	(5,618)	(3,668)
Income of subsidiaries taxed at different rates	3,239	(1,545)
Non-deductible expenses:		
- salaries and related expenses	4,912	5,358
- provisions	3,203	-
- insurance	2,662	3,002
- disposal of property and equipment	1,112	475
- charity	447	419
- depreciation and amortization	153	145
- consulting, advertising and representative expenses	132	139
- maintenance and repairs	132	169
- translation differences	27	96
- taxes other than income tax	22	28
- other	2,163	3,624
Reversal of statutory revaluation of property and equipment	(658)	(2,241)
Income tax expense	**41,095**	**51,377**

(thousands of Belarusian rubles)

13. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*		
	2016	*In the statement of profit or loss*	*In other comprehen-sive income*	*2017*	*Effect of adopting IFRS 9*	*In the statement of profit or loss*	*In other comprehen-sive income*	*2018*
Tax effect of deductible temporary differences								
Property and equipment	2,990	2,962	-	5,952	-	(714)	-	5,238
Amounts due to credit institutions	2	(2)	-	-	-	-	-	-
Loans to customers	2,635	2,193	-	4,828	1,264	(4,439)	-	1,653
Amounts due to customers	1	7	-	8	-	(8)	-	-
Other provisions	145	(42)	-	103	-	(37)	-	66
Other assets	1,691	(947)	-	744	-	187	-	931
Other liabilities	2,337	918	1,840	5,095	-	14	(1,188)	3,921
Deferred tax assets	**9,801**	**5,089**	**1,840**	**16,730**	**1,264**	**(4,997)**	**(1,188)**	**11,809**
Deferred tax asset offset against deferred tax liability	(9,801)	(5,089)	(1,840)	(16,730)	(1,264)	7,728	1,188	(9,078)
Total deferred tax assets	**-**	**-**	**-**	**-**	**-**	**2,731**	**-**	**2,731**
Tax effect of taxable temporary differences								
Allowance for loan impairment	(58,236)	15,250	-	(42,986)	(657)	9,723	-	(33,920)
Amounts due to credit institutions	(11)	(43)	-	(54)	-	(21)	-	(75)
Other provisions	(6,859)	307	-	(6,552)	113	173	-	(6,266)
Investment securities	-	-	-	-	(21)	25	(23)	(19)
Loans to customers	(1,890)	(1,312)	-	(3,202)	-	3,202	-	-
Investments in subsidiaries	(1,913)	-	-	(1,913)	-	9	-	(1,904)
Other assets	(1,800)	198	-	(1,602)	-	1,517	-	(85)
Other liabilities	(10,030)	2,306	-	(7,724)	-	7,724	-	-
Deferred tax liability	**(80,739)**	**16,706**	**-**	**(64,033)**	**(565)**	**22,352**	**(23)**	**(42,269)**
Deferred tax asset offset against deferred tax liability	9,801	5,089	1,840	16,730	1,264	(7,728)	(1,188)	9,078
Total deferred tax liabilities	**(70,938)**	**21,795**	**1,840**	**(47,303)**	**699**	**14,624**	**(1,211)**	**(33,191)**
Deferred tax liabilities, net	**(70,938)**	**21,795**	**1,840**	**(47,303)**	**699**	**17,355**	**(1,211)**	**(30,460)**

(thousands of Belarusian rubles)

14. Credit loss expense

The table below shows allowances for ECL on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Cash and cash equivalents	6	42	-	-	-	42
Loans to customers	8	(2,422)	3,379	5,474	6,212	12,643
Debt securities measured at amortized cost	9	949	-	-	-	949
Credit-related commitments	21	(1,193)	(40)	22	-	(1,211)
Total (allowance)/reversal of allowance for credit losses		(2,624)	3,339	5,496	6,212	12,423

In 2018, the Group received BYN 8,637 thousand that were written off earlier as bad debt (2017: BYN 1,947 thousand). This amount relates to loans to corporate customers (BYN 5,982 thousand) and loans to individuals (BYN 2,655 thousand) and was recognized directly in allowance for credit losses of the consolidated statement of profit or loss.

15. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets		
Derivative financial asset	125	419
Accrued fines and fees and commissions receivable	3,169	3,888
	3,294	**4,307**
Other non-financial assets		
VAT and other prepaid taxes other than income tax	16,013	15,161
Prepayments	12,925	11,014
Property received as a repayment of loans	8,388	9,876
Assets to be transferred under finance lease agreements	3,705	5,089
Blocks of apartments owned by the Bank	3,459	7,088
Other non-financial assets	15,822	13,112
	60,312	**61,340**
Total other assets	**63,606**	**65,647**

The blocks of apartments owned by the Group comprise apartments and parking spaces owned by the Group constructed for sale in the course of its normal activities. The carrying amount the blocks of apartments is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Group.

Other liabilities comprise:

	2018	*2017*
Other financial liabilities		
Defined benefit plan: pension liabilities (Note 26)	32,491	34,687
Life insurance liabilities payable by a subsidiary	44,897	35,420
Salaries and bonuses payable	9,786	9,546
Pension liabilities payable by a subsidiary to third parties	8,482	4,965
Trade and other payables	2,265	2,214
Derivative financial liabilities	213	143
Other financial liabilities	14,733	14,345
	112,867	**101,320**
Other non-financial liabilities		
Tax liabilities (taxes other than income tax)	1,774	1,322
Prepayments for construction of blocks of apartments	-	880
Other provisions	-	416
Other non-financial liabilities	1,889	1,562
	3,663	**4,180**
Total other liabilities	**116,530**	**105,500**

(thousands of Belarusian rubles)

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2018	*2017*
Current accounts	41,616	15,449
Term deposits and loans	220,109	334,436
Amounts due to credit institutions	**261,725**	**349,885**

As at 31 December 2018, time deposits and loans included amounts payable to the bank from Raiffeisen Group comprising BYN 114,558 thousand (2017: BYN 256,092 thousand). EUR-denominated contracts and USD-denominated contracts bore interest rates of 2.63%-4.74% and 8.05%, respectively (2017: EUR-denominated and USD-denominated contracts bore interest rates of 3.30%-4.71% and 3.61%-6.80%, respectively).

17. Amounts due to customers

Amounts due to customers comprise:

	2018	*2017*
Time deposits	994,849	921,882
Current accounts	2,034,040	1,371,838
Amounts due to customers	**3,028,889**	**2,293,720**
Held as collateral against letters of credit	474	7,608
Held as collateral against guarantees	4,595	2,902

As at 31 December 2018, amounts due to customers of BYN 230,097 thousand, or 8% of the total amounts due to customers, were due to the five largest third-party customers (2017: BYN 266,432 thousand or 12%).

Included in time deposits are deposits of individuals of BYN 582,181 thousand (31 December 2017: BYN 545,112 thousand).

In accordance with the laws of the Republic of Belarus, time and conditional deposit agreements are classified as follows:

- Irrevocable agreements - agreements that do not provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement
- Revocable agreements - agreements that provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement upon demand of a depositor.

