Translation of the original Russian version

Bank BelVEB OJSC and its subsidiaries

Consolidated financial statements

Year ended 31 December 2018
together with Independent auditors' report

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Independent auditor's report on the consolidated financial statements of "Belvnesheconombank" Open Joint Stock Company for the period from 1 January 2018 to 31 December 2018

To the Chairman of the Management Board
of Belvnesheconombank Open Joint Stock Company
Mr. V.S. Matsiusheuski

To the Shareholders, Audit Committee and Management Board
of Belvnesheconombank Open Joint Stock Company

Opinion

We have audited the consolidated financial statements of Belvnesheconombank Open Joint Stock Company and its subsidiaries (hereinafter, the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 Bank 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 (IFRSs).

Basis for opinion

We conducted our audit 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 (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 Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 of 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 each 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 these matters. 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 matters 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
Allowance for expected credit losses on loans to customers in accordance with IFRS 9	
The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management. Identification of factors of a significant increase in credit risk, including identification of the change in the risk of default occurring over the remaining life of the financial instrument, identification of default (impairment stages) and estimation of its probability, the level of recovery and macroeconomic forecast ratio require the 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 amount 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, 9 and 29 to the consolidated financial statements.	Our audit procedures included the analysis of the methodology for assessing the allowance for expected credit losses on loans to individuals and legal entities, testing of controls over the customer lending process, including testing of controls over the accounting for overdue debt and 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 legal entities, we reviewed assumptions, tested input data used by the Bank, and analyzed the model for assessing the probability of default, the level of recovery and macroeconomic forecast ratio. We reviewed the classification of loans by credit quality stage and recalculated the allowance for expected credit losses. Our audit procedures also included the recalculation of the allowance for individually significant loans and loans with higher credit risk exposure. We analyzed the financial position of the borrowers and the Bank's strategy to collect outstanding amounts under impaired loans.

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We reviewed consistency of management's assumptions applied in calculating the allowance for expected credit losses.

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

Fair value measurement of buildings

Methods of the fair value measurement of buildings may be of a subjective nature and based on various price driver assumptions. Various methods and assumptions may significantly affect the result of the fair value measurement. Due to significance of amount and judgment, and the potential effect on the Bank's consolidated financial statements, we consider the fair value measurement of buildings to be one of the key audit matters.

In order to measure the market value of buildings, the Bank engaged an independent appraiser who used the market approach. Changes in the fair value of buildings for the reporting period were analyzed using the results of the analysis of actual market data.

The information on the fair value measurement of buildings is presented in Notes 4, 13 and 30 to the consolidated financial statements.

Our audit procedures in relation to the valuation of buildings included the analysis of competence and objectivity of the independent appraiser engaged by the Bank's management, analysis of material assumptions used, as well as comparison of the inputs used in valuation with the information about the value of investment property available in the market and other observable data. To analyze the valuation methodology and assumptions used we engaged our real estate valuation specialists.

We reviewed information about fair value measurement disclosed in the notes to the consolidated financial statements.

Responsibility of management and the Supervisory Board of Bank BelVEB OJSC for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control, as management determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of Bank BelVEB OJSC is responsible for overseeing the Bank's financial reporting process.

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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 ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit 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 ISAs, 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 Bank 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 entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

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We communicate with the Supervisory Board and the Audit Committee of Bank BelVEB OJSC 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 Bank BelVEB OJSC with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board and the Audit Committee of Bank BelVEB OJSC, we determine the 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.

The partner in charge of the audit resulting in this independent auditor's report is P.A. Laschenko.

P.A. Laschenko
Partner, FCCA
General Director
Ernst & Young LLC

A.I. Korshun
ACCA, Deputy Head of Audit Department - Auditor, Ernst & Young LLC

25 March 2019

Details of the audited entity

Name: Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC)
Belvnesheconombank Open Joint Stock Company registered by the National Bank of the Republic of Belarus on 12 December 1991, registration No. 24.
Address: 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Details of the audit firm

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

Consolidated statement of financial position

As at 31 December 2018

(Thousands of Belarusian rubles)

	Notes	*2018*	*2017*
Assets			
Cash and cash equivalents	7	685,624	720,387
Precious metals		334	504
Amounts due from credit institutions	8	62,105	59,207
Loans to customers	9	2,883,177	2,586,356
Investment securities	10	556,286	537,413
Investments in associates	12	4,029	3,891
Property and equipment	13	120,383	147,372
Assets constructed for sale	14	–	7,848
Investment property	11	–	4,295
Intangible assets	15	44,376	36,096
Current income tax asset		2,327	2,757
Deferred income tax assets	16	3,455	15,385
Other assets	18	39,652	31,906
Total assets		**4,401,748**	**4,153,417**
Liabilities			
Amounts due to credit institutions	19	1,300,240	1,050,670
Amounts due to the National Bank of the Republic of Belarus	20	22	5,009
Amounts due to customers	21	2,192,704	2,341,774
Debt securities issued	22	102,928	4,507
Current income tax liabilities		4,177	8,215
Deferred income tax liabilities	16	319	988
Other liabilities and provisions	18	43,404	33,112
Subordinated debt	23	220,461	199,340
Total liabilities		**3,864,255**	**3,643,615**
Equity			
Share capital	24	473,057	473,057
Share premium		458	458
Additional paid-in capital		5,485	5,485
Revaluation reserve for buildings		12,746	22,771
Revaluation reserve for securities		10,926	16,606
Retained earnings / (accumulated deficit)		34,821	(17,756)
Total equity attributable to shareholders of the Bank		**537,493**	**500,621**
Non-controlling interests	5	–	9,181
Total equity		**537,493**	**509,802**
Total equity and liabilities		**4,401,748**	**4,153,417**

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

Taras Nadolniy — Acting Chairman of the Management Board

Irina Merzliakova — Chief Accountant

25 March 2019

The accompanying notes on pages 7-91 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			
Loans to customers		273,100	303,587
Investment securities		34,327	50,075
Amounts due from credit institutions		4,346	4,328
Finance lease		48	84
		311,821	**358,074**
Interest expense			
Amounts due to credit institutions		(41,881)	(74,230)
Amounts due to customers		(64,916)	(81,322)
Subordinated debt		(17,041)	(14,303)
Debt securities issued		(2,206)	(575)
		(126,044)	**(170,430)**
Net interest income		**185,777**	**187,644**
Credit loss expense	17	(24,362)	(102,837)
Loss on modification of loans	9	(20,715)	–
Net interest income after allowance for credit losses		**140,700**	**82,612**
Effect of initial recognition of interest-bearing assets		(17,501)	(2,195)
Net fee and commission income	26	61,150	57,251
Net gains/(losses) from foreign currencies:			
- dealing		29,431	27,616
- transactions with derivative financial instruments		(75)	(142)
- translation differences		(23,523)	(6,260)
Financial result from disposal of a subsidiary	5	4,718	1,036
Share in profit/(loss) of associates	12	38	(24)
Other income	27	31,714	44,251
Non-interest income		**85,952**	**123,728**
Personnel expenses	28	(68,416)	(63,307)
Depreciation and amortization	11, 13, 15	(24,760)	(22,394)
Taxes other than income tax		(3,509)	(3,868)
Other operating expenses	28	(68,881)	(62,950)
Other gains/(losses) from impairment and accrual/(reversal) of provisions	17	4,020	(1,095)
Non-interest expense		**(161,546)**	**(153,614)**
Profit before income tax		**65,106**	**52,726**
Income tax expense	16	(19,177)	(8,677)
Profit for the year		**45,929**	**44,049**
Attributable to:			
- shareholders of the Bank		45,023	42,405
- non-controlling interests		906	1,644
		45,929	**44,049**

The accompanying notes on pages 7-91 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		**45,929**	**44,049**
Other comprehensive (loss)/income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized gains on investment securities available for sale		Not applicable	16,606
Net change in the fair value of debt instruments at fair value through other comprehensive income		(11,375)	Not applicable
Change in the allowance for expected credit losses on debt instruments at fair value through other comprehensive income		(652)	Not applicable
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(12,027)**	**16,606**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings	24	(9,429)	–
Effect of income tax	16	(219)	–
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(9,648)**	**–**
Other comprehensive (loss)/income for the year		**(21,675)**	**16,606**
Total comprehensive income for the year		**24,254**	**60,655**
Attributable to:			
- shareholders of the Bank		23,348	59,011
- non-controlling interests		906	1,644
		24,254	**60,655**

The accompanying notes on pages 7-91 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	*Share premium*	*Additional paid-in capital*	*Revaluation reserve for buildings*	*Revaluation reserve for securities*	*Retained earnings / (accumulated deficit)*	*Total*	*Non-controlling interests*	*Total equity*
31 December 2016	**473,057**	**458**	**5,485**	**23,390**	**–**	**(51,141)**	**451,249**	**9,401**	**460,650**
Profit for the year	–	–	–	–	–	42,405	**42,405**	1,644	**44,049**
Other comprehensive loss for the year	–	–	–	–	16,606	–	**16,606**	–	**16,606**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**–**	**16,606**	**42,405**	**59,011**	**1,644**	**60,655**
Amortization of revaluation reserve for buildings, net of tax (Note 24)	–	–	–	(619)	–	619	**–**	–	**–**
Disposal of a subsidiary (Note 5)	–	–	–	–	–	–	**–**	(424)	**(424)**
Dividends to shareholders of the Bank (Note 24)	–	–	–	–	–	(9,639)	**(9,639)**	–	**(9,639)**
Dividends paid by subsidiaries	–	–	–	–	–	–	**–**	(1,440)	**(1,440)**
31 December 2017	**473,057**	**458**	**5,485**	**22,771**	**16,606**	**(17,756)**	**500,621**	**9,181**	**509,802**
Effect of transition to IFRS 9 (Note 3)	–	–	–	–	**6,347**	**18,108**	**24,455**	(2)	**24,453**
Balance at 1 January 2018 restated in accordance with IFRS 9	**473,057**	**458**	**5,485**	**22,771**	**22,953**	**352**	**525,076**	**9,179**	**534,255**
Profit for the year	–	–	–	–	–	45,023	**45,023**	906	**45,929**
Other comprehensive income for the year	–	–	–	(9,648)	(12,027)	–	**(21,675)**	–	**(21,675)**
Total comprehensive income for the year	**–**	**–**	**–**	**(9,648)**	**(12,027)**	**45,023**	**23,348**	**906**	**24,254**
Amortization of revaluation reserve for buildings, net of tax (Note 24)	–	–	–	(298)	–	298	**–**	–	–
Disposal of a subsidiary (Note 5)	–	–	–	(79)	–	79	**–**	(10,085)	**(10,085)**
Dividends to shareholders of the Bank (Note 24)	–	–	–	–	–	(10,931)	**(10,931)**	–	**(10,931)**
31 December 2018	**473,057**	**458**	**5,485**	**12,746**	**10,926**	**34,821**	**537,493**	**–**	**537,493**

The accompanying notes on pages 7-91 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*
Profit for the period		**45,929**	**44,049**
Adjustments:			
Depreciation and amortization	28	24,760	22,394
Income tax expense	16	19,177	8,677
Impairment allowance and other provisions	17	20,342	103,932
Share in (profit)/loss of associates	12	(38)	24
Gain on disposal of subsidiaries	5	(4,718)	(1,036)
Translation differences		23,523	6,260
Effect of initial recognition of interest-bearing assets		17,501	2,195
Loss from modification of loan contractual terms		20,715	–
Changes in interest accruals		771	21,268
Loss from revaluation of property and equipment	28	4,534	–
Impairment of property and equipment	28	101	–
Loss/(profit) from disposal of property and equipment and intangible assets	28	4,266	(4,210)
Other changes		(2,976)	2,785
Cash flows from operating activities before changes in operating assets and liabilities		**173,887**	**206,338**
Net (increase)/decrease in operating assets			
Precious metals		170	47
Amounts due from credit institutions		(481)	(17,007)
Loans to customers		(208,124)	(186,886)
Assets constructed for sale	14	1,988	5,388
Other assets		(4,526)	7,267
Net increase/(decrease) in operating liabilities			
Short-term amounts due to credit institutions		90,148	157,193
Amounts due to customers		(271,015)	391,478
Other liabilities		(13)	6,451
Net cash flows from operating activities before income tax		**(217,966)**	**570,269**
Income tax paid		(19,894)	(12,368)
Net cash (used in)/from operating activities		**(237,860)**	**557,901**

The accompanying notes on pages 7-91 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

	Notes	*2018*	*2017*
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		997,133	1,795,205
Purchase of investment securities		(980,534)	(1,497,328)
Purchase of property and equipment and intangible assets	13, 15	(27,747)	(19,351)
Proceeds from sale of property and equipment and intangible assets	13, 15, 28	1,846	7,241
Proceeds from sale of investment property		1,369	2,014
Proceeds from disposal of shares in subsidiaries, net of cash of the companies disposed		–	482
Investments in associate	12	(100)	–
Net cash (used in)/from investing activities		**(8,033)**	**288,263**
Cash flows from financing activities	34		
Proceeds from long-term interbank borrowings		538,345	147,220
Repayment of long-term interbank borrowings		(417,709)	(685,399)
Proceeds from issue of own debt securities		8,304	13,428
Redemption of own debt securities		–	(12,262)
Repurchase of own debt securities		(295,700)	–
Proceeds from sale of own debt securities		384,964	–
Dividends paid to shareholders of the Bank	24	(9,775)	(8,610)
Dividends paid by subsidiaries		–	(1,440)
Net cash from/(used in) financing activities		**208,429**	**(547,063)**
Effect of exchange rates changes on cash and cash equivalents		2,701	(15,802)
Net (decrease)/increase in cash and cash equivalents		**(34,763)**	**283,299**
Cash and cash equivalents, beginning		720,387	437,088
Cash and cash equivalents, ending	7	**685,624**	**720,387**

The accompanying notes on pages 7-91 are an integral part of these consolidated financial statements.

(Thousands of Belarusian rubles, unless otherwise indicated)

1. Principal activity

Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC) was formed on 12 December 1991 as an open joint stock company under the laws of the Republic of Belarus. Bank BelVEB OJSC operates under general banking license No. 6 issued by the National Bank of the Republic of Belarus on 21 December 2018 (before 21 December 2018: under general banking license No. 6 issued by the National Bank of Republic of Belarus on 21 December 2013), the special license for operations with precious metals and precious stones issued by the Ministry of Finance of the Republic of Belarus on 23 June 2010 and the special permit (license) for operations with securities issued by the Ministry of Finance of the Republic of Belarus on 29 July 2002.

Bank BelVEB OJSC is a universal financial institution and one of the leading commercial banks in the Republic of Belarus. Its activities include international settlements, currency operations and other services relating to foreign trade activities of the state and customers. The Bank has extensive experience and a proven track record in both international and domestic markets. The Bank's main office is in Minsk. As at 31 December 2018, the Bank has 17 branches, including 5 offices in regional cities, 3 offices in Minsk, 9 offices in major cities throughout the country, as well as 13 cash settlement centers and 20 retail centers.

The Bank’s legal address is 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Bank BelVEB OJSC is a principal member of MasterCard International (since 1994) and VISA International (since 1995).

Bank BelVEB OJSC is a member of the deposit insurance system. The system operates under the Belarusian laws and regulations and is governed by the public institution "Agency of Deposits Compensation". Insurance covers Bank BelVEB OJSC's liabilities to individual depositors for 100% of each individual deposit amount in case of business failure and revocation of the banking license issued by the National Bank of the Republic of Belarus.

These consolidated financial statements comprise the financial statements of Bank BelVEB OJSC and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is presented in Note 2.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares:

Shareholder	***2018, %***	***2017%***
State Development Corporation VEB.RF	97.52	97.52
Other	2.48	2.48
Total	**100.00**	**100.00**

The Bank is ultimately controlled by the Russian Government.

As at 31 December 2018, members of the Supervisory Board and Management Board controlled 5, or 0.00000004%, of the Bank's shares (31 December 2017: 55 shares, or 0.00000047%).

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Belarusian rubles ("BYN thousand"), except for earnings per share amounts or unless otherwise indicated.

The Bank is required to maintain accounting records and prepare its financial statements for regulatory purposes in Belarusian rubles in accordance with Belarusian accounting and banking legislation and related instructions ("BAL"). These consolidated financial statements are based on the Bank’s BAL books and records, as adjusted and reclassified in order to comply with IFRS.

(Thousands of Belarusian rubles, unless otherwise indicated)

2. Basis of preparation (continued)

General (continued)

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in Summary of accounting policies below. For example, securities available-for-sale, property and equipment (buildings) and derivative financial instruments have been measured at fair value.

Subsidiaries

The consolidated financial statements include the following subsidiaries:

	Interest/voting, %				
Subsidiary	***31 December 2018***	***31 December 2017***	***Country***	***Date of incorporation***	***Industry***
BelVEB Insurance	100.0	100.0	Republic of Belarus	17 October 1994	Insurance
Vnesheconomstroy (Note 5)	0.0	51.0	Republic of Belarus	4 September 2002	Real estate transactions
VEB Technologies	100.0	0.0	Republic of Belarus	2 March 2018	Information technologies

During the reporting year, Belvneshnestrakh Unitary Insurance Enterprise, the Bank's subsidiary, has changed its name to BelVEB Insurance Unitary Insurance Enterprise.

In 2018, Bank BelVEB OJSC was involved in the establishment of VEB Technologies LLC, an IT company, with an ownership interest of 99.9%. An interest of 0.1% is owned by BelVEB Insurance Unitary Insurance Enterprise, the Bank's subsidiary.

Associates

Investments in the associates below are accounted for under the equity method:

	31 December 2018				
Associate	***Interest/voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
Sivelga (Note 12)	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006
BelVEBleasing (Note 12)	49.0	Republic of Belarus	6 March 2018	Finance	6 March 2018

In 2018, Bank BelVEB OJSC was involved in the establishment of BelVEBleasing LLC with an ownership interest of 49%.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies

Changes in accounting policies

The Bank applied IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

Changes in accounting policies (continued)

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

IFRS 9 Financial Instruments

IFRS 9 replaces *IAS 39 Financial Instruments: Recognition and Measurement* for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the 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.

(a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as at fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, 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 other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as 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. Embedded derivatives are no longer separated from a host financial asset.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Bank’s accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section (c) below.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

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

	IAS 39 measurement		*Remeasurement*		*IFRS 9 measurement*	
Financial assets	***Category***	***Amount***	***ECL***	***Other***	***Amount***	***Category***
Cash and cash equivalents	L&R[1]	720,387	–	–	720,387	Amortized cost
Amounts due from credit institutions	L&R	59,207	(78)	–	59,129	Amortized cost
Loans to customers – amortized cost	L&R	2,586,356	78,944	(32,525)	2,632,775	Amortized cost
Investment securities - debt securities at FVOCI	AFS[2]	536,964	–	–	536,964	FVOCI (debt instruments)
Investment securities− equity securities at FVOCI	AFS	449	–	–	449	FVOCI (equity instruments)
Other financial assets	L&R	4,535	419	–	4,954	
Deferred tax assets		15,385	–	(8,175)	7,210	
Total assets		**3,923,283**	**79,285**	**(40,700)**	**3,961,868**	
Deferred tax liabilities		988	–	(24)	964	
Provisions for contingencies		–	14,156	–	14,156	
Total liabilities		**988**	**14,156**	**(24)**	**15,120**	

1 L&R: Loans and receivables

2 AFS: Available for sale.

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

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Revaluation reserve for securities	
Closing balance under IAS 39 (31 December 2017)	**16,606**
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	6,347
Restated opening balance under IFRS 9 (1 January 2018)	**22,953**
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	**(17,756)**
Recognition of IFRS 9 ECLs including for instruments measured at FVOCI and recognition of the effect from modification of loan contractual terms	26,257
Related deferred tax	(8,151)
Restated opening balance under IFRS 9 (1 January 2018)	**350**
Total changes in equity due to transition to IFRS 9	**24,453**

(Thousands of Belarusian rubles, unless otherwise indicated)

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***
Allowance for impairment			
Loans and receivables at amortized cost	283,417	(79,285)	204,132
Financial guarantees	–	8,736	8,736
Letters of credit	–	589	589
Other commitments	–	4,831	4,831
	–	**14,156**	**14,156**
	283,417	**(65,129)**	**218,288**

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 Bank's revenue including interest revenue, 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 Bank's consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Bank's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the 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 a property does not provide evidence of a change in use. These amendments do not have any impact on the Bank's consolidated financial statements.

(Thousands of Belarusian rubles, unless otherwise indicated)

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, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. 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 do not have any impact on the Bank's consolidated financial statements.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Bank, are consolidated. Control is achieved when the Bank 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 Bank controls an investee if, and only if, the Bank has:

- ► Power over the investee (i.e., existing 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 Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ► The contractual arrangement with the other vote holders of the investee
- ► Rights arising from other contractual arrangements
- ► The Bank's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Bank 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 Bank.

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.

If the Bank loses control over a subsidiary, it derecognizes the assets 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.

3. Summary of accounting policies (continued)

Investments in associates

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Bank's share of net assets of the associate. The Bank's share of its associates' profits or losses is recognized in profit or loss. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associate.

Unrealized gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Bank measures financial instruments at FVPL and FVOCI and non-financial assets, such as property and equipment (buildings), at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 30.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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 Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. 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 its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated financial statements on a recurring basis, the Bank 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets

Initial recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date, i.e. the date that the Bank 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.

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 Bank 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.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model 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 fair value through profit or loss.

Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- FVOCI
- FVPL.

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

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (measured at amortized cost), FVPL, available-for-sale or held-to-maturity (measured at 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

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 Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available for sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available for sale.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets (continued)

From 1 January 2018, the Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Business model assessment

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

The Bank'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 Bank's assessment.

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

The SPPI test

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

'Principal' for the purpose of this test is defined as the fair value of the 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 Bank applies judgement 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets (continued)

Debt instruments at FVOCI

From 1 January 2018, the Bank 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 and losses arising due to changes in fair value recognized in OCI. Interest revenue 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.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise 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 Bank elected to classify irrevocably 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 such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right of the payment has been established, except when the Bank 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 Bank 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 Bank'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 provision.

The Bank 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.

3. Summary of accounting policies (continued)

Financial assets (continued)

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 Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period were not included in this classification. Held-to-maturity investments were subsequently measured at amortized cost. Gains and losses were recognized in profit or loss when the investments are impaired, as well as through the amortization process.

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 designated as investment securities available for sale. Such assets were carried at amortized cost using the effective interest 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 Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. In 2017, the Bank did not reclassify any of its financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of the Republic of Belarus, 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.

Precious metals

Precious metals in the form of ingots and coins are recorded at bid prices, which approximate fair values. The Bank determines value of write-off of precious metals in the form of ingots and coins at self-cost of each unit.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. 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 as net gains/(losses) from foreign currencies.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 the National Bank of Republic of Belarus, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowings and subordinated debts. 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.

Borrowings from parent originated at interest rates different from market rates are measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is charged to equity as additional paid in capital. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of profit or loss using the effective interest method.

Government grants

Government grants in the form of a non-financial asset receivable from the Government are recognized at the net present value of future discounted cash flows in respect of compensation of interest income. The loss on initial recognition of preferential loans is presented on a net basis with income from recognition of government grants in the consolidated statement of profit or loss.

The further recognition of receivable under the government grants is performed at amortized cost using the method of effective interest rate. Government grants are tested for impairment with the following recognition of gains/(losses) in the consolidated statement of profit or loss in case of ceasing the recognition of instrument or its impairment, as well as in the process of amortization.

Write-off of the loans issued

Loans are written off against the allowance for expected credit losses when deemed uncollectible, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank including sale of all available collateral. The decision to write off bad debt against the allowance for impairment is approved by management of the Bank.

Leases

Finance − Bank as lessor

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

Operating – Bank as lessee

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

3. Summary of accounting policies (continued)

Leases (continued)

Operating – Bank as lessor

The Bank 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. 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.

Restructured loans

Where possible, the Bank seeks to restructure loans, as agreed upon between the parties, rather than to take possession of collateral, for example, to extend payment arrangements, agree upon new loan conditions or otherwise modify contractual cash flows.

Starting from 1 January 2018, the Bank derecognizes a financial asset, e.g., a loan to customer, when a renegotiated contract results in material changes in cash flows, which is a significant modification of a financial asset. Significant modification results in derecognition of the initial asset and recognition of a new financial asset with classification of the new financial asset in accordance with IFRS 9 (including SPPI tests for cash flows). At initial recognition, new financial assets are classified to Stage 1 for ECL assessment purposes, unless a new financial asset is considered a POCI asset. A financial asset is derecognized as a result of the following:

- The currency of a financial asset has changed
- The interest rate has changed (from fixed to floating and vice versa)
- The debtor (counterparty) under the contract has changed

Where the modification of the contractual cash flows does not result in derecognition of a financial asset, this modification is insignificant. An insignificant modification includes a change in a contract validity period, a change in the frequency of principal and interest payments, as well as other changes in contract terms that are not a significant modification. The Bank recognizes a gain or loss from the modification, calculated based on changes in cash flows, discounted at the initial interest rate, in the consolidated statement of profit or loss before an impairment loss is recognized.

Where a modification does not result in derecognition, the Bank reassesses whether the credit risk related to a financial asset has increased significantly since its initial recognition, taking into account all reasonable and supportable information, including forecast data, and classifies financial instruments to one of the following stages of accrual of the allowance based on the degree of deterioration in the credit quality of the asset after its initial recognition.