The depositor has right to claim the repayment of the deposit under the time revocable or conditional revocable deposit agreement prior to its maturity or prior to circumstances (event) or absence of circumstances (event) determined in the agreement. The Bank must repay the deposit within the timeframe and in accordance with the procedure stipulated by the time revocable or conditional revocable deposit agreement. The depositor has no right to claim early repayment of deposit under the time irrevocable and conditional irrevocable deposit agreements. Deposits under such agreements can be early repaid only with the Bank's consent.

As at 31 December 2018, irrevocable deposits of individuals amounted to BYN 172,800 thousand or 30% of the time deposits of individuals (31 December 2017: BYN 80,208 or 15%).

Amounts due to customers include accounts of the following types of customers:

	2018	*2017*
Individuals	1,423,616	1,101,895
Private companies	1,581,821	1,175,961
State companies and budgetary organizations	23,452	15,864
Amounts due to customers	**3,028,889**	**2,293,720**

(thousands of Belarusian rubles)

17. Amounts due to customers (continued)

An analysis of customer accounts by economic sector is as follows:

	2018	*2017*
Individuals	1,423,616	1,101,895
Manufacturing:	317,655	221,269
Machinery, equipment	53,632	27,496
Chemicals, rubber, plastics	50,514	23,813
Food, beverages, tobacco products	35,781	22,961
Electric equipment	22,551	17,180
Coking coal, oil products	17,614	35,828
Wood processing	14,302	22,400
Textile industry	12,930	9,689
Base metals production	12,247	3,572
Pulp and paper industry	10,862	1,456
Transport facilities	10,585	2,323
Pharmaceuticals industry	9,096	5,442
Other manufacturing	67,541	49,109
Wholesale trade	313,525	169,758
Construction	114,117	67,820
Transport facilities	89,445	43,743
Real estate	47,446	21,778
Retail trade	42,746	323,820
Mineral development and extraction	19,443	22,394
Electrical energy, gas, water supply	6,651	2,217
Other	654,245	319,026
Amounts due to customers	**3,028,889**	**2,293,720**

18. Amounts due international credit institutions

As at 31 December 2018 and 2017, amounts due to international credit institutions consisted of loans issued by the European Bank for Reconstruction and Development of BYN 60,406 thousand (2017: BYN 41,948 thousand).

19. Debt securities issued

As at 31 December 2018 and 2017, debt securities issued were represented by non-documentary bonds maturing in 2019-2028. The bonds bear a floating interest rate linked to the NBRB refinancing rate.

20. Equity

The information on shares authorized, fully paid and outstanding follows:

	Number of shares		*Nominal value*			
	Preferred	*Ordinary*	*Preferred*	*Ordinary*	*Inflation adjustment*	*Total*
31 December 2016, 2017 and 2018	10,000	123,058,441	7	86,141	255,680	341,828

The par value of ordinary and preferred shares is BYN 0.70 per share. All authorized shares have been issued and fully paid.

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors or its cost. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank's Charter. In the event of the Bank's liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

(thousands of Belarusian rubles)

20. Equity (continued)

At the shareholders' meeting in September 2018, the Bank declared dividends based on the interim financial statements for the six months ended 30 June 2018 in the amount of BYN 0.41 and BYN 0.35 per ordinary share and preferred share, respectively. The dividends were paid.

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Bank's shareholders based on the Bank's financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2018, the Bank's non-distributable reserves totaled BYN 216,787 thousand (2017: BYN 218,223 thousand). As at 31 December 2018, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYN 2,896 thousand (2017: BYN 2,897 thousand).

Movements in other capital items

Movements in other capital items were as follows:

	Foreign currency translation reserve	*Revaluation reserve for investment securities*	*Revaluation reserve for the net pension liability*	*Total*
At 1 January 2017	**1,693**	**-**	**(4,482)**	**(2,789)**
Exchange differences on translation of the financial statements of a foreign subsidiary	1,301	-	-	**1,301**
Revaluation of defined pension plans	-	-	(7,360)	**(7,360)**
Tax effect of revaluation of defined pension plans	-	-	1,840	**1,840**
At 31 December 2017	**2,994**	**-**	**(10,002)**	**(7,008)**
At 1 January 2018				
Effect of adopting IFRS 9	**-**	**65**	**-**	**65**
Balance at 1 January 2018 restated under IFRS 9	**2,994**	**65**	**(10,002)**	**(6,943)**
Exchange differences on translation of the financial statements of a foreign subsidiary	523	-	-	**523**
Revaluation of defined pension plans	-	-	4,753	**4,753**
Net change in the fair value of debt instruments at FVOCI	-	67	-	**67**
Net change in the fair value of equity instruments at FVOCI	-	22	-	**22**
Tax effect of net gains on debt and equity instruments at FVOCI and revaluation of defined pension plans		(23)	(1,188)	**(1,211)**
At 31 December 2018	**3,517**	**131**	**(6,437)**	**(2,789)**

Foreign currency translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Revaluation reserve for investment securities

This reserve is used to record changes in the fair value of financial assets at FVOCI.

Revaluation reserve for the net pension liability

This reserve used to record changes in actuarial calculations for the reporting period.

(thousands of Belarusian rubles)

21. Commitments and contingencies

Operating environment

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. The Belarusian economy continues to display characteristics typical of an economy in transition. These characteristics include low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls, which cause the national currency to be illiquid outside of Belarus. The stability of the Belarusian economy is largely dependent upon the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2018, the Belarusian government and the NBRB continued to be focused on the stabilization of the financial market. In 2018, the NBRB decrease key interest rates. The refinancing rate decreased from 11.0% to 10.0%, the rates applicable to permanently available and bilateral transactions performed to maintain current bank liquidity – from 12.0% to 11.5%; the rate on overnight deposits remained at 8.0%. In 2018, the NBRB also increased the provisioning rate on borrowings in foreign currencies from 15.0% p.a. to 17.0% p.a. and the interest rate for the use of USD-denominated cash resources under swap transactions by 1.0 p.p. to 2.25% p.a. (in December 2018).

In 2018, the Group's business was affected by the following economic and monetary processes occurring in the Republic of Belarus: GDP grew by 3.0% year-on-year in 2018 (2017: 2.5% year-on-year). In 2018, the consumer price index for goods and services was 5.6%; gold and foreign currency reserves of the Republic of Belarus decreased by USD 157.7 million, or 2.2% in 2018 (in 2017, there was an increase of USD 2,388.1 million, or +48.5%) and amounted to USD 7,157.6 million as at 1 January 2019. In 2018, gold and foreign currency reserves were replenished mostly from sources other than debt financing: taxes, duties and other fees in foreign currencies, as well as foreign currency purchases on the domestic foreign exchange market. Apart from that, the NBRB and the Ministry of Finance issued foreign currency bonds on the domestic market and placed Eurobonds on external financial markets. In 2018, the BYN value to a foreign currency basket decreased by 1.1% (2017: increased by 6.0%) as follows: EUR/BYN exchange rate increased by 5.0% (2017: 15.2%), USD/BYN exchange rate increased by 9.5% (2017: 0.7%), RUB/BYN exchange rate decreased by 9.2% (2017: increased by 5.7%).

In 2018, Standard & Poor's confirmed the B/B long-term and short-term local and foreign currency sovereign credit ratings of the Republic of Belarus with a stable outlook.