- Stage 1 - financial assets, for which there are no factors indicating a significant increase in credit risk and no impairment indicators; for these assets, 12-month ECL are recognized
- Stage 2 - financial assets, for which there are factors indicating a significant increase in credit risk, but there are no impairment indicators; for these assets, lifetime ECL are recognized
- Stage 3 - financial assets with impairment indicators; for these assets, lifetime ECL are recognized

The Bank recognizes restructuring of a loan in case of the following: any changes in contractual terms related to the maturity (repayment) of the principal amount and/or the interest payment date, and/or principal repayment schedule (terms and amounts), and/or interest repayment schedule (terms), and/or interest rate, as well as entering into a new contract, under which a Bank may have an asset exposed to credit risk and obligations of the Bank and the debtor under the previous contract are discharged (the debtor under the new contract and the previous contract is one and the same entity). These changes, which result from debtor's inability to meet its obligations, are introduced to encourage the debtor to meet its obligations in full and in a timely manner.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Restructured loans (continued)

Problematic restructuring indicating a significant increase in credit risk is a repeated and subsequent restructuring, when there are no factors that indicate a significant increase in credit risk and/or impairment indicators; or restructuring when there are factors indicating a significant increase in credit risk at the time of restructuring; or restructuring when overdue liabilities on principal amount and/or interest become term liabilities; or restructuring that involves rescheduling of the previously stipulated payment of the principal amount and/or interest for more than one year.

Default restructuring is a restructuring associated with the inability of the borrower (counterparty) to fulfill its obligations under the initial contractual terms

Restructuring is recognized as default if at least one of the following criteria is met:

- Restructuring when there are indicators that a financial asset is impaired at the time of restructuring and the recovery condition is not yet met or not met, or repeated and subsequent restructuring when there are factors indicating a significant increase in credit risk and the recovery condition is not yet met or not met
- Restructuring with a partial write-off of the debt (principal amount and/or interest) to the off-balance sheet (forgiveness of debt)
- Restructuring results in a decrease in the contractual interest rate to 2/3 or less of the rate set by the Financial Committee of the Bank for the relevant currency for a comparable period.

If the financial asset of a borrower is classified to Stage 3, other available financial instruments of this borrower are also classified to Stage 3. In case of a new loan issued to this borrower, this loan is classified as a credit-impaired financial asset.

The credit quality of a financial asset can be recovered in case of at least three consecutive payments made to the Bank to repay the debt in full and in a timely manner continuously in accordance with the contractual terms during at least 12 months when there were no factors indicating a significant increase in credit risk (for the recovery from Stage 2 to Stage 1) or no impairment indicators (for the recovery from Stage 3 to Stage 2, or, if all of the above recovery conditions are met, to Stage 1).

Impairment of financial assets under IAS 39

Before 1 January 2018, the Bank 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 may have included 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 fair value of investment below its cost.

The Bank 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.

3. Summary of accounting policies (continued)

Impairment of financial assets under IAS 39 (continued)

If there was an 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 original effective interest rate, or, for financial assets available for sale, as the difference between cost of 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 revenue continued to be accrued on the reduced carrying amount based on the original effective interest rate of the asset, or, for financial assets available for sale, 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 is no realistic prospect of future recovery and all collateral had been realized or has been transferred to the Bank. 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 were recognized in other comprehensive income.

For the purpose of a collective evaluation of impairment, financial assets were grouped on the basis of the Bank'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.

Derecognition of financial assets and liabilities

A financial asset is derecognized in the consolidated statement of financial position where:

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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 Bank's continuing involvement is the amount of the transferred asset that the Bank 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 Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Write-off

From 1 January 2018, financial assets are written off either partially or in their entirety only when the Bank 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 against 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 cancelled 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 profit or loss.

Taxation

The income tax expense is the sum of current and deferred income taxes.

The Bank and each of its subsidiaries estimate the current income tax expense separately based on the results recorded in their statements of profit or loss prepared under the requirements of Belarusian legislation and after any adjustments for taxation purposes.

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

A deferred tax asset is 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 rates 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.

The Republic of Belarus also has various operating taxes that are assessed on the Bank's activities. These taxes are recorded separately in the consolidated statement of profit or loss within other operating expenses.

Property and equipment

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of profit or loss, in which case the increase is recognized in profit or loss.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Property and equipment (continued)

A revaluation deficit is recognized in the consolidated statement of profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment, except for buildings, are carried at cost adjusted for hyperinflation, excluding the cost of day to-day serving, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing the part of property and equipment if the recognition criteria are met.

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

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

	Years
Buildings	15-100
Furniture and office supplies	2-10
Computers and equipment	2-8
Motor vehicles	2-10

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 represented by the parts of buildings (office buildings) is held to earn rental income and is not used by the Bank or held for the sale in the ordinary course of business.

Investment property is initially recognized at cost adjusted for hyperinflation, excluding the cost of ongoing maintenance, less accumulated depreciation and accumulated impairment losses. Earned rental income is recorded in the consolidated statement of profit or loss. Depreciation is calculated on a straight-line basis over the following estimated useful life of the asset which is 100 years. Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property and equipment (to buildings).

Investment property was owned by KSO Vnesheconomstroy LLC, a subsidiary which was disposed of in September 2018 due to the Bank's withdrawal from the participants (Note 5).

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Intangible assets (continued)

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 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Assets constructed for sale

Assets constructed for sale comprise buildings to be sold to legal entities and individuals upon construction completion. Assets constructed for sale are measured at the lower of the cost adjusted on hyperinflation and selling price. Assets constructed for sale were owned by KSO Vnesheconomstroy LLC, a subsidiary which was disposed of in September 2018 due to the Bank's withdrawal from the participants (Note 5).

Provisions

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

Retirement and other employee benefit obligations

In the reporting period, the Bank participated 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. In addition, the Bank undertook additional pension obligations in the form of payments to former employees who have retired and are unemployed. These expenses are charged in the period the related salaries are earned.

Since 1 January 2013, the Bank has participated in the system of voluntary supplementary pension insurance of employees – the pension plan with defined contribution. Pension insurance expenses are reflected in other operating expenses.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium.

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.

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses; and for which financial information is available and is regularly reviewed by the entity's chief operating decision maker (a person or a group of persons) responsible for making decisions on allocation of resources and assessing financial performance.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Segment reporting (continued)

Financial information is to be reported on the same basis as is used internally for assessing the performance of operating segments while making decision on resource allocation between operating segments. The Bank's segment reporting is based on the following operating segments: corporate banking, retail banking and inter-bank operations. Note 6 "Segment information" of these consolidated financial statements contains information relating to profit and loss, assets and liabilities of the Bank's operating segments. This information is provided to persons responsible for making decisions in the Bank.

In addition, the Bank has presented a reconciliation of profit and loss before taxation of the reporting segments, as well as a reconciliation of the gross amount of segment assets to the total amount of the Bank's assets presented in these consolidated financial statements.

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 in the consolidated financial statements, 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 Bank 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:

Interest and similar income and expense

From 1 January 2018, the Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets (before 1 January 2018: by 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 Bank 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 revenue or expense.

In case of a credit-impaired financial asset, the Bank calculates the interest revenue, applying the effective interest rate to the net amortized cost of this asset. If the default on the financial asset is liquidated, and it is no longer a credit-impaired asset, the Bank proceeds to calculate the income revenue on the basis of the gross carrying amount.

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates the interest revenue applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

<u>Fee income earned from services that are provided over a certain period of time</u>

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. 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.

<u>Fee income from providing transaction services</u>

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 indicator are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Insurance transactions

Insurance premiums

The premiums on insurance contracts of BelVEB Insurance Unitary Insurance Enterprise, the Bank’s subsidiary, are recorded from the date of commencement of the insurance contracts and are recognized within income on a pro rata basis over the term of insurance contracts by changing the amount of provision for unearned premiums.

Provision for unearned premiums

Unearned premium provision is formed as a part of insurance premium accrued under the insurance contract that relates to the contract term after the reporting date and is calculated in proportion to the remaining contractual period.

Insurance claims paid

Claims paid including claims settlement expenses are expensed in the consolidated statement of profit or loss as incurred.

Insurance loss provision

Insurance loss provision is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, cancelled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Bank'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/(losses) from foreign currencies – translation differences". Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. 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 exchange rate of the National Bank of the Republic of Belarus on the date of the transaction are included in gains less losses from foreign currencies.

The closing exchange rates that were used in the preparation of these consolidated financial statements are presented in the table below:

	31 December 2018	***31 December 2017***
BYN/USD	2.159800	1.972700
BYN/EUR	2.473400	2.355300
BYN/RUB	0.031128	0.034279

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 Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 to replace 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 in 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., personal 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.

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

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The Bank plans to adopt IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized at the date of initial application. The Bank will apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Bank will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Bank will elect to use the exemptions proposed by the standard on lease contracts for which the lease term ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Currently, the Bank is estimating the effect of adoption of IFRS 16 on its consolidated statement of financial position.

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:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- 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 the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank does not plan to early adopt IFRS 17.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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

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.

The amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. These amendments have no impact on the consolidated financial statements of the Bank.

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 Bank will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the 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 net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. 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.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Bank.

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 clarified that, in applying IFRS 9, an entity does not take account of 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*.

The amendments should be applied retrospectively and are effective for annual periods beginning on or after 1 January 2019, with early application permitted. Since the Bank does not have such long-term interests in its associate and joint venture, the amendments will not have an 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.

An entity applies 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, with early application permitted. These amendments will apply on future business combinations of the Bank.

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, with early application permitted. These amendments are currently not applicable to the Bank but may apply to future transactions.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

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 recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. Since the Bank's current practice is in line with these amendments, the Bank 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 applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Bank's current practice is in line with these amendments, the Bank does not expect any effect on its consolidated financial statements.

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 30.

Revaluation of buildings

As at 31 December 2018, buildings were revalued at their fair value using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The results obtained from the application of the above valuation method, however, may not always correspond to the prices of current transactions in the real estate market. The results of revaluation are presented in Note 13.

As at 31 December 2017, the Bank researched the real estate market to identify differences between carrying amount of buildings and their fair value. Having compared the results received, management did not identify any significant differences between the fair value of property and equipment and their carrying amount and decided not to revalue buildings as at 31 December 2017.

(Thousands of Belarusian rubles, unless otherwise indicated)

4. Significant accounting judgments and estimates (continued)

Insurance loss provision

Insurance loss provision of BelVEB Insurance Unitary Insurance Enterprise, the Bank’s subsidiary, is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, cancelled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick.

Expected credit losses / impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank’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 the ECL models that are considered accounting judgments and estimates include:

- The Bank’s internal credit grading model, which assigns PDs to the individual grades
- The Bank’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment; the segmentation of financial assets when their ECL are assessed on a collective basis; the development of ECL models, including various formulae and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The amount of allowance recognized in the consolidated statement of financial position as at 31 December 2018 was BYN 216,642 thousand (2017: BYN 283,417 thousand). More details are provided in Note 9.

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 differences can be utilized. The Bank’s management judgment is required to determine the amount of the recognized tax assets based on the timing and the level of future taxable profit.

5. Disposal of a subsidiary

On 5 September 2018, the Bank discontinued its participation in KSO Vnesheconomstroy LLC, its subsidiary. The financial result from the disposal of the subsidiary amounted to BYN 4,718 thousand. In addition, there was a disposal of a non-controlling interest in the amount of BYN 10,085 thousand. The consideration to be paid in the amount of BYN 5,875 thousand was recognized as accounts receivable based on the right for consideration for the Bank's share in net assets in accordance with Law *On Business Entities* of the Republic of Belarus.

On 11 January 2017, the Bank sold its share (52.1%) in the subsidiary International Energy Center CJSV; the transaction amounted to BYN 1,467 thousand. The financial result from the disposal of the subsidiary amounted to BYN 1,036 thousand. The amount of the disposal of a non-controlling interest was BYN 424 thousand.

(Thousands of Belarusian rubles, unless otherwise indicated)

6. Segment information

These disposals do not meet the definition of "discontinued operations" according to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* since it does not represent a separate major line of the Bank's and was not acquired exclusively with a view to resale.

For management purposes, the Bank is organized into three operating segments:

Retail banking	Issuing and servicing retail loans for various purposes, handling individual customers' deposits, cash and settlements operations, currency transactions, the issue and maintenance of payment cards, transactions with precious metals.
Corporate banking	Sales of banking products and providing services (issuing loans and financing) to corporate and private entrepreneurial customers, attracting deposits from corporate customers, cash and settlements operations, currency and documentary transactions.
Interbank operations	Handling accounts of other banks, transactions of allocation/raising funds in the interbank market, including transactions with the National Bank of the Republic of Belarus, currency conversion operations with other banks, transactions with derivatives, bank securities transactions.

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

In 2018 and 2017, no revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue. Non-current non-financial assets and deferred tax assets are related to the Republic of Belarus. Generally, revenue is earned from sources in the Republic of Belarus.