In January 2018, Fitch Ratings increased long-term foreign currency and local currency issuer default ratings of the Republic of Belarus to level B from B- with a stable outlook.

While management of the Group believes it is taking appropriate measures to support the sustainability of its business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Group and its counterparties. The degree of such impact on the Group's consolidated financial statements is not currently determinable.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and customs regulations, continue to evolve.

Legislation and regulations are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. In addition, since Management's interpretation of this legislation may differ from possible official interpretations, and the compliance with this legislation may be challenged by tax authorities, additional taxes, penalties and other preventive measures may be assessed.

(thousands of Belarusian rubles)

21. Commitments and contingencies (continued)

Operating environment (continued)

Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

As at 31 December 2018, the Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Financial commitments and contingencies

As at 31 December 2018, the Group's financial commitments and contingencies comprised the following:

	2018	*2017*
Credit-related commitments		
Undrawn loan commitments	851,722	285,992
Letters of credit	103,764	76,981
Financial guarantees	221,512	138,146
	1,176,998	**501,119**
Operating lease commitments		
Not later than 1 year	2,313	2,753
From 1 to 5 years	2,055	2,496
Later than 5 years	-	639
	4,368	**5,888**
Commitments and contingencies	**1,181,366**	**507,007**
Allowance for ECL for credit related commitments	(2,111)	(416)
Deposits held as collateral against letters of credit and guarantees (Note 17)	(5,069)	(10,510)

The movements in allowances for ECL for the year ended 31 December 2018 were as follows:

Credit-related commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**831**	**19**	**32**	**882**
New commitments	2,094	51	-	**2,145**
Amounts paid	(876)	(20)	(22)	**(918)**
Expired commitments	(15)	(1)	-	**(16)**
Transfers to Stage 1	4	(4)	-	**-**
Transfers to Stage 2	(13)	13	-	**-**
Effect on the period-end ECL due to transfers between stages during the period	(1)	1	-	**-**
Foreign exchange translation differences	17	-	1	**18**
At 31 December 2018	**2,041**	**59**	**11**	**2,111**

(thousands of Belarusian rubles)

22. Net interest income

Net interest income comprises:

	2018	*2017*
Financial assets at amortized cost	**247,150**	**257,517**
Cash equivalents	9,413	5,925
Amounts due from credit institutions	449	827
Loans to customers	223,798	227,011
Investment securities	13,490	23,754
Financial assets at FVOCI	**38**	**-**
Investment securities	38	-
Interest income calculated using the effective interest rate	**247,188**	**257,517**
Finance lease	27,842	26,235
Other interest income	**27,842**	**26,235**
Total interest income	**275,030**	**283,752**
Amounts due to NBRB	(2,703)	-
Amounts due to customers	(36,949)	(25,246)
Amounts due to credit institutions	(11,299)	(15,923)
Debt securities issued	(9,333)	(928)
Amounts due to international financial institutions	(1,051)	(500)
Interest expense	**(61,335)**	**(42,597)**
Net interest income	**213,695**	**241,155**

23. Net fee and commission income

Net fee and commission income comprises:

	2018	*2017*
Settlement operations	156,134	130,920
Guarantees and letters of credit	6,502	7,071
Agency services	2,235	1,929
Currency conversion operations	991	2,501
Other	962	802
Fee and commission income	**166,824**	**143,223**
Settlement operations	(80,062)	(60,512)
Guarantees	(7,936)	(6,198)
Currency conversion operations	(233)	(761)
Operations with securities	(114)	(67)
Other	(5,985)	(1,408)
Fee and commission expense	**(94,330)**	**(68,946)**
Net fee and commission income	**72,494**	**74,277**

24. Other income

Other income comprises:

	2018	*2017*
Income from agriculture services	5,433	6,292
Income from operating lease	5,277	4,746
Income from sale of property and equipment and investment property	4,947	43
Income from dividends	130	-
Income from sale of constructed housing	-	10,871
Income from early redemption and sale of leased assets	215	58
Other	1,205	2,328
Total other income	**17,207**	**24,338**

(thousands of Belarusian rubles)

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2018	*2017*
Salaries and bonuses	59,923	56,960
Social security costs	23,235	24,979
Retirement benefits (Note 26)	2,837	7,027
Other employment taxes	1,756	1,928
Personnel expenses	**87,751**	**90,894**
Occupancy and rent	13,090	13,427
Data processing	11,942	12,734
Deposit insurance fees	7,732	6,006
Legal and consultancy	5,098	4,306
Marketing and advertising	4,186	4,051
Taxes other than income tax	4,173	3,625
Plastic cards operations	3,945	3,877
Office supplies	2,257	2,376
Inventory sale costs	2,090	-
Transportation expenses	1,974	2,015
Loss on disposal of property and equipment and intangible assets	1,822	1,018
Communications	1,592	1,709
Business travel and related expenses	974	1,069
Repair and maintenance of equipment	965	1,017
Personnel training	701	770
Representation expenses	614	911
Security	214	208
Other	4,882	3,656
Other operating expenses	**68,251**	**62,775**

26. Post-employment benefits

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

Liability according to a defined benefit plan is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

Net benefit expense (recognized within personnel expenses)

	2018	*2017*
Current service cost	2,176	1,543
Interest cost on benefit obligation	3,628	3,116
Past service cost	(2,967)	2,368
Net benefit expense (Note 25)	**2,837**	**7,027**

Retirement benefit liability

	2018	*2017*
Retirement benefit liability (Note 15)	(32,491)	(34,687)

(thousands of Belarusian rubles)

26. Post-employment benefits (continued)

Defined benefit plan (continued)

Changes in value of the defined benefit obligation

	2018	*2017*
Opening defined benefit plan obligation	**34,687**	**20,562**
Current service cost	2,176	1,543
Interest expense	3,628	3,116
Increase in obligations due to changes in pension plan terms	(2,967)	2,368
Actuarial gains/losses arising from changes in demographic assumptions	249	(392)
Actuarial losses arising from changes in finance assumptions	(4,859)	4,130
Current regulating amendments	(143)	3,622
Benefits paid	(280)	(262)
Closing defined benefit obligation	**32,491**	**34,687**

Changes in plan obligations

	2018	*2017*
Opening plan obligation	**(34,687)**	**(20,562)**
Net benefit expense	(2,837)	(7,027)
Revaluation of defined benefit plans recognized in other comprehensive income	4,753	(7,360)
Benefits paid	280	262
Closing plan obligation	**(32,491)**	**(34,687)**

The principal assumptions used in determining pension obligations for the Bank's plan are shown below:

	2018	*2017*
Discount rate	5.27%	4.45%
Future inflation rate	6.00%	8.00%

In 2017 and 2018, all settlements (excluding settlements on periodic lifelong benefits to retired personnel) were made in euro using the basic amounts denominated in euro and the respective parameters (discount rate, salary growth rate, yield on accounts) related to the amounts denominated in euro.

The average term of defined benefit plan obligations at the end of the reporting period was 12.7 years (2017: 14.4 years).

The best estimate of the amounts of the employer's contributions to be paid in the annual period, after the estimation date amounted to BYN 1,424 thousand (2017: BYN 627 thousand).

Sensitivity analysis

	Changes in assumptions	*Effect on the benefit obligation*
Discount rate	+ / -1 pp	3,947
Future inflation rate	+ / -1 pp	1,284
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / -0.5 pp	151

(thousands of Belarusian rubles)

27. Risk management

Introduction

The Group has an effective risk management system developed according to the Belarusian legislation, international requirements and standards that incorporates managing credit, market, operating and liquidity risks.

Key elements of the Group's risk management system are organizational structure, combination of authority and responsibility of officials, risk management methods and procedures that define processes of identification and assessment of material types of risks, their monitoring, limiting and control.

The effective organizational structure of risk management system complies with the organizational and functional structure, nature and scope of the Group's activity, excludes conflict of interest and segregates risk management duties between the following collegial bodies and business units:

- *The Supervisory Board* bears general responsibility for risk identification and control. The supervisory Board determines key directions for development and effective functioning of the risk management system, approves the Group's strategic development plan, capital and risk management strategy and controls their implementation.
- *The Bank's Management Board* determines goals and objectives of risk management and arranges thereunder an effective risk management system, including through optimal segregation and delegation of duties in the course of risk management process, controlling compliance with the limits and authority of the Group's officials, taking measures to mitigate (reduce) risks.
- *Risk Committee, Credit Committee, Financial Committee, and Problem Loans Committee* have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk management issues and manage and control implementation of risk-related decisions.
- *The risk management units* are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.
- *The Bank Treasury* is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity and funding risks of the Bank.
- *Audit Committee* is responsible for overall management and effective functioning of internal control system and internal audit function of the Group.
- *Internal Audit* The risk management processes throughout the Group are audited annually by the Audit Function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The findings and recommendations of assessments are reported to the Audit Committee.

Risk measurement and reporting systems

Monitoring and control of all material risks are performed based on both quantitative and qualitative methods. Major focus is put on risk concentration arising from uneven allocation of debt. Risk concentration is managed through established limits. The Group assesses risks at the stage of preliminary and subsequent control and determines authorities responsible for risk management. The Group develops and regularly revises local regulations that cover risk assessment and management.

Credit risk is managed by the Group's risk management unit separately from each customer segment by developing credit policies together with business units, developing standardized credit products, performing independent financial analysis of enterprises and market analysis for corporate customers, independent assessment of risks for each individual customer limit, establishing requirements for the amount and structure of respective collateral, controlling compliance with the limits and established terms of financing. In order to ensure high quality of the credit portfolio, the Group constantly improves its system for early identification of problem customers, further develops the policy for prevention of misconduct related to loan transactions with major focus on prevention and identification of misconduct, regularly analyzes its exposure to credit risk by stress-testing credit risk level.

(thousands of Belarusian rubles)

27. Risk management (continued)

Interest rate risk management and control is based on various methods of sensitivity analysis, stress-testing and assessment of the effect of changes in interest rates on the Group's income. The Group also controls currency risk through limiting positions according to local and international standards, performs monitoring for the purpose of assessment of the effect of crisis event on the currency market on the Group's activity through stress-testing.

The Group manages assets and liabilities based on key principles of liquidity management, measures, monitors and controls financial flows on a daily basis. In order to measure its actual requirement in liquid funds, the Group monitors liquidity using the gap analysis, liquidity ratio method and stress-testing. As part of improvement of the risk management system, the Group introduced the process for monitoring and managing new liquidity ratios suggested in Basel III.

For the purpose of quality and effective operating risk management, the Group identifies and registers operating incidents, constantly monitors key operating risk indicators, annually assesses operating risk and performs scenario analysis. The Group constantly improves corporate culture for understanding the operating risk and methods to prevent operating losses.
Information compiled from all the businesses is examined and processed in order to analyze, control and early identify the risks. This information is presented and explained to the Supervisory Board. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loans Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Risk Committee and the Executive Committee receive a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As requested by all relevant subdivision throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular meetings are held with Risk Committee, Credit Committee, Financial Committee and Problem Loans Committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to , manage exposures resulting from changes in interest rates, foreign currencies, changes in credit risk, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more details).

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic region.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

Where appropriate and in the case of most loans, the Group obtains collateral. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers letters of credit/ guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit/ guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

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

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

More details on the maximum exposure to credit risk for each class of financial instrument are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is described in Note 8.

Impairment assessment

From 1 January 2018, the Group calculates ECL on the basis of several probability-weighted scenarios to assess expected cash shortfalls, which are discounted using the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due under the contract and the cash flows that an entity expects to receive. The mechanics of ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD)	*Probability of default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the asset has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	*Exposure at default* is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or principal amount due under a contract or otherwise, expected repayment of loans issued and interest accrued on overdue payments. For the off-balance sheet items (guarantees issued, letters of credit, undrawn credit lines), the total amount of risk equals the amount of risk prior to the application of the credit conversion factor (CCF). The credit conversion factor represents the share of the current unused amount that will be used during the default period (applicable to off-balance sheet items).
Loss given default (LGD)	*Loss given default* is an estimate of the loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The estimated provision for ECL is calculated based on credit losses that are expected during the asset lifetime (the lifetime expected credit losses or lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the estimated provision is calculated in the amount equal to 12-month expected credit losses (12-month ECL). 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument possible to occur within 12 months after the reporting date. Both lifetime and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying basic portfolio of financial instruments.

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

The Group approved the policy concerning a significant increase in credit risk associated with a financial instrument since its initial recognition by analyzing the changes in the risk of default occurring over the remaining life of the financial instrument. Under this policy, the Group classifies loans into three categories and purchased or originated credit impaired assets.

Stage 1: Includes financial instruments, for which there has been no indication of a significant increase in credit risk since initial recognition. 12-month ECL are recognized for such assets, with interest income being calculated based on the assets' gross carrying amount.

Stage 2: Includes financial instruments, for which there has been an indication of a significant increase in credit risk since initial recognition, and no objective evidence of impairment exists. Lifetime ECL are recognized for such assets, with interest income still being calculated based on the assets' gross carrying amount.

Stage 3: Includes financial assets with identified objective evidence of impairment at the reporting date. Lifetime ECL are recognized for such assets, with interest income being calculated based on the assets' book value taking into account the effect of discounting of expected cash flows on loans.

POCI assets: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired at initial recognition. POCI assets are recorded at fair value at initial recognition, with interest income being subsequently recognized based on the credit-adjusted effective interest rate. An ECL allowance is recognized or reversed only to the extent that there is a subsequent change in expected credit losses.

Default determining process

Default is recognized, if any of the following events occurs:

1) It is unlikely that the borrower repays its loan to the Group from main sources; or

2) Amounts payable to the Group under any material obligation related to loan are overdue by more than 90 days

Internal rating and PD estimation process

To assess the credit risk in practical terms, the Group applies the approach based on internal ratings, i.e. ratings that are calculated by the group itself. Based on the asset class, various risk classification procedures (rating and scoring models) are used.

The Group uses the following rating models to assess the credit risk associated with non-retail assets:

1. *Corporate* is applied to corporate counterparties.

2. *Small and medium business*: to small and medium-sized business entities.

3. *Financial institutions:* to all types of financial institutions other than insurance companies.