Segment reporting of the Bank's assets and liabilities as at 31 December 2018 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	3,069,181	255,354	681,242	267,811	**4,273,588**
Segment liabilities	1,053,943	1,268,136	1,369,063	43,169	**3,734,311**

Segment reporting of the Bank's assets and liabilities as at 31 December 2017 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	3,039,983	171,571	654,423	305,161	**4,171,138**
Segment liabilities	1,133,852	1,236,365	1,222,579	52,660	**3,645,456**

(Thousands of Belarusian rubles, unless otherwise indicated)

6. Segment information (continued)

A reconciliation of assets and liabilities as per the reportable segments with the Bank's assets and liabilities under IFRS as at 31 December 2018 and 31 December 2017 is as follows:

	Total assets		*Total liabilities*	
	2018	*2017*	*2018*	*2017*
Reported segments, total	**4,273,588**	**4,171,138**	**3,734,311**	**3,645,456**
Adjustment to credit loss expense and other impairment	(13,113)	(90,225)	(3,922)	(23,894)
Recognition of loans previously written-off	32,176	9,845	(39)	(393)
Accrued personnel expenses	–	–	382	2,984
Adjustment to amortized cost of loans issued under state programs	(1,305)	(3,624)	(1,258)	–
Adjustment to amortized cost of borrowings and subordinated debt	–	–	1,487	(740)
Adjustment to amortized cost of participation loan	–	(21,807)	–	(21,807)
Adjustment to historical cost and depreciation of property and equipment	3,528	(13,000)	–	–
Adjustment to transit accounts and other temporary differences	(1,866)	58,570	(22,764)	44,874
Adjustment to reclassify corporate bonds to loans to customers	5	–	–	–
Consolidation effect	(1,402)	10,812	–	(2,865)
Other adjustments	(165)	(454)	–	–
Adjustment with regard to loans to employees	(1,687)	(3,673)	–	–
Adjustment to recognition of letters of credit as loans to customers	161,046	–	160,912	–
Adjustments to recognition of loans on non-market conditions	(1,102)	–	–	–
Share of profit of an associate	3,890	3,851	–	–
Fair value remeasurement of securities	5,204	16,606	–	–
Adjustment to income tax	11,618	15,378	(4,793)	–
Adjustment to amortized cost of securities issued	–	–	(61)	–
Effect from initial recognition	(36,330)	–	–	–
Effect from modification of loans	(38,212)	–	–	–
Increase in net assets of the disposed subsidiary	5,875	–	–	–
Total IFRS	**4,401,748**	**4,153,417**	**3,864,255**	**3,643,615**

(Thousands of Belarusian rubles, unless otherwise indicated)

6. Segment information (continued)

Revenue and profit information of the Bank's operating segments for the years ended 31 December 2018 and 2017, respectively, is presented below:

2018	***Corporate banking***	***Retail banking***	***Interbank operations***	***Other***	***Total***
Revenue from operations with external customers					
Interest income	211,987	28,716	36,425	–	**277,128**
Net fee and commission income/(expense)	30,852	33,251	(764)	(212)	**63,127**
Net gains from foreign currencies	5,649	6,889	3,890	–	**16,428**
Other income	1,863	683	8,751	2,895	**14,192**
Total revenue	**250,351**	**69,539**	**48,302**	**2,683**	**370,875**
Interest expense	(26,965)	(35,558)	(64,183)	–	**(126,706)**
Allowance for loan impairment	(14,549)	4,221	(2,157)	(240)	**(12,725)**
Segment profit/(loss) before non-interest expense	**208,837**	**38,202**	**(18,038)**	**2,443**	**231,444**
Non-interest expense	(17,488)	(31,625)	(11,216)	(103,948)	**(164,277)**
Income tax expense	(13,034)	(8,942)	5,280	1,385	**(15,311)**
Profit for the year	**178,315**	**(2,365)**	**(23,974)**	**(100,119)**	**51,857**

2017	***Corporate banking***	***Retail banking***	***Interbank operations***	***Other***	***Total***
Revenue from operations with external customers					
Interest income	297,461	22,826	51,291	–	**371,578**
Net fee and commission income/(expense)	28,765	31,965	(757)	(212)	**59,761**
Net gains from foreign currencies	4,100	5,832	6,158	–	**16,090**
Other income	2,751	687	4,686	7,988	16,112
Total revenue	**333,077**	**61,310**	**61,378**	**7,776**	**463,541**
Interest expense	(41,836)	(42,789)	(87,823)	–	**(172,448)**
Allowance for loan impairment	(55,369)	(841)	146	(247)	**(56,311)**
Segment profit/(loss) before non-interest expense	**235,872**	**17,680**	**(26,299)**	**7,529**	**234,782**
Non-interest expense	(17,683)	(26,885)	(6,479)	(98,997)	**(150,044)**
Income tax expense	(8,606)	(10,798)	5,031	(1,994)	**(16,367)**
Profit for the year	**209,583**	**(20,003)**	**(27,747)**	**(93,462)**	**68,371**

(Thousands of Belarusian rubles, unless otherwise indicated)

6. Segment information (continued)

A reconciliation of profit before tax, interest income and expense, net fee and commissions income, net gains from foreign currencies as per the reportable segments with the IFRS consolidated statement of profit or loss for the year ended 31 December 2018 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**67,168**	**277,128**	**(126,706)**	**63,127**	**14,192**	**(164,277)**	**16,428**
Adjustment to other impairment and provisions	(9,178)	–	–	–	–	(9,178)	–
Adjustment to amortized cost of borrowings and subordinated debt	(2,227)	–	4,881	–	–	–	(7,108)
Recognition of loans previously written-off	21,057	956	(435)	–	(4,034)	167	101
Adjustment to reclassify corporate bonds to loans to customers	5	5	–	–	–	–	–
Share of profit of an associate	39	–	–	–	39	–	–
Adjustment to amortized cost of loans issued under state programs	3,578	2,329	–	–	–	1,249	–
Reclassification of fee and commission income from loans to interest income (class 8)	–	222	–	(222)	–	–	–
(Charge)/reversal of allowance for impairment of interest-earning assets	(263,021)	–	–	–	–	3,137	–
Accrued personnel expenses	(1,003)	–	–	–	–	(1,003)	–
Adjustment to historical cost and depreciation of property and equipment	(1,031)	–	–	–	(520)	(511)	–
Adjustment to allowance for impairment	274,170	–	–	–	–	498	(4,835)
Adjustment to amortized cost of participation loan	–	(632)	632	–	–	–	–
Adjustment to amortized cost of securities issued	61	–	61	–	–	–	–
Effect from initial recognition	(36,330)	–	–	–	–	–	–
Effect from modification of loans	(5,687)	15,028	–	–	–	–	–
Adjustment to transit accounts and other temporary differences	10,234	7,912	–	61	(131)	2,400	(9)
Adjustment to loans to employees	1,985	2,829	–	–	–	(844)	–
Adjustment to recognition of letters of credit as loans to customers	134	4,982	(3,389)	(1,459)	–	–	–
Adjustments to recognition of loans on non-market conditions	(1,102)	(1,102)	–	–	–	–	–
Increase in net assets of the disposed subsidiary	5,875	–	–	–	5,875	–	–
Recognition of securities to fair value	–	353	–	–	(354)	1	–
Reclassification of repayment amount for debt previously written off	–	–	–	–	20,758	–	–
Other adjustments	(51)	(10)	(278)	(337)	(8,525)	17393	437
Consolidation effect and other adjustments	430	1,821	(810)	(20)	9,132	(10,578)	819
Total IFRS	**65,106**	**311,821**	**(126,044)**	**61,150**	**36,432**	**(161,546)**	**5,833**

(Thousands of Belarusian rubles, unless otherwise indicated)

6. Segment information (continued)

A reconciliation of profit before tax, interest income and expense, net fee and commissions income, net gains from foreign currencies as per the reportable segments with the IFRS consolidated statement of profit or loss for the year ended 31 December 2017 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**84,738**	**371,578**	**(172,448)**	**59,761**	**16,112**	**(150,044)**	**16,090**
Adjustment to other impairment and provisions	5,974	–	–	–	–	5,974	–
Adjustment to amortized cost of borrowings and subordinated debt	(2,982)	–	(3,057)	–	–	–	75
Recognition of loans previously written-off	6,941	(1,875)	24	(1)	(36)	(1,331)	56
Share in loss of associate	(24)	–	–	–	–	–	–
Adjustment to amortized cost of loans issued under state programs	(307)	(122)	–	–	–	(185)	–
Accrued personnel expenses	(2,984)	–	–	–	–	(2,984)	–
Adjustment to historical cost and depreciation of property and equipment	4,869	–	–	–	4,410	459	–
Adjustment to allowance for impairment	(40,267)	–	–	–	–	(1,148)	3,242
Adjustment to amortized cost of participation loan	–	(2,313)	2,313	–	–	–	–
Adjustment to transit accounts and other temporary differences	(8,174)	(12,010)	–	72	–	3,720	44
Reclassification of fee and commission income from loans to interest income (class 8)	–	1,466	–	(1,466)	–	–	–
Adjustment with regard to loans to employees	1,521	2,158	–	–	–	(637)	–
Reclassification of repayment amount for debt previously written off	–	–	–	–	20,231	–	–
Other adjustments	(346)	(2,787)	3,720	(1,002)	(5,123)	12	1,039
Consolidation effect and other adjustments	3,767	1,979	(982)	(113)	9,693	(7,450)	668
Total IFRS	**52,726**	**358,074**	**(170,430)**	**57,251**	**45,287**	**(153,614)**	**21,214**

Segment revenue from contracts with customers within the scope of IFRS 15 *Revenue* for the year ended 31 December 2018 is as follows:

2018	***Services to individuals***	***Services to legal entities***	***Total***
Fee and commission income			
Settlement transactions	58,525	18,617	**77,142**
Guarantees and letters of credit	69	13,306	**13,375**
Operations with securities	36	59	**95**
Other fee and commission income	1,695	2,253	**3,948**
Total revenues from contracts with customers	**60,325**	**34,235**	**94,560**

(Thousands of Belarusian rubles, unless otherwise indicated)

7. Cash and cash equivalents

Cash comprises:

	2018	*2017*
Current accounts with the National Bank of the Republic of Belarus	437,394	382,772
Current accounts with credit institutions	173,954	196,907
Cash on hand	61,819	59,793
Time deposits up to 90 days	12,457	80,915
Cash and cash equivalents	**685,624**	**720,387**

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2018	*2017*
Time deposits for more than 90 days	31,559	29,457
Obligatory reserve with the National Bank of the Republic of Belarus	26,373	25,034
Other amounts	4,282	4,716
	62,214	**59,207**
Less: allowance for impairment	(109)	–
Amounts due from credit institutions	**62,105**	**59,207**

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

As at 31 December 2018 and 2017, amounts due from credit institutions that are included in "Other amounts" are funds transferred to banks as guarantee deposits for the transactions using payment cards. As at 31 December 2018 and 2017, time deposits placed with credit institutions for more than 90 days included deposits nominated in gold in the amount of BYN 29,158 thousand (2017: BYN 26,843 thousand).

Movements in the gross carrying amount and relevant allowances for ECL for the year ended 31 December 2018 are presented in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**59,207**	**–**	**–**	**59,207**
New purchased or originated assets	2,177	–	–	**2,177**
Assets redeemed	(2,614)	–	–	**(2,614)**
Exchange differences	3,444	–	–	**3,444**
31 December 2018	**62,214**	**–**	**–**	**62,214**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**78**	**–**	**–**	**78**
New purchased or originated assets	19	–	–	**19**
Assets redeemed	(65)	–	–	**(65)**
Assets sold	–	–	–	**–**
Reversal of allowance	(14)	–	–	**(14)**
Amounts written off	–	–	–	**–**
Exchange differences	91	–	–	**91**
31 December 2018	**109**	**–**	**–**	**109**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers

Loans to customers comprise:

	2018	*2017*
Corporate lending	2,228,318	1,914,521
Small and medium business lending	604,579	784,668
Consumer lending	187,014	133,273
Residential mortgages	68,451	36,013
Total loans to customers at amortized cost	**3,088,362**	**2,868,475**
Less: allowance for impairment	(205,185)	(282,119)
Loans to customers at amortized cost	**2,883,177**	**2,586,356**
Total loans to customers	**2,883,177**	**2,586,356**

Allowance for impairment of loans to customers at amortized cost

Movements in the gross carrying amount and relevant 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 at 1 January 2018	**1,641,447**	**125,351**	**146,398**	**–**	**1,913,196**
New purchased or originated assets	947,490	186,687	–	26,962	**1,161,139**
Assets redeemed	(830,645)	(105,999)	(19,764)	–	**(956,408)**
Changes resulting from issue/redemption	(44,019)	(9,987)	111,410	–	**57,404**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(121,834)	121,834	–	–	**–**
Transfers to Stage 3	(3,438)	(15,810)	19,248	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(8,259)	186	(10,377)	–	**(18,450)**
Amounts written off	–	–	(6,291)	–	**(6,291)**
Exchange differences	57,687	11,175	8,866	–	**77,728**
31 December 2018	**1,638,429**	**313,437**	**249,490**	**26,962**	**2,228,318**

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**13,510**	**6,076**	**50,208**	**–**	**69,794**
New purchased or originated assets	4,692	4,254	–	9,754	**18,700**
Assets redeemed	(6,897)	(2,742)	(8,582)	–	**(18,221)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(1,571)	1,571	–	–	**–**
Transfers to Stage 3	(33)	(3,295)	3,328	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	6,826	6,036	–	**12,862**
Changes in models and inputs used for ECL calculations	(1,843)	(750)	73,874	–	**71,281**
Amounts written off	–	–	(6,291)	–	**(6,291)**
Exchange differences	574	870	9,370	–	**10,814**
31 December 2018	**8,432**	**12,810**	**127,943**	**9,754**	**158,939**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