4. *Sovereign state organizations*: to central governments and organizations related to the non-commercial public sector of countries.

5. *Local and regional authorities:* to government bodies (at the regional level) and local government bodies, as well as related non-profit organizations of the public sector.

All rating models of non-retail assets are developed by the parent bank. These models are centralized and used by the whole Group. The Group calculates ratings with the use of specialized software. The Group's head office assigns ratings under models applicable to corporate customers, small-sized business entities, local and regional authorities.

Rating instruments are constantly analyzed and revised, where necessary. The Group regularly verifies rating models used and assesses their project capacity.

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

The process of assigning ratings to the Group's customers/ counterparties under Financial Institutions, Sovereign State Organizations models is centralized and performed by the parent bank's analysts. Local credit analysts are also directly involved in the analysis of local customers and their rating assessment by preparing analytical tables and analytical reports to assign ratings. The parent bank's analysts review the prepared local analysis, then perform the scoring and assign the rating.

The process of assigning ratings to sovereign state organizations is passed to the parent bank's respective divisions. The bank's local analysts assign ratings to customers under Local and Regional Authorities model.

Estimates with respect to retail customers are applied automatically in the electronic system for processing applications.

Rating model for corporate customers and financial institutions divides the creditworthiness into 10 classes (9 non-default class and 1 default class), and each class (except for the default one) has three additional categories, A, B and C (25 non-default categories and 1 default category in total). Small and Medium Business rating model comprises seven main classes, three of which have three additional categories each. The professional judgment applicable to any counterparty is based on the analysis of financial data and on the expert examination performed by the credit analysts. Under some rating models the counterparties are assessed by comparison with available data from external sources as well as with the use of behavior description of the customer. The rating scale for retail assets is based on the scoring model.

The Group uses the following levels of internal credit rating:

Internal grade	*Retail customers (PD)*	*Corporate customers, SME customers and financial institutions*	*Sovereign state organizations, local and regional authorities*
High	-	1A – 3C	A1 – B3
Standard	<8.00%	4A – 7C	B4 - B5
Sub-standard	<100%	8A – 9C	C
Impaired	100%	10	D

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the customer's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loans, the Group assesses the possible default events within 12 months for the calculation of the 12 month-ECL. For Stage 2, Stage 3 and POCI financial assets, the EAD is considered for events over the lifetime of the instruments.

The Group determines the EAD by modeling the range of possible outcomes in case of default at various moments of time that corresponds to multiple scenarios. Then, depending on the Group's model results, each economic scenario is assigned PD under IFRS 9.

The Group offers its corporate and retail customers various overdrafts and credit cards, which can be withdrawn by the Group and/or the Group may reduce the limits upon one day notification. The Group does not limit the exposure to risk of credit losses by the contractual term to file the notification and instead calculates the ECL for the period that represents the Group's expectations with respect to the customer's behavior, probability of default and future measures to reduce the credit risk taken by the Group, which can provide for reducing or terminating loan facilities. The interest rate used to discount ECLs on credit cards is based on the average effective interest rate, which is expected to be applied during the period of exposure to risk. This assessment takes into consideration that many loans are repaid in full every month and, therefore, they are interest-free.

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

Loss given default

In the event of corporate lending, LGD is assessed at least once in three months by client managers, revised and approved by the Group's credit risk department.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates include the expected EAD as compared to the amounts expected to be recovered or realized as a result of the sale of collateral held.

The Group classifies its retail loans into homogeneous groups based on key characteristics relevant for the assessment of future cash flows. For this purpose, historical loss data is used and a wide range of characteristics attributable to transactions (e.g., type of product, type of collateral) and the borrower's characteristics are considered.

Where required, new data and forward-looking economic scenarios are used to determine the LGD level under IFRS 9 for each group of financial instruments. When assessing the forward-looking information, the expected results are based on multiple scenarios. Major inputs include, for example, changes in the value of collateral, including housing prices in case of mortgage lending, prices for goods, payment status or other indicators of loss on the group of instruments.

The LGD levels are assessed for all Stage 1, 2, and 3 and POCI assets. Inputs for such LGD levels are assessed and, where possible, are adjusted by testing based on historical data with regard to the latest recoveries. This is repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. Moreover, the assessment is performed on the basis of qualitative and quantitative information:

- Qualitative assessment is performed on the basis of the change in the risk of default occurring over the expected life of the financial instrument, for example, the instrument is transferred from 12-month expected credit losses to the lifetime expected credit losses - not impaired, if the estimated probability of default increases more than by 250%.

- Qualitative assessment: The number of factors is important for the assessment of the significant increase in credit risk (information on overdue amounts, significant changes in the expected performance and behavior of the borrower and other significant changes).

As at the transition date, the Group recognized lifetime ECL on loans with no credit rating at the date of initial recognition, since the analysis of whether a significant increase in credit risk has occurred since initial recognition would have required unreasonably excessive costs or efforts.

Loans are transferred from Stage 1 to Stage 2 if the following factors are in place:

- Overdue more than 30 days
- Early warning indicators of the increase in credit risk (corporate borrowers)
- Necessity to change previously agreed terms of a loan agreement to create more favorable conditions for the customer due to his inability to perform current obligations caused by the customer's financial position
- Full or partial refinancing of current debt that would be required, if the customer experienced financial difficulties
- The customer had no rating as at the reporting date
- Assets, for which the default was not determined, in case that the default is determined for other customer's loans (for the retail portfolio).

When estimating ECL on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios

When determining the impairment amount, the Group uses forward-looking information based on macroeconomic models that results in the direct adjustment of probability of default. As the Group does not know for certain about the realization of these macroeconomic parameters in future, it is impossible to calculate the scenario due to the uncertainty factors.

The Group uses three scenarios: basic, optimistic and pessimistic. When performing calculations, the significance given to the latter two scenarios is 25%, while the significance of the basic scenario is 50%.

With respect to each scenario, the input data for the macroeconomic model include the values of the respective macroeconomic variables that are subsequently used to adjust the corresponding input parameters:

- ► GDP growth rates
- ► Unemployment rate
- ► Growth of consumer prices
- ► Foreign exchange rates.

The inputs and models used to calculate ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, sometimes qualitative adjustments are made or temporary adjustments are applied if such differences are significant.

The tables show the values of the key forward-looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. Data for the Subsequent Years column are long-term average indicators and, therefore, are identical for all scenarios as at 31 December 2018.

Key factors	*ECL scenario*	*Assigned probability, %*	*2019*	*2020*	*2021*
GDP growth, %					
	Optimistic	25%	4.6	4.3	4.2
	Basic	50%	2.5	2.0	1.5
	Pessimistic	25%	-0.6	-1.4	-2.5
USD/BYN exchange rate					
	Optimistic	25%	1.9	1.9	2.0
	Basic	50%	2.1	2.2	2.3
	Pessimistic	25%	2.4	2.5	2.7
EUR/BYN exchange rate					
	Optimistic	25%	2.0	2.2	2.4
	Basic	50%	2.5	2.7	3.0
	Pessimistic	25%	2.8	3.1	3.4
Growth of consumer prices, %					
	Optimistic	25%	4.5	4.3	4.0
	Basic	50%	6.0	6.0	6.0
	Pessimistic	25%	12.2	12.8	13.9
Unemployment rate, %					
	Optimistic	25%	0.6	1.1	1.5
	Basic	50%	1.0	1.5	2.0
	Pessimistic	25%	1.6	2.1	2.8

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Group via an internal credit rating system, as described above. The analysis of the credit quality by class of assets for loan-related line items of the consolidated statement of financial position, based on the Group's credit rating system is shown in the table below.

	Notes		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	601,775	422,298	-	-	**1,024,073**
Amounts due from credit institutions	7	Stage 1	36,914	24,688	-	-	**61,602**
Loans to customers at amortized cost:	8						
- Corporate lending		Stage 1	29,313	1,314,785	111,252	-	**1,455,350**
		Stage 2	-	21,115	67,320	-	**88,435**
		Stage 3	-	-	-	73,351	**73,351**
		POCI	-	-	-	2,664	**2,664**
- Small business lending		Stage 1	-	423,576	36,065	-	**459,641**
		Stage 2	-	16,783	12,947	-	**29,730**
		Stage 3	-	-	-	13,687	**13,687**
		POCI	-	-	-	939	**939**
- Consumer lending		Stage 1	-	506,236	15,295	-	**521,531**
		Stage 2	-	7,513	9,937	-	**17,450**
		Stage 3	-	-	-	9,244	**9,244**
- Mortgage lending		Stage 1	-	83,416	-	-	**83,416**
		Stage 2	-	-	995	-	**995**
		Stage 3	-	-	-	2,225	**2,225**
Debt investment securities:	9						
- measured at FVOCI		Stage 1	36,816	-	-	-	**36,816**
- measured at amortized cost		Stage 1	271,143	295	-	-	**271,438**
Credit-related commitments		Stage 1	43,413	1,092,238	30,445	-	**1,166,096**
	21	Stage 2	-	7,389	3,462	-	**10,851**
		Stage 3	-	-	-	51	**51**
Total			**1,019,374**	**3,920,332**	**287,718**	**102,161**	**5,329,585**

(thousands of Belarusian rubles)

27. Risk management (continued)

Credit risk (continued)

The gross carrying amounts calculated in accordance with IAS 39 as at 31 December 2017 based on the Group's internal credit rating are presented in the table below:

		Neither past due nor individually impaired						
	Notes	***High grade 2017***	***Standard grade 2017***	***Sub-standard grade 2017***	***Not rated***	***Past due but not individually impaired 2017***	***Individually impaired 2017***	***Total 2017***
Cash and cash equivalents (except for cash on hand)	6	343,263	396,895	-	-	-	-	**740,158**
Amounts due from credit institutions	7	24,197	29,231	-	-	-	-	**53,428**
Investment securities recorded at amortized cost	9	-	244,982	-	-	-	-	**244,982**
Loans to customers:	8							
Corporate lending		211,089	158,789	1,117,061	-	-	113,456	**1,600,395**
Small business lending		104,300	74,799	52,013	78,644	5,538	16,750	**332,044**
Consumer lending		-	-	-	382,609	7,468	6,977	**397,054**
Residential mortgages		-	-	-	34,099	771	2,376	**37,246**
		315,389	**233,588**	**1,169,074**	**495,352**	**13,777**	**139,559**	**2,366,739**
Other financial assets	14	-	419	-	3,888	-	-	**4,307**
Total		**682,849**	**905,115**	**1,169,074**	**499,240**	**13,777**	**139,559**	**3,409,614**

In the table above the customers are grouped in the following manner:

High grade: customers with credit rating 1C-4C (corporate customers and average customers with the limit over EUR 1.5 million) and 4B-6A (medium customers) - good profitability, sufficient equity, the probability of the debt repayment is very high in the long run.

Standard grade: customers with credit rating 5A-5C (corporate customers and average customers with the limit over EUR 1.5 million) and 6B-7A (average customers) − stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in the medium term.

Sub-standard grade: customers with credit rating 6A-9C (corporate customers and average customers with the limit over EUR 1.5 million) and 7B-9B (average customers) − low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations.

Individually impaired loans: Individually impaired loans: customers with credit rating 10A-10C (Default. Financial obligations cannot be promptly and fully fulfilled).

Past due loans and advances include those that are only past due by a few days. Aging analysis of past due loans as at 31 December 2017 is as follows: The majority of the past due loans are not considered to be impaired.

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27. Risk management (continued)

Credit risk (continued)

Aging analysis of loans past due but not impaired individually since the due date of payment per class of financial assets

	Less than 30 days 2017	*31 to 90 days 2017*	*More than 90 days 2017*	*Total 2017*
Loans to customers				
Corporate lending	-	-	-	-
Small business lending	2,274	2,917	347	**5,538**
Consumer lending	3,980	2,139	1,349	**7,468**
Mortgage lending	618	153	-	**771**
Total	**6,872**	**5,209**	**1,696**	**13,777**

See Note 8 for more detailed information on the allowance for impairment of loans to customers.

Geographical risk concentration

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

	2018				*2017*			
	Belarus	*OECD*	*CIS and other foreign banks*	*Total*	*Belarus*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	515,934	600,618	32,137	**1,148,689**	517,880	315,533	24,689	**858,102**
Amounts due from credit institutions	61,602	-	-	**61,602**	53,428	-	-	**53,428**
Loans to customers	2,653,256	4,091	-	**2,657,347**	2,241,797	-	-	**2,241,797**
Investment securities held to maturity	270,174	36,815	-	**306,989**	244,982	-	-	**244,982**
Other assets	3,214	80	-	**3,294**	4,209	51	47	**4,307**
	3,504,180	**641,604**	**32,137**	**4,177,921**	**3,062,296**	**315,584**	**24,736**	**3,402,616**
Liabilities								
Amounts due to credit institutions	123,684	133,270	4,771	**261,725**	64,049	279,815	6,021	**349,885**
Amounts due to customers	2,873,238	66,222	89,429	**3,028,889**	2,149,212	61,198	83,310	**2,293,720**
Amounts due to international credit institutions	-	60,406	-	**60,406**	-	41,948	-	**41,948**
Debt securities issued	68,025	-	-	**68,025**	51,732	-	-	**51,732**
Other liabilities	112,828	35	4	**112,867**	101,206	77	37	**101,320**
	3,177,775	**259,933**	**94,204**	**3,531,912**	**2,366,199**	**383,038**	**89,368**	**2,838,605**
Net position	**326,405**	**381,671**	**(62,067)**	**646,009**	**696,097**	**(67,454)**	**(64,632)**	**564,011**

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. . It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high-grade collateral, which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

(thousands of Belarusian rubles)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on net liquidity assets and liabilities established by the NBRB. As at 31 December, these ratios were as follows:

	NBRB required minimum ratio value	*2018*	*2017*
Liquidity coverage ratio	100.0%	119.9%	195.3%
Net stable funding ratio	100.0%	123.1%	127.1%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities As at 31 December 2018	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 year to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	41,617	171,524	12,626	43,533	283	**269,583**
Derivative financial instruments:						
- Contractual amounts payable	-	406,994	3,027	-	-	**410,021**
- Contractual amounts receivable	-	(407,104)	(3,145)	-	-	**(410,249)**
Amounts due to customers	2,034,039	727,536	219,894	63,801	76	**3,045,346**
Amounts due to international financial institutions	1,031	6,035	9,227	49,052	-	**65,345**
Debt securities issued	-	1,708	60,817	4,715	15,650	**82,890**
Other liabilities	1,250	-	25,747	85,870	-	**112,867**
Total undiscounted financial liabilities	**2,077,937**	**906,693**	**328,193**	**246,971**	**16,009**	**3,575,803**

Financial liabilities As at 31 December 2017	*On demand*	*Less than 3 months*	*3 to 12 months*	*1 year to 5 years*	*Over 5 years*	*Total*
Amounts due to credit institutions	15,444	82,274	39,755	250,656	287	**388,416**
Derivative financial instruments:						
- Contractual amounts payable	-	338,497	462	-	-	**338,959**
- Contractual amounts receivable	-	(338,904)	(473)	-	-	**(339,377)**
Amounts due to customers	1,353,132	358,220	493,159	99,442	94	**2,304,047**
Amounts due to international financial institutions	83	3,864	3,796	37,011	-	**44,754**
Debt securities issued	-	1,294	3,955	56,924	-	**62,173**
Other liabilities	1,209	-	24,784	75,184	-	**101,177**
Total undiscounted financial liabilities	**1,369,868**	**445,245**	**565,438**	**519,217**	**381**	**2,900,149**

(thousands of Belarusian rubles)

27. Risk management (continued)

Liquidity risk and funding management (continued)

The table below shows the contractual maturity of the Bank's commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 year to 5 years*	*Over 5 years*	*Total*
2018	974,034	157,804	43,436	6,092	**1,181,366**
2017	501,893	1,979	2,496	639	**507,007**

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

Market risk

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

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

Currency	*Increase in basis points 2018*	*Sensitivity of net interest income 2018*
BYN	+50 b.p.	2,176
EUR	+50 b.p.	1,764
USD	+50 b.p.	746

Currency	*Decrease in basis points 2018*	*Sensitivity of net interest income 2018*
BYN	-50 b.p.	(2,176)
EUR	- 50 b.p.	(1,764)
USD	-50 b.p.	(746)

Currency	*Increase in basis points 2017*	*Sensitivity of net interest income 2017*
BYN	+50 b.p.	839
EUR	+50 b.p.	963
USD	+50 b.p.	481

Currency	*Decrease in basis points 2017*	*Sensitivity of net interest income 2017*
BYN	-50 b.p.	(839)
EUR	-50 b.p.	(963)
USD	-50 b.p.	(481)

(thousands of Belarusian rubles)

27. Risk management (continued)

Currency risk

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

The table below indicates the currencies to which the Group had significant exposure as at 31 December 2018 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on the equity does not differ from the effect on the consolidated statement of profit or loss. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate in %, 2018*	*Effect on profit before tax 2018*	*Change in currency rate in %, 2017*	*Effect on profit before tax 2017*
USD	10.00	894	10.00	2,165
USD	-10.00	(894)	-10.00	(2,165)
EUR	10.00	1,941	14.50	1,825
EUR	-10.00	(1,941)	-10.00	(1,259)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgage loans when interest rates fall.

Due to the fact that the Group does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Group believes that the Group is not exposed to the prepayment risk.

Operational risk

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

(thousands of Belarusian rubles)

28. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount 2018	*Fair value 2018*	*Unrecognized gain/ (loss) 2018*	*Carrying amount 2017*	*Fair value 2017*	*Unrecognized gain/ (loss) 2017*
Financial assets						
Cash and cash equivalents	1,148,689	1,148,689	-	858,102	858,102	-
Amounts due from credit institutions	61,602	61,602	-	53,428	53,428	-
Loans to customers	2,657,347	2,650,473	(6,874)	2,241,797	2,242,270	473
Investment securities – debt securities measured at amortized cost (previously designated as held to maturity)	268,833	268,994	161	244,982	245,425	443
Other financial assets	3,169	3,169	-	3,888	3,888	-
Financial liabilities						
Amounts due to credit institutions	261,725	261,725	-	349,885	349,885	-
Amounts due to customers	3,028,889	3,028,762	127	2,293,720	2,293,346	374
Amounts due to international financial institutions	60,406	60,406	-	41,948	41,948	-
Debt securities issued	68,025	68,025	-	51,732	51,732	-
Other financial liabilities	112,654	112,654	-	101,177	101,177	-
Total unrecognized change in unrealized fair value			**(6,586)**			**1,290**

(thousands of Belarusian rubles)

28. Fair value of financial instruments (continued)

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

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	124,619	1,024,070	-	**1,148,689**
Amounts due from credit institutions	-	61,602	-	**61,602**
Loans to customers	-	-	2,650,473	**2,650,473**
Investment securities – debt securities measured at amortized cost (previously designated as held to maturity)	-	268,994	-	**268,994**
Other financial assets	-	-	3,169	**3,169**
	124,619	**1,354,666**	**2,653,642**	**4,132,927**
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	-	261,725	**261,725**
Amounts due to customers	-	-	3,028,762	**3,028,762**
Amounts due to international financial institutions	-	-	60,406	**60,406**
Debt securities issued	-	68,025	-	**68,025**
Other financial liabilities	-	-	112,654	**112,654**
	-	**68,025**	**3,463,547**	**3,531,572**

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	117,944	740,158	-	**858,102**
Amounts due from credit institutions	-	53,428	-	**53,428**
Loans to customers	-	-	2,242,270	**2,242,270**
Held-to-maturity investment securities	-	245,425	-	**245,425**
Other financial assets	-	-	3,888	**3,888**
	117,944	**1,039,011**	**2,246,158**	**3,403,113**
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	-	-	349,885	**349,885**
Amounts due to customers	-	-	2,293,346	**2,293,346**
Amounts due to international financial institutions	-	-	41,948	**41,948**
Debt securities issued	-	51,732	-	**51,732**
Other financial liabilities	-	-	101,177	**101,177**
	-	**51,732**	**2,786,356**	**2,838,088**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments, which are not already recorded at fair value in the consolidated financial statements.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid and have a floating rate or a short-term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without specific maturity.