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 and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**332,035**	**104,197**	**317,236**	**–**	**753,468**
New purchased or originated assets	206,798	112,919	–	39,082	**358,799**
Assets redeemed	(142,204)	(86,538)	(178,456)	–	**(407,198)**
Changes resulting from issue/redemption	(51,285)	(6,184)	(31,760)	–	**(89,229)**
Transfers to Stage 1	50,300	(806)	(49,494)	–	**–**
Transfers to Stage 2	(6,306)	6,306	–	–	**–**
Transfers to Stage 3	(669)	(2,462)	3,131	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(1,013)	(1,608)	356	–	**(2,265)**
Amounts written off	–	–	(30,065)	–	**(30,065)**
Exchange differences	13,997	4,543	2,529	–	**21,069**
31 December 2018	**401,653**	**130,367**	**33,477**	**39,082**	**604,579**

Small and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**1,505**	**9,226**	**121,941**	**–**	**132,672**
New purchased or originated assets	837	13,474	–	8,391	**22,702**
Assets redeemed	(543)	(6,941)	(65,467)	–	**(72,951)**
Transfers to Stage 1	24,823	(174)	(24,649)	–	**–**
Transfers to Stage 2	(160)	160	–	–	**–**
Transfers to Stage 3	(8)	(304)	312	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	(22,724)	132	(231)	–	**(22,823)**
Changes in models and inputs used for ECL calculations	(670)	(1,597)	15,278	–	**13,011**
Amounts written off	–	–	(30,065)	–	**(30,065)**
Exchange differences	223	1,020	1,863	–	**3,106**
31 December 2018	**3,283**	**14,996**	**18,982**	**8,391**	**45,652**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

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 at 1 January 2018	**132,506**	**251**	**516**	**–**	**133,273**
New purchased or originated assets	100,553	80	–	–	**100,633**
Assets redeemed	(22,791)	(91)	(434)	–	**(23,316)**
Changes resulting from issue/redemption	(29,538)	(179)	276	–	**(29,441)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(593)	593	–	–	**–**
Transfers to Stage 3	(727)	(116)	843	–	**–**
Amounts written off	–	–	(652)	–	**(652)**
Exchange differences	6,478	19	20	–	**6,517**
31 December 2018	**185,888**	**557**	**569**	**–**	**187,014**

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	**257**	**78**	**347**	**–**	**682**
New purchased or originated assets	60	27	–	–	**87**
Assets redeemed	(44)	(28)	(298)	–	**(370)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(15)	15	–	–	**–**
Transfers to Stage 3	(30)	(37)	67	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	55	201	–	**256**
Changes in models and inputs used for ECL calculations	(80)	(16)	623	–	**527**
Amounts written off	–	–	(652)	–	**(652)**
Exchange differences	11	7	21	–	**39**
31 December 2018	**159**	**101**	**309**	**–**	**569**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

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 at 1 January 2018	**35,966**	**8**	**39**	**–**	**36,013**
New purchased or originated assets	33,329	–	–	–	**33,329**
Assets redeemed	(1,406)	–	(28)	–	**(1,434)**
Changes resulting from issue/redemption	(1,837)	7	4	–	**(1,826)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(38)	38	–	–	**–**
Transfers to Stage 3	(53)	–	53	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	–	–	**–**
Amounts written off	–	–	(17)	–	**(17)**
Exchange differences	2,382	2	2	–	**2,386**
31 December 2018	**68,343**	**55**	**53**	**–**	**68,451**

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**8**	**1**	**18**	**–**	**27**
New purchased or originated assets	3	–	–	–	**3**
Assets redeemed	–	–	(10)	–	**(10)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	–	–	–	–	**–**
Transfers to Stage 3	–	–	–	–	**–**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	7	–	**7**
Changes in models and inputs used for ECL calculations	–	–	13	–	**13**
Amounts written off	–	–	(17)	–	**(17)**
Exchange differences	1	–	1	–	**2**
31 December 2018	**12**	**1**	**12**	**–**	**25**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

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

	Corporate lending	*Small and medium business lending*	*Consumer lending*	*Residential mortgages*	*Total*
1 January 2017	**118,128**	**138,053**	**1,605**	**100**	**257,886**
Charge for the year	25,144	77,400	335	(42)	**102,837**
Amounts written off	(2,391)	(77,660)	(1,178)	(31)	**(81,260)**
Effect of foreign exchange rate changes	1,094	1,543	18	1	**2,656**
31 December 2017	**141,975**	**139,336**	**780**	**28**	**282,119**
Individual impairment	52,806	76,258	459	28	**129,551**
Collective impairment	89,169	63,078	321	–	**152,568**
	141,975	**139,336**	**780**	**28**	**282,119**
Total amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**493,968**	**363,597**	**515**	**28**	**858,108**

The undiscounted ECL at initial recognition on acquired credit-impaired loans and advances to customers that were initially recognized during the year ended 31 December 2018 are as follows:

	2018
Corporate lending	2,375
Small and medium business lending	16,294
Total undiscounted ECL at initial recognition of POCI financial assets	**18,669**

Modified and restructured loans

The Bank derecognizes a financial asset, e.g. a loan to a customer, if the related contractual terms are renegotiated to the extent that it in fact becomes a new loan, and records the difference in gains or losses arising from derecognition before impairment loss is recognized. 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 imply a substantial change in cash flows, such modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Bank recognizes a gain or loss from modification before an impairment loss is recognized.

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Modified and restructured loans (continued)

The table below includes Stage 2 and Stage 3 assets that were modified during the period, with the related modification loss suffered by the Bank.

	2018
Loans to customers modified during the period	**355,997**
Amortized cost before modification	367,439
Net loss from modification	(11,443)
Loans to customers modified since initial recognition	**389,831**
The gross carrying amount of loans to customers as at 1 January 2018, for which the calculation of the allowance for impairment was changed to 12-month ECL	50,300

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending – cash or securities
- For corporate lending – charges over real estate property, equipment, vehicles, inventory, rights to claim future proceeds on accounts receivables or surety of third parties
- For consumer lending – mortgages over residential properties, pledges of vehicles and surety of third parties.

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 impairment losses.

In the absence of collateral or other credit enhancements, ECL on Stage 3 loans to customers as at 31 December 2018 would have increased by BYN 7,680 thousand.

During the year, the Bank took possession of various assets in exchange for the settlement of receivables from the respective borrowers. Currently, the Bank is in the process of selling these assets. It is the Bank's policy to duly dispose of repossessed real estate properties. The proceeds from sale are used to reduce or settle the outstanding claim. The Bank does not generally use repossessed property for the purposes of its operations. Information on the carrying amount of repossessed assets held at the reporting date is presented below:

	2018	*2017*
Investment property	405	4,485
Property and equipment	50	–
Other assets	–	182
Total repossessed collateral	**455**	**4,667**

Concentration of loans to customers

As at 31 December 2018, the Bank had a concentration of loans represented by BYN 1,021,066 thousand due from the ten largest borrowers (groups of related borrowers) (33% of the gross loan portfolio) (2017: BYN 912,572 thousand, or 32%). An allowance of BYN 15,851 thousand was recognized against these loans (2017: BYN 73,124 thousand).

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been issued to the following types of customers:

	2018	*2017*
State-controlled companies (state ownership of more than 50%)	1,703,050	1,448,396
Private companies	1,129,848	1,250,794
Individuals	255,464	169,285
Total loans to customers	**3,088,362**	**2,868,475**

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

	2018	*2017*
Manufacturing	1,553,044	1,430,597
Trading enterprises	538,873	522,234
Agriculture and food processing	309,864	264,524
Individuals	255,464	169,285
Transport	156,542	88,563
Real estate construction	132,855	169,380
Financial sector	121,713	179,816
Science and education	4,294	2,956
Other	15,713	41,120
	3,088,362	**2,868,475**

Finance lease receivables

Finance lease receivables are included in the corporate lending portfolio. The analysis of finance lease receivables as at 31 December 2018 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investment in finance leases	3,786	251	–	**4,037**
Unearned future finance income on finance leases	(1,841)	(41)	–	**(1,882)**
Net investment in finance leases	**1,945**	**210**	**–**	**2,155**

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

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investment in finance leases	3,673	76	–	**3,749**
Unearned future finance income on finance leases	(1,813)	(8)	–	**(1,821)**
Net investment in finance leases	**1,860**	**68**	**–**	**1,928**

(Thousands of Belarusian rubles, unless otherwise indicated)

10. Investment securities

Investment securities comprise:

	2018	*2017*
Debt securities at FVOCI		
Bonds of the Ministry of Finance of the Republic of Belarus	468,716	Not applicable
Bonds of the National Bank of the Republic of Belarus	72,512	Not applicable
Bonds of local authorities of the Republic of Belarus	14,609	Not applicable
Debt securities at FVOCI	**555,837**	Not applicable
Equity securities at FVOCI		Not applicable
Participation shares	328	Not applicable
Corporate shares	121	Not applicable
Equity securities at FVOCI	**449**	Not applicable
Securities available for sale		
Bonds of the Ministry of Finance of the Republic of Belarus	Not applicable	366,652
Bonds of the National Bank of the Republic of Belarus	Not applicable	155,798
Bonds of local authorities of the Republic of Belarus	Not applicable	14,514
Participation shares	Not applicable	328
Corporate shares	Not applicable	121
Securities available for sale	Not applicable	**537,413**

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

Debt securities at FVOCI	*Stage 1*	*Total*
Gross carrying amount at 1 January 2018	**537,413**	**537,413**
New purchased or originated assets	158,152	**158,152**
Assets redeemed	(65,502)	**(65,502)**
Assets sold	(90,296)	**(90,296)**
Change in fair value	(18,026)	**(18,026)**
Exchange differences	34,545	**34,545**
31 December 2018	**556,286**	**556,286**

Movements in the allowance for ECL on debt securities at FVOCI are as follows:

Debt securities at FVOCI	*Stage 1*	*Total*
Allowance for ECL at 1 January 2018	**6,347**	**6,347**
New purchased or originated assets	1,958	**1,958**
Assets redeemed	(232)	**(232)**
Assets sold	(1,091)	**(1,091)**
Reversal of allowance	(1,287)	**(1,287)**
31 December 2018	**5,695**	**5,695**

The Bank did not recognize an impairment loss related to securities available for sale in its consolidated statement of profit or loss for the year ended 31 December 2017.

The Bank at its discretion designated equity instruments previously classified as available for sale as investments in equity instruments at fair value through other comprehensive income based on the fact that they are not held for trading.

In 2018, the Bank received dividends on equity instruments at FVOCI in the amount of BYN 73 thousand, which were recognized within other income in the consolidated statement of profit or loss.

(Thousands of Belarusian rubles, unless otherwise indicated)

11. Investment property

Movements in investment property are as follows:

	2018	*2017*
1 January	**4,295**	**5,291**
Additions	–	8
Transfer from property and equipment	–	1,212
Transfer from assets constructed for sale	2,771	–
Transfer from property and equipment	–	305
Transfer to other assets	(479)	(255)
Transfer from other assets	28	35
Disposals	(559)	(756)
Disposal as a result of discontinued participation in the subsidiary	(6,018)	(1,497)
Depreciation charge	(38)	(48)
31 December	**–**	**4,295**

Gains/(losses) for the period included in profit or loss

	2018	*2017*
Rental income from investment property	243	221
Gain from sale of investment property	331	1,003
Direct operating expenses	(74)	(164)
	500	**1,060**

In 2017-18, the Bank had neither restrictions on the realizability of its investment property nor contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance them.

12. Investments in associates

The following associates are accounted under the equity method:

Associate	*Ownership/voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*	*Carrying amount*
2018						
Sivelga	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006	3,921
BelVEBleasing LLC	49.00	Republic of Belarus	6 March 2018	Finance	6 March 2018	108

Movements in investments in associates were as follows:

	2018	*2017*
Balance, beginning of the period	**3,891**	**3,915**
Acquisition cost	100	–
Share in profit/(loss)	38	(24)
Investments in associates, end of the period	**4,029**	**3,891**

(Thousands of Belarusian rubles, unless otherwise indicated)

12. Investments in associates (continued)

The summarized financial information of material associates is presented below:

Sivelga	***2018***	***2017***
Cash and cash equivalents	–	19
Property and equipment	6,197	6,048
Other assets	9,280	7,137
Total assets	**15,477**	**13,204**
Amounts due to credit institutions	(995)	(978)
Other liabilities	(6,179)	(4,932)
Total liabilities	**(7,174)**	**(5,910)**
Net assets	**8,303**	**7,294**
Share in net assets	2,076	1,824
Accumulated effect of hyperinflation	1,845	2,067
Carrying amount of investment in associate	**3,921**	**3,891**

Sivelga	***For the year ended 31 December 2018***	***For the year ended 31 December 2017***
Interest expense	(129)	(136)
Non-interest income	5,596	6,052
Non-interest expense	(5,346)	(6,014)
Profit/(loss) for the year	**121**	**(98)**
Other comprehensive income	–	–
Total comprehensive income for the year	**121**	**(98)**

BelVEBleasing LLC	***2018***	***2017***
Cash and cash equivalents	2	–
Amounts due from credit institutions	520	–
Amounts due from lessees	31,271	–
VAT receivable	5,862	–
Property and equipment	4	–
Other assets	3	–
Total assets	**37,662**	**–**
Amounts due to credit institutions	(36,395)	–
Current income tax liabilities	(4)	–
Other liabilities	(1,042)	–
Total liabilities	**(37,441)**	**–**
Net assets	**221**	**–**
Share in net assets	108	–
Carrying amount of investment in associate	**108**	**–**

(Thousands of Belarusian rubles, unless otherwise indicated)

12. Investments in associates (continued)

BelVEBleasing LLC	***For the year ended 31 December 2018***	***For the year ended 31 December 2017***
Interest income	1,632	–
Interest expense	(1,158)	–
Non-interest income	(286)	–
Non-interest expense	(171)	–
Profit for the year	**17**	**–**
Other comprehensive income	–	–
Total comprehensive income for the year	**17**	**–**

As at 31 December 2018 and 2017, the Bank has no significant restrictions on the ability of associates to transfer funds to the Bank in the form of cash dividends, or to repay loans or advances made by the Bank.

13. Property and equipment

During 2018, movements in property and equipment were as follows:

	Buildings	***Furniture and fixtures***	***Computers and office equipment***	***Motor vehicles***	***Assets under construction***	***Total***
Cost or revalued amount						
31 December 2017	**97,606**	**50,679**	**44,370**	**3,323**	**3,831**	**199,809**
Additions	–	2,847	1,601	332	1,494	**6,274**
Disposals	–	(7,624)	(1,854)	(136)	(201)	**(9,815)**
Disposal as a result of discontinued participation in the subsidiary	(948)	(106)	(17)	(137)	–	**(1,208)**
Transfers between categories	850	–	–	–	(850)	**–**
Effect of revaluation	(16,254)	–	–	–	–	**(16,254)**
31 December 2018	**81,254**	**45,796**	**44,100**	**3,382**	**4,274**	**178,806**
Accumulated depreciation and impairment						
31 December 2017	**(1,135)**	**(24,490)**	**(24,855)**	**(1,957)**	**–**	**(52,437)**
Depreciation charge	(1,172)	(4,158)	(7,601)	(489)	–	**(13,420)**
Disposals	–	4,741	195	130	–	**5,066**
Disposal as a result of discontinued participation in the subsidiary	16	74	17	71		**178**
Effect of revaluation	2,291	–	–	–	–	**2,291**
Impairment	–	(101)	–	–	–	**(101)**
31 December 2018	**–**	**(23,934)**	**(32,244)**	**(2,245)**	**–**	**(58,423)**
Net book value						
31 December 2017	**96,471**	**26,189**	**19,515**	**1,366**	**3,831**	**147,372**
31 December 2018	**81,254**	**21,862**	**11,856**	**1,137**	**4,274**	**120,383**

(Thousands of Belarusian rubles, unless otherwise indicated)

13. Property and equipment (continued)

During 2017, movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2016	**88,706**	**51,772**	**39,065**	**3,347**	**14,549**	**197,439**
Additions	–	4,538	5,551	162	1,445	**11,696**
Disposals	–	(1,016)	(883)	(127)	(1,744)	**(3,770)**
Disposals through disposal of a subsidiary	–	(4,823)	(10)	(59)	(2)	**(4,894)**
Transfers to investment property	(312)	–	–	–	–	**(312)**
Disposal of revaluation at transfer to investment property	(350)	–	–	–	–	**(350)**
Transfers between categories	9,562	208	647	–	(10,417)	**–**
31 December 2017	**97,606**	**50,679**	**44,370**	**3,323**	**3,831**	**199,809**
Accumulated depreciation and impairment						
31 December 2016	**–**	**(24,622)**	**(19,690)**	**(1,930)**	**–**	**(46,242)**
Depreciation charge	(1,142)	(4,816)	(6,035)	(186)	–	**(12,179)**
Disposals	–	947	691	129	–	**1,767**
Disposals through disposal of a subsidiary	–	4,172	8	30	–	**4,210**
Transfers to investment property	7	–	–	–	–	**7**
Transfers between categories	–	(171)	171	–	–	**–**
31 December 2017	**(1,135)**	**(24,490)**	**(24,855)**	**(1,957)**	**–**	**(52,437)**
Net book value						
31 December 2016	**88,706**	**27,150**	**19,375**	**1,417**	**14,549**	**151,197**
31 December 2017	**96,471**	**26,189**	**19,515**	**1,366**	**3,831**	**147,372**

As at 31 December 2018, the Bank restated the fair value of buildings based on their market value. The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2018. More details about the fair value of buildings are disclosed in Note 30.

As at 31 December 2017, the Bank decided against restating the value of buildings since according to the results of real estate market research, management did not identify significant differences between fair value and carrying amount of property and equipment.

If the buildings were measured using the cost model, the carrying amounts would be as follows:

	2018	*2017*
Cost	**83,039**	**82,795**
Accumulated depreciation and impairment	(27,596)	(7,877)
Net book value	**55,443**	**74,918**

(Thousands of Belarusian rubles, unless otherwise indicated)

14. Assets constructed for sale

Movements in assets constructed for sale were as follows:

	Assets constructed for sale
31 December 2016	**13,236**
Additions	420
Disposals	(4,596)
Transfers to investment property	(1,212)
31 December 2017	**7,848**
Additions	255
Disposals	(2,243)
Transfers to investment property	(2,771)
Disposal of a subsidiary	(3,089)
31 December 2018	**–**

During its normal activity, the Bank sells office and residential premises in constructed Business Center (Housing complex with integrated-attached garages and social infrastructure and facilities) during the years 2015-18.

15. Intangible assets

Movements in intangible assets were as follows:

	Licenses	*Computer software*	*Investments in intangible assets*	*Total*
Cost				
31 December 2017	**19,461**	**43,078**	**202**	**62,741**
Additions	7,551	8,271	5,651	**21,473**
Disposals	(422)	(988)	(1,104)	**(2,514)**
Disposal as a result of discontinued participation in the subsidiary	(549)	–	–	**(549)**
Transfers between categories	729	781	(1,510)	**–**
31 December 2018	**26,770**	**51,142**	**3,239**	**81,151**
Accumulated amortization and impairment				
31 December 2017	**(7,852)**	**(18,793)**	**–**	**(26,645)**
Amortization charge	(3,838)	(7,464)	–	**(11,302)**
Disposals	307	844	–	**1,151**
Disposal as a result of discontinued participation in the subsidiary	21	–	–	**21**
31 December 2018	**(11,362)**	**(25,413)**	**–**	**(36,775)**
Net book value				
31 December 2017	**11,609**	**24,285**	**202**	**36,096**
31 December 2018	**15,408**	**25,729**	**3,239**	**44,376**
Cost				
31 December 2016	**17,741**	**37,180**	**1,347**	**56,268**
Additions	1,098	1,795	4,762	**7,655**
Disposals	(608)	(177)	(397)	**(1,182)**
Transfers between categories	1,230	4,280	(5,510)	**–**
31 December 2017	**19,461**	**43,078**	**202**	**62,741**
Accumulated amortization				
31 December 2016	**(4,862)**	**(11,770)**	**–**	**(16,632)**
Amortization charge	(3,122)	(7,045)	–	**(10,167)**
Disposals	132	22	–	**154**
31 December 2017	**(7,852)**	**(18,793)**	**–**	**(26,645)**
Net book value				
31 December 2016	**12,879**	**25,410**	**1,347**	**39,636**
31 December 2017	**11,609**	**24,285**	**202**	**36,096**

(Thousands of Belarusian rubles, unless otherwise indicated)

16. Taxation

The income tax expense comprises:

	2018	*2017*
Current tax charge	16,286	17,520
Deferred tax credit — origination and reversal of temporary differences	3,110	(8,843)
Less: deferred tax recognized directly in equity	(226)	(8)
Less: amortization of deferred tax recognized directly in equity	7	8
Income tax expense	**19,177**	**8,677**

Deferred tax charged to other comprehensive income relates to revaluation of buildings.

The Bank accounts for taxes based on the tax accounting maintained in accordance with the Belarusian tax legislation. In 2018, income tax rate for Bank BelVEB OJSC and BelVEB Insurance Unitary Insurance Enterprise was 25% (2017: 25%), and income tax rate for Vnesheconomstroy, a subsidiary, was 18% (2017: 18%).VEB Technologies, the Bank's subsidiary, is a resident of the Hi-Tech Park and is entitled to the exemption from the income tax on principal activity. The entity applies a reduced rate of 9% for other non-operating and operating income.

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

	2018	*2017*
Profit before tax	**65,106**	**52,726**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**16,277**	**13,182**
Investment tax credits	(38)	(23)
Non-taxable income from securities	(10,754)	(14,307)
Non-taxable income	(573)	(771)
Income taxed at different rates	(566)	188
Effect of investment deduction	(103)	(435)
Non-deductible expenditures	7,463	10,545
Change in unrecognized deferred tax assets	–	260
Effect of statutory revaluation and impairment of property and equipment in compliance with legislation of the Republic of Belarus	6,636	–
Effect of disposal of subsidiaries	463	107
Tax effect of other permanent differences	372	(69)
Income tax expense	**19,177**	**8,677**

(Thousands of Belarusian rubles, unless otherwise indicated)

16. Taxation (continued)

As at 31 December, deferred tax assets and liabilities 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*	*2017*	*Effect of transition to IFRS 9 (Note 3)*	*In the statement of profit or loss*	*In other comprehensive income*	*2018*
Tax effect of deductible temporary differences							
Property and equipment, intangible assets and assets constructed for sale	4,706	(1,441)	3,265	–	(2,948)	(244)	73
Amounts due to credit institutions	–	–	–	–	47	–	47
Amounts due from credit institutions	–	–	–	19	(1)	–	18
Other assets	4,426	(3,241)	1,185	(112)	(820)	–	253
Loans to customers	8,918	11,294	20,212	(11,604)	24	–	8,632
Deferred tax assets, gross	**18,050**	**6,612**	**24,662**	**(11,697)**	**(3,698)**	**(244)**	**9,023**
Unrecognized deferred tax assets	(260)	260	–	–	–	–	–
Deferred tax asset	**17,790**	**6,872**	**24,662**	**(11,697)**	**(3,698)**	**(244)**	**9,023**
Tax effect of taxable temporary differences							
Other assets	(3,037)	2,804	(233)	7	(1,168)	–	(1,394)
Provisions for potential losses	(4,590)	(1,661)	(6,251)	3,539	1,361	–	(1,351)
Amounts due to credit institutions	(1,010)	727	(283)	–	283	–	–
Property and equipment, intangible assets and assets constructed for sale	(794)	160	(634)	–	(275)	25	(884)
Amounts due from credit institutions	(1,293)	(7)	(1,300)	–	1,300	–	–
Other	(1,512)	(52)	(1,564)	–	(694)	–	(2,258)
Deferred tax liability	**(12,236)**	**1,971**	**(10,265)**	**3,546**	**807**	**25**	**(5,887)**
Deferred tax asset	**5,554**	**8,843**	**14,397**	**(8,151)**	**(2,891)**	**(219)**	**3,136**

As at 31 December 2018, Bank BelVEB OJSC recognized a deferred tax asset in the amount of BYN 3,455 thousand. BelVEB Insurance, the Bank's subsidiary, recognized deferred tax liabilities in the amount of BYN 319 thousand.

As at 31 December 2017, Bank BelVEB OJSC recognized a deferred tax asset in the amount of BYN 15,385 thousand. Vnesheconomstroy and Belvneshstrakh, the Bank's subsidiaries, recognized deferred tax liabilities in the amount of BYN 464 thousand and BYN 524 thousand, respectively.

In addition, as at 31 December 2018, in connection with the revaluation of buildings at fair value the Bank recognized income tax in the amount of BYN 219 thousand within equity, and amortized deferred tax previously recognized in connection with the revaluation of buildings in the amount of BYN 7 thousand.

(Thousands of Belarusian rubles, unless otherwise indicated)

17. Credit loss expense and other impairment

The table below shows credit loss expense and other impairment 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*
Amounts due from credit institutions	8	(60)	–	–	–	**(60)**
Loans to customers at amortized cost	9	(4,203)	10,630	502	18,145	**25,074**
Debt securities at FVOCI	10	(652)	–	–	–	**(652)**
Other non-financial assets	18	186	–	–	–	**186**
Other financial assets	18	(28)	–	(363)	–	**(391)**
Financial guarantees	25	(210)	(1,953)	(1,177)	–	**(3,340)**
Undrawn loan commitments	25	46	(395)	(3,173)	–	**(3,522)**
Letters of credit	25	(221)	(32)	3,300	–	**3,047**
Total credit loss expense		**(5,142)**	**8,250**	**(911)**	**18,145**	**20,342**

Movements in allowances for impairment were as follows:

	Other non-financial assets	*Total*
31 December 2017	**–**	**–**
Charge (reversal)	186	**186**
31 December 2018	**186**	**186**
	186	**186**

18. Other assets and liabilities

Other assets comprise:

	2018	*2017*
Other financial assets		
Other receivables	6,606	4,618
Accrued income	1,245	1,215
Less: allowance for impairment of other financial assets	(484)	(1,298)
Total other financial assets	**7,367**	**4,535**
Prepaid taxes other than income tax	2,288	1,344
Government grants	3,942	3,044
Re-insurer's share in unearned insurance premium reserves	595	505
Advances issued	13,588	12,509
Repossessed collateral	1,301	2,696
Prepaid expenses	6,112	6,255
Other non-financial assets	4,645	1,018
Less: allowance for impairment of other financial assets	(186)	–
Total other non-financial assets	**32,285**	**27,371**
Other assets	**39,652**	**31,906**

(Thousands of Belarusian rubles, unless otherwise indicated)

18. Other assets and liabilities (continued)

Movements in allowances for ECL on other financial assets for the year ended 31 December 2018 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**32**	**4**	**843**	**879**
New purchased or originated assets	5	4	170	**179**
Reversal of allowance	(33)	(4)	(533)	**(570)**
Amounts written off	–	(4)	–	**(4)**
31 December 2018	**4**	**–**	**480**	**484**

Other liabilities and provisions comprise:

	2018	*2017*
Other financial liabilities	**16,943**	**18,524**
Settlements with suppliers	11,069	9,787
Accrued expenses	3,562	3,161
Amounts in settlement	1,369	4,582
Dividends payable	21	323
Other financial liabilities	922	671
Other non-financial liabilities	**26,461**	**14,588**
Provisions for contingencies	10,864	–
Insurance loss provision	8,411	6,169
Other deferred income	4,044	3,098
Settlements with employees	2,240	3,930
Taxes payable other than income tax	902	1,391
Other liabilities and provisions	**43,404**	**33,112**

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2018	*2017*
Time deposits and loans	1,184,655	898,644
Current accounts	106,840	134,455
Other accounts	8,745	17,571
Amounts due to credit institutions	**1,300,240**	**1,050,670**

As at 31 December 2018, time deposits and loans included cash received from the parent company in the amount of BYN 528,097 thousand (51.58% of time deposits and loans) (2017: BYN 444,098 thousand or 49% of time deposits and loans) for project financing in the Republic of Belarus.

As at 31 December 2018 and 2017, amounts due to credit institutions included into "Other accounts" are represented by guarantee deposits for transactions using the payment cards.

20. Amounts due to the National Bank of the Republic of Belarus

Amounts due to the National Bank of the Republic of Belarus comprise:

	2018	*2017*
Import financing	–	4,989
Other	22	20
Amounts due to the National Bank of the Republic of Belarus	**22**	**5,009**

(Thousands of Belarusian rubles, unless otherwise indicated)

21. Amounts due to customers

Amounts due to customers include the following:

	2018	*2017*
Time deposits	1,692,325	1,943,131
Current accounts	500,379	398,643
Amounts due to customers	**2,192,704**	**2,341,774**
Held as security against letters of credit	30,050	17,570
Held as security against guarantees	27,515	2,655

As at 31 December 2018, amounts due to customers of BYN 218,208 thousand (10%) were due to the ten largest customers (2017: BYN 374,594 thousand or 16%).

Included in time deposits are deposits of individuals in the amount of BYN 1,050,041 thousand (2017: BYN 1,113,076 thousand).

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

	2018	*2017*
Individuals, other than employees	1,231,615	1,198,784
Private companies	663,862	814,616
State and budgetary organizations	268,525	295,632
Employees	28,702	32,742
Amounts due to customers	**2,192,704**	**2,341,774**

The category "State and budgetary organizations" includes only state and budgetary organizations of the Republic of Belarus. Foreign state enterprises are included in the "Private companies" category.

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

	2018	*2017*
Individuals	1,260,317	1,231,526
Manufacturing	259,196	245,930
Trade	138,772	184,272
Agriculture and food processing	91,903	182,511
Real estate and construction	78,164	78,342
Science and education	42,480	88,766
Finance	38,754	76,329
Transport	28,863	41,516
Telecommunication	27,080	27,325
Regional authorities	8,299	7,423
Mining	8,096	179
Health care, physical training and sport	3,501	4,044
Logistics	3,275	406
Mass media	2,362	1,454
Water supply	605	1,013
Other	201,037	170,738
Amounts due to customers	**2,192,704**	**2,341,774**

(Thousands of Belarusian rubles, unless otherwise indicated)

22. Debt securities issued

Debt securities issued are denominated in BYN and USD and comprise:

	2018	*2017*
Domestic bonds issued	102,928	4,507
Debt securities issued	**102,928**	**4,507**

As at 31 December 2018, the Bank issued registered interest-bearing bonds with a total nominal value of BYN 102,634 thousand (2017: BYN 4,490 thousand) maturing in December 2022 and having the offer date in March 2019. As at 31 December 2018, the interest rate on BYN-denominated and USD-denominated domestic bonds is 8.05% p.a. (2017: 8.4% p.a.) and 3.2% p.a., respectively.

23. Subordinated debt

Subordinated debt comprises:

	2018	*2017*
Subordinated loans received from State Development Corporation VEB.RF	220,461	199,340
Subordinated loans	**220,461**	**199,340**

Subordinated loans comprise USD-denominated loans from the parent company maturing in 2021-2024.

24. Equity

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares (all ordinary)	*Nominal value (all ordinary)*	*Inflation adjustment*	*Total*
1 January 2017	11,740,750,000	117,408	355,649	**473,057**
31 December 2017	11,740,750,000	117,408	355,649	**473,057**
31 December 2018	11,740,750,000	117,408	355,649	**473,057**

The share capital of Bank BelVEB OJSC was contributed by the shareholders in Belarusian rubles and they are entitled to dividends and any capital distribution in Belarusian rubles. All shares are ordinary with the nominal value of BYN 0.01.

At the Shareholders' Meeting in March 2018, Bank BelVEB OJSC declared dividends in respect of the year ended 31 December 2017 in the amount of BYN 10,931 thousand (2016: BYN 9,639 thousand). According to the laws of the Republic of Belarus, the Bank withholds tax on income from dividends accrued, which in 2018 amounted to BYN 1,150 thousand (2017: BYN 1,029 thousand). In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in financial statements of the Bank prepared in accordance with Belarusian rules for maintaining accounting records. The Bank had BYN 303,746 thousand of undistributed and unreserved earnings as at 31 December 2018 (2017: BYN 267,999 thousand).

Nature and purpose of other reserves

The revaluation reserve for buildings is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

The revaluation reserve for securities records changes in the fair value of investments available for sale (before 1 January 2018) and financial assets at FVOCI (after 1 January 2018).

(Thousands of Belarusian rubles, unless otherwise indicated)

24. Equity (continued)

Nature and purpose of other reserves (continued)

Movements in other reserves were as follows:

	Revaluation reserve for buildings	*Revaluation reserve for securities*	*Total*
1 January 2016	**23,390**	**–**	**23,390**
Decrease of revaluation reserve for buildings due to disposal of property and equipment	(354)	–	**(354)**
Decrease of tax effect of revaluation of buildings due to disposal of property and equipment	65	–	**65**
Amortization of revaluation reserve	(338)	–	**(338)**
Amortization of income tax	8	–	**8**
Unrealized losses on investment securities available for sale	–	16,606	**16,606**
Realized losses on investment securities available for sale reclassified to the statement of profit or loss	–	–	**–**
31 December 2017	**22,771**	**16,606**	**39,377**
Effect of transition to IFRS 9	–	6,347	**6,347**
Balance at 1 January 2018 restated in accordance with IFRS 9	**22,771**	**22,953**	**45,724**
Revaluation of buildings	(9,429)	–	**(9,429)**
Tax effect of revaluation of buildings	(219)	–	**(219)**
Amortization of revaluation reserve	(305)	–	**(305)**
Amortization of income tax	7	–	**7**
Decrease of revaluation reserve and tax effect of revaluation of buildings due to disposal of a subsidiary	(79)	–	**(79)**
Net change in the fair value of debt instruments at FVOCI	–	(11,375)	**(11,375)**
Change in the allowance for ECL on debt instruments at FVOCI	–	(652)	**(652)**
31 December 2018	**12,746**	**10,926**	**23,672**

25. 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. 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 National Bank of the Republic of Belarus continued to be focused on the stabilization of the financial market. The National Bank of the Republic of Belarus lowered key interest rates in 2018. The refinancing rate decreased from 11.0% to 10.0% and the rates applicable to permanently available and bilateral transactions performed to maintain current bank liquidity lowered from 12.0% to 11.5%, while the rate on overnight deposits remained at 8.0%. In 2018, the National Bank of the Republic of Belarus 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).

(Thousands of Belarusian rubles, unless otherwise indicated)

25. Commitments and contingencies (continued)

Operating environment (continued)

In 2018, the Bank'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: 2.4% year-on-year). 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 by 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 National Bank of Republic of Belarus 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 Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Bank and its counterparties. The degree of such impact on the Bank's consolidated financial statements cannot currently be determined.

Legal

In the ordinary course of business, the Bank 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 Bank.

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. Instances of inconsistent interpretations are usual. 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.

Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in the Republic of 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.

Taxes are accrued and settled in accordance with tax legislation of the Republic of Belarus. As at 31 December 2018, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

(Thousands of Belarusian rubles, unless otherwise indicated)

25. Commitments and contingencies (continued)

Commitments and contingencies

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

	2018	*2017*
Credit related commitments		
Undrawn loan commitments	524,519	316,692
Guarantees	518,541	751,536
Letters of credit	99,105	176,929
	1,142,165	**1,245,157**
Operating lease commitments		
Not later than 1 year	1,458	1,453
Later than 1 year and not later than 5 years	1,370	2,016
	2,828	**3,469**
Commitments and contingencies (before deducting collateral)	**1,144,993**	**1,248,626**
Less: cash held as security against letters of credit and guarantees	(57,565)	(20,225)
Commitments and contingencies	**1,087,428**	**1,228,401**

Movements in the ECL for the year ended 31 December 2018 were as follows:

Credit related commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	**659**	**400**	**3,773**	**4,832**
New exposures	653	4	428	**1,085**
Expired exposures	(381)	(143)	(3,556)	**(4,080)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(1)	–	1	**–**
Reversal	(224)	(257)	(46)	**(527)**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	**–**
Exchange differences	36	–	30	**66**
31 December 2018	**741**	**5**	**630**	**1,376**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2018	402	32	155	**589**
New exposures	180	-	3,630	**3,810**
Expired exposures	(248)	(32)	(155)	**(435)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Reversal	(153)	–	(175)	**(328)**
Effect on ECL at the year-end due to transfers between stages during the year	–	–	–	–
Exchange differences	9	–	175	**184**
31 December 2018	**190**	**–**	**3,630**	**3,820**

(Thousands of Belarusian rubles, unless otherwise indicated)

25. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL at 1 January 2018	1,975	4,830	1,931	**8,736**
New exposures	1,165	341	36	**1,542**
Expired exposures	(1,075)	(33)	(1,629)	**(2,737)**
Transfers to Stage 1	3,472	(3,472)	–	**–**
Transfers to Stage 2	(150)	150	–	**–**
Transfers to Stage 3	(77)	–	77	**–**
Reversal	(342)	(636)	(31)	**(1,009)**
Effect on ECL at the year-end due to transfers between stages during the year	(3,203)	1,697	370	**(1,136)**
Exchange differences	89	145	38	**272**
31 December 2018	**1,854**	**3,022**	**792**	**5,668**

Many of the above credit related commitments may be terminated without being performed partially or in full. Therefore, they do not represent expected cash outflow. Majority of loan and credit line commitments are not absolute covenants of the Bank.

Capital expenditures

As at 31 December 2018, Bank BelVEB OJSC had capital expenditure commitments in the amount of BYN 25 thousand, related to the renovation of its office building.

As at 31 December 2017, Bank BelVEB OJSC had capital expenditure commitments in the amount of BYN 200 thousand, related to the reconstruction of its office buildings.

26. Net fee and commission income

Net fee and commission income comprises:

	2018	***2017***
Settlement transactions	77,142	70,612
Guarantees and letters of credit	13,375	14,108
Operations with securities	95	69
Other	3,948	3,405
Fee and commission income	**94,560**	**88,194**
Settlement transactions	(28,259)	(25,679)
Guarantees and letters of credit	(3,709)	(4,295)
Operations with securities	(53)	(16)
Other	(1,389)	(953)
Fee and commission expense	**(33,410)**	**(30,943)**
Net fee and commission income	**61,150**	**57,251**

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mainly presented by fee and commission income. Revenue from contracts with customers recorded in the consolidated statement of profit or loss for the year ended 31 December 2018 was as follows:

	2018
Fee and commission income	94,560
Total revenues from contracts with customers	**94,560**

(Thousands of Belarusian rubles, unless otherwise indicated)

27. Other income

	2018	*2017*
Collection of debts previously written off	16,747	20,235
Income of subsidiaries from sales of goods / provision of services	7,455	11,521
Profit from disposal of property and equipment and intangible assets	–	4,210
Insurance income	4,311	2,947
Other	1,790	2,130
Penalties received	1,095	2,930
Income from lease of investment property	243	221
Dividends	73	57
Total other income	**31,714**	**44,251**

28. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	2018	*2017*
Salaries and bonuses	52,776	48,806
Social security costs	15,347	13,871
Provision for future payments	293	630
Personnel expenses	**68,416**	**63,307**
Data processing	14,940	16,452
Office supplies, maintenance and rent	9,084	8,593
Contributions to the Agency of Deposits Compensation	7,173	6,518
Insurance	5,079	6,025
Loss from revaluation of property and equipment	4,534	–
Loss from disposal of property and equipment	4,266	–
Maintenance of property and equipment	3,145	2,680
Expenses related to current activities of subsidiaries	2,512	5,292
Professional services	2,331	2,236
Security	1,698	1,544
Contributions to trade union	1,351	833
Expenses on pension insurance	1,242	1,563
Telecommunication services	1,231	1,102
Transportation of cash	1,065	970
Expenses related to material assistance payments to retired employees	920	1,150
Consultancy and information costs	776	858
Transportation expenses	542	633
Charity	210	828
Entertainment	110	198
Loss from impairment of property and equipment	101	–
Expenses on disposal of non-current assets held for sale	71	247
Free of charge transfer of assets	50	441
Other	6,450	4,787
Other operating expenses	**68,881**	**62,950**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing activity and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Bank is also subject to operating risks and other non-financial risks (reputation and strategic risks).

Risk management structure

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

Supervisory Board

The Supervisory Board of Bank BelVEB OJSC ensures the risk management system organization, controls the overall level of risk and the state of risk management system of the Bank, approves the limits system, states risk tolerance, risk-appetite, makes other decisions concerning risk management covering its terms of reference.

Risk Committee of the Supervisory Board

The Risk Committee of the Supervisory Board of Bank BelVEB OJSC provides the qualitative preparation of Supervisory Board decisions under the issues of organization and improvement of risk management system, submits the report to the Supervisory Board about risk management system position and the level of risk of the Bank together with recommendation under the management of the risk at least once a year.

Strategic Planning Committee of the Supervisory Board

The committee is primarily responsible for providing recommendations to the Supervisory Board for determining the strategic goals of the Bank, as well as its key objectives and priority areas.

Management Board

The Management Board is responsible for organizing the risk management framework and ensuring the Bank's compliance with relevant objectives and goals set by the Supervisory Board of Bank BelVEB OJSC.

Chair of the Management Board

The Chair of the Management Board reviews management reports on specific risks and makes respective managerial decisions.

Risk Management Officer

Risk management officer is responsible for the risk management system, timely identification, assessment and measures to limit the risks, controlling the risks level and the key risk indicators of the Bank.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Introduction (continued)

Asset and Liability Management Committee

The Asset and Liability Management Committee of the Bank realizes current and long-run policy of the Bank in the asset and liability management field, including interest rates policy, liquidity management policy, and break-even policy of the Bank. Asset and Liability Management Committee develops the recommendations on liquidity risk management, market risks and interest rate risks of the bank portfolio.

Superior Credit Committee

The Superior Credit Committee of Bank BelVEB OJSC provides effective and immediate activities to negotiate credit policy of the Bank, makes a decision within its competence on carrying out active operations.

Small Credit Committee

The Small Credit Committee of Bank BelVEB OJSC makes a decision within its competence on carrying out active operation.

Problem Assets Committee

The Committee's aim is to ensure efficient management of doubtful and potentially doubtful debt of the Bank.

Risk Management Department

The Risk Management Department is responsible for independent assessment of banking risks together with methodological and analytical support of risk management process.

Treasury

Bank Treasury takes part in processes of managing liquidity risk, interest rates risk of the bank portfolio and currency risk.

Audit Committee of the Supervisory Board

The Audit Committee of the Supervisory Board of Bank BelVEB OJSC performs the overall management of internal control system, the Internal Audit Department of Bank BelVEB OJSC.

Internal Audit Department

The Internal Audit Department assesses the effectiveness of the risk management system, including the verification of the completeness and correctness of the application of the banking risks methods and the process of the Bank risk management, proposes variants of increasing the effectiveness of the Bank risk management during the audit. The Internal Audit Department informs the Risk Committee of the Supervisory Board and the Risk Management Department about the audit results.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The risk assessment is performed by the Bank for each major type of risk.

Together with the standard evaluation methods regarding the determination of regulatory capital adequacy set by the National Bank of the Republic of Belarus and applied to credit, market, operational and liquidity risks, the Bank also uses the following methods of assessment:

- value-at-Risk (VaR) (currency risk);
- approach based on the internal credit ratings of the borrower, scoring (credit risk);
- gap analysis, duration (interest rate risk of the bank portfolio);
- gap analysis, ratio analysis, the method of analysis of expected cash (payment) flows (liquidity risk);
- analysis of operational risk implementation facts per risk objects (operational risk).

The Bank performs stress-testing procedures of banking risks, which allow estimating the potential impact of number of shocks, i.e. changes in risk factors representing exceptional but probable events on the Bank's financial performance. Valuation techniques for every type of risks, including their composition and sources used in assessment for each of them, as well as stress-testing methodology, are specified in local normative documents of the Bank relating to management of different risk types. Monitoring and controlling risks is primarily based on the limits established by the Bank. Such limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and estimates the overall risk bearing capacity in relation to the aggregate risk exposure across the basic risk types.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify the risks. This information is presented to the Management Board, the Supervisory Board, appropriate committees and to the heads of the departments according to the period defined by the separate local normative documents.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all the Bank's departments have an access to extensive, necessary and up-to-date information.

In the reporting period the Bank developed and implemented the Methodology for complex risk assessment comprising procedure to measure the total relative level of risks accepted by the Bank.

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk

Identified concentrations of risks are managed accordingly.

The Bank is subject to a credit risk, it means a risk of loss, failure to obtain the planned revenues because its customers, clients or counterparties failed to discharge their financial and other property obligations stated in contracts or by the legislation of the Republic of Belarus.

Credit risk is the most significant type of the risk for the Bank. Its management, as well as monitoring the quality of loan portfolio is given a special attention.

The Bank manages credit risk by:

- diversification of duties and responsibilities between representatives and executives bodies, committees, officials and Bank`s departments in sphere of the credit risk management;
- set-up of adequate and appropriate to interests of the Bank system of lending to legal entities and individual entrepreneurs, individuals, the limits setting system for transactions subject to credit risk;
- establishment the unified methodology of credit risk identification and assessment;
- realization of the interest rates policy, that allows to cover a loss and Bank's debt capital cost;
- implementation of qualitative and timely analysis of the state and dynamics loan portfolio, secure functioning thresholds, which characterize the level of credit risk;
- the implementation of stress-testing and identification the factors which influence the changes of credit risk level;
- formation of fulfillment of obligations during the active operations;
- creation of the regular and timely system of providing with the information about the level of credit risk to the Superior Credit Committee, the Management Board and the Supervisory Board.

The Bank has established the system of internal ratings of corporate clients, which provides a differentiated assessment of the probability of the debtors default based on the analysis of qualitative and quantitative credit risk factors, their impact on the debtor's ability to maintain and repay the liabilities.

Decisions on separate standard products for individuals are made based on the scoring model of individual solvency assessment developed in the Bank.

To improve quality of the new credit products the Bank working further on the ratings and scoring models. For the purpose of improvement of the reliability and efficiency of the process of credit risk assessment the methods of calculation and assignment of the internal ratings for the legal entities has been developed by the Bank. The scoring card has been amended based on statistical analysis of the issued loans in order to improve the classifying ability and the efficiency of the scoring model.

As part of the activities to enhance credit risk management system, in the reporting period the Bank developed Methodology for assessment industry-specific credit risks.

The Bank controls credit risk by setting limits per borrower or group of related borrowers, concentration limits for the 20 largest corporate customers, for industries and others.

Concentration of credit risk limits are approved by the credit policy of the Bank and undergo regular review (at least once a year). Monitoring of these limits is made on a monthly basis as part of the preparation of management reports on the quality of the Bank's loan portfolio.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

Covering accepted credit risk is carried out by formation of special allowances. The risk assessment is carried out by the Bank individually for each borrower on the basis of criteria of debtor's ability to meet its obligations, the quality and adequacy of submitted collateral, the number of renewals and duration of overdue debt. Risk Management Department controls the completeness and accuracy of judgment for the classification (reclassification) of assets and contingencies of the corporate clients by their risk groups.

For contingencies the Bank uses the same credit policy as it does for on-balance financial instruments, which is based on transaction approving procedures, procedures of using restricting risk limits, and monitoring procedures.

Credit related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the concluded agreements. They expose the Bank to similar risks to loans and these are mitigated by the same control procedures and the risk control policy.

The carrying amount of the consolidated statement of financial position, including derivative financial instruments, excluding the effect of risk mitigation through the use of master netting and collateral agreements, most accurately reflects the maximum credit risk exposure for these lines. Where 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 detailed information on the maximum exposure to credit risk for each class of financial instrument can be found in the specific notes.

Impairment assessment

Since 1 January 2018, as per IFRS 9, the Bank applies the expected credit losses model to provide for financial instruments. The core principle of the model is timely recognition of deterioration or improvement of the credit quality of financial instruments taking into account current information and forecasts. The amount of expected credit losses recorded as an allowance for impairment is based on the degree of deterioration in the credit quality of the financial instrument after its initial recognition.

As part of an overall approach, the allowance for impairment is accrued based on the following:

- Expected credit losses during the year - for financial instruments, for which there are no factors indicating a significant deterioration in the credit quality after the initial recognition and no impairment indicators
- Expected credit losses during the lifetime of a financial instrument - for financial instruments, for which factors indicating a significant increase in credit risk or impairment indicators were identified.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

The key elements of the expected credit losses (ECL) model in accordance with IFRS 9 are as follows:

Probability of default (PD)	The *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 facility has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	The *exposure at default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
Loss given default (LGD)	The *loss given default* is an estimate of the loss arising in the case where 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 ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either a collective basis (for financial instruments, for which no impairment indicators have been identified (Stage 1 and Stage 2) and for financial instruments related to retail business), or on an individual basis (for financial instruments, for which impairment indicators have been identified (Stage 3)).

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1:	When a financial instrument is first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 also includes financial instruments, for which there are no factors indicating an increase in credit risk and no impairment indicators, and financial instruments, for which credit quality has improved (recovery condition has been met) to reach the level of Stage 1 financial instruments, if factors indicating a significant increase in credit risk were identified at prior reporting dates (Stage 2).
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 also includes financial instruments, for which credit quality has improved to reach the level of Stage 2 financial instruments, if impairment indicators were identified at prior reporting dates (Stage 3).
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime expected credit losses.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

Internal rating and PD estimation process

The internal rating models are developed and applied by the Bank's Risk Management Department. The rating model represents a set of rules for customer sampling, obtaining quantitative and qualitative indicators, indicator intervals and points assigned within an interval, weight coefficients for quantitative and qualitative indicators and for total quantitative and qualitative assessments, logistic function coefficients and rating scale.

The rating scale comprises ten rating categories. The first category corresponds to the lowest risk level and the tenth category corresponds to the highest risk level (default). The rating category is determined based on the interval where the customer's PD is located between upper and lower values of the PD range. The tenth category (default) is assigned in case of customer default and based on the results of rating calculation.

The rating model parameters (qualitative and quantitative indicators used to calculate the final rating point, their intervals, assigned points, weight coefficients, logistic function coefficients by group of customers), the indicator that shows whether the government is ready to support the client, and the levels of increase or decrease in customer's rating in case of alerts that indicate deterioration in customer's financial position and that can be used to forecast default or a significant increase in the probability of default, are approved by the Management Board of the Bank based on suggestions of the Risk Management Department and represent restricted information.

Definition of default and recovery of credit quality

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations. Such events include the following:

- The procedure for default restructuring was initiated and/or implemented
- The borrower is deceased
- The borrower's property is taken to the balance sheet of the Bank to pay off the debt (including a portion of the debt)
- Negative information exists regarding the borrower's ability to fulfill its obligations to the Bank
- Internal rating of the borrower indicates default or near-default.

In accordance with the Bank's policy and provided that recovery conditions are met, when at least three consecutive payments are made to the Bank to repay the debt in full and in a timely manner continuously in accordance with the contractual terms during at least 12 months when there were no factors indicating a significant increase in credit risk (for the recovery from Stage 2 to Stage 1) or no impairment indicators (for the recovery from Stage 3 to Stage 2), financial instruments can be included in Stage 2 or Stage