(thousands of Belarusian rubles)

28. Fair value of financial instruments (continued)

Fixed rate financial instruments

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

Financial instruments recorded at fair value

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

31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial assets	-	80	45	**125**
Equity securities at FVOCI	-	166	1,174	**1,340**
Debt securities at FVOCI	36,816	-	-	**36,816**
	36,816	**246**	**1,219**	**38,281**
Financial liabilities				
Derivative financial liabilities	-	38	175	**213**
	-	**38**	**175**	**213**

31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Derivative financial assets	-	113	306	**419**
	-	**113**	**306**	**419**
Financial liabilities				
Derivative financial liabilities	-	82	61	**143**
	-	**82**	**61**	**143**

Financial instruments carried at fair value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. Methods used by the Group to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

(thousands of Belarusian rubles)

28. Fair value of financial instruments (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	At 1 January 2018	*Gain/(loss) recorded in profit or loss on "Translation differences" position*	*Settlements*	*At 31 December 2018*
Financial assets				
Derivative financial instruments	306	45	(306)	45
Debt securities at FVOCI	1,046	130	(2)	1,174
Total Level 3 financial assets	**1,352**	**175**	**(308)**	**1,219**
Financial liabilities				
Derivative financial instruments	(61)	(175)	61	(175)
Total Level 3 financial liabilities	**(61)**	**(175)**	**61**	**(175)**

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	2018			*2017*		
	Realized gains	*Unrealized gains*	*Total*	*Realized gains*	*Unrealized gains*	*Total*
Gains recorded in the statement of profit or loss	(247)	-	**(247)**	(32)	245	**213**

Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	31 December 2018		*31 December 2017*	
	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
Financial assets				
Derivative financial instruments	1,219	6	306	10
Financial liabilities				
Derivative financial instruments	(175)	19	(61)	51

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows: the Group adjusted the interest rate used to measure discounted cash flows in Belarusian rubles. The adjustment decreased the interest rate by 100 b.p. (2017: 100 b.p.).

(thousands of Belarusian rubles)

29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2018			*2017*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	1,148,689	-	**1,148,689**	858,102	-	**858,102**
Amounts due from credit institutions	55,999	5,603	**61,602**	53,428	-	**53,428**
Loans to customers	1,565,707	1,091,640	**2,657,347**	1,469,604	772,193	**2,241,797**
Investment securities	252,513	54,476	**306,989**	217,311	27,671	**244,982**
Investment property	390	11,450	**11,840**	918	16,011	**16,929**
Property and equipment	16,285	140,265	**156,550**	11,542	138,972	**150,514**
Intangible assets	9,160	24,225	**33,385**	9,400	23,222	**32,622**
Deferred income tax assets	-	2,731	**2,731**	-	-	**-**
Current income tax assets	296	-	**296**	224	-	**224**
Other assets	62,847	759	**63,606**	65,634	13	**65,647**
Total assets	**3,111,886**	**1,331,149**	**4,443,035**	**2,686,163**	**978,082**	**3,664,245**
Amounts due to credit institutions	222,257	39,468	**261,725**	107,828	242,057	**349,885**
Amounts due to customers	2,650,787	378,102	**3,028,889**	1,984,999	308,721	**2,293,720**
Amounts due to international financial institutions	14,408	45,998	**60,406**	6,895	35,053	**41,948**
Debt securities issued	55,662	12,363	**68,025**	105	51,627	**51,732**
Current income tax liabilities	297	-	**297**	13,958	-	**13,958**
Deferred income tax liabilities	-	33,191	**33,191**	-	47,303	**47,303**
Provisions	2,111	-	**2,111**	-	-	**-**
Other liabilities	30,660	85,870	**116,530**	30,316	75,184	**105,500**
Total liabilities	**2,976,182**	**594,992**	**3,571,174**	**2,144,101**	**759,945**	**2,904,046**
Net position	**135,704**	**736,157**	**871,861**	**542,062**	**218,137**	**760,199**

30. Related party transactions

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

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

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG (RBI), banks under common control), shareholders with more than 5% ownership in the share capital of the Bank and the key management personnel of the Group.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Group, owning 100% of shares of the Group's principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

The outstanding balances of related party transactions at the end of the reporting period are as follows:

(thousands of Belarusian rubles)

30. Related party transactions (continued)

	2018			2017		
	RBI	*Banks under common control*	*Key management personnel*	*RBI*	*Banks under common control*	*Key management personnel*
Cash and cash equivalents at 31 December	**26,931**	**2,191**	**-**	**18,225**	**3,013**	**-**
Loans at 1 January	**-**	**-**	**19**	**-**	**-**	**53**
Loans issued during the year	-	-	280	-	-	28
Loans repaid during the year	-	-	(69)	-	-	(62)
Loans outstanding at 31 December	**-**	**-**	**230**	**-**	**-**	**19**
Deposits at 1 January	**256,092**	**1,158**	**3,957**	**364,892**	**-**	**4,068**
Foreign exchange differences	15,844	58	463	43,373	-	(421)
Deposits received during the year	-	-	6,234	-	1,158	4,440
Deposits repaid during the year	(157,378)	(1,216)	(5,361)	(152,173)	-	(4,130)
Deposits at 31 December	**114,558**	**-**	**5,293**	**256,092**	**1,158**	**3,957**
Settlement and current accounts at 31 December	68	2,327	1,226	42	3,159	201
Commitments and guarantees issued	-	-	-	6,184	-	-
Commitments and guarantees received	1,188	-	-	1,124	-	-

Income and expenses arising from related party transactions are as follows:

	For the year ended 31 December					
	2018			2017		
	RBI	*Banks under common control*	*Key management personnel*	*RBI*	*Banks under common control*	*Key management personnel*
Interest income	2	2	14	-	1	7
Interest expense	(8,468)	-	(101)	(14,290)	-	(148)
Net gains/(losses) from foreign currencies	4,907	531	-	3,209	(5,379)	-
Fee and commission income	85	166	-	50	135	4
Fee and commission expense	(3,527)	(119)	1	(1,247)	(74)	-
Personnel expenses	-		(3,356)	-	-	(2,902)
Other operating expenses	(4,387)	-	-	(3,903)	-	-

Compensation to key management personnel comprises the following:

	2018	*2017*
Salaries and other short-term benefits	2,757	2,375
Defined benefit plan	327	312
Social security costs	272	215
Total compensation to key management personnel	**3,356**	**2,902**

(thousands of Belarusian rubles)

31. Changes in liabilities arising from financing activities

	Notes	*Debt securities issued*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2016		**2,676**	**2,676**
Proceeds from issue		52,394	**52,394**
Repaid		(3,718)	**(3,718)**
Foreign exchange differences		301	**301**
Other		79	**79**
Carrying amount at 31 December 2017		**51,732**	**51,732**
Proceeds from issue		57,965	**57,965**
Repaid		(41,712)	**(41,712)**
Foreign exchange differences		-	**-**
Other		40	**40**
Carrying amount at 31 December 2018	19	**68,025**	**68,025**

The "Other" line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

32. Capital adequacy

Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the level of risks taken. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous years.

NBRB capital adequacy ratio

The NBRB requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets in 2018, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2018 and 2017, the Bank managed to comply with NBRB capital adequacy ratio.

(thousands of Belarusian rubles)

32. Capital adequacy (continued)

Capital adequacy ratio under 1988 Basel Capital Accord

The Group's capital adequacy ratio, computed in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2018 and 2017, comprised:

	2018	***2017***
Tier 1 capital	842,608	744,550
Total equity	**842,608**	**744,550**
Risk-weighted assets	**3,668,442**	**3,108,829**
Tier 1 capital adequacy ratio (minimum value of 4%)	22.97%	23.95%
Total capital ratio (minimum value of 8%)	22.97%	23.95%

33. Events after the reporting period

At the shareholders' meeting held in March 2019, dividends were declared for the year ended 31 December 2018: BYN 0.51 per ordinary share (BYN 0.41 paid in September 2018) and BYN 0.35 per preferred share (paid in September 2018). As a result, additional dividend payments for ordinary shares amounted to BYN 12,306 thousand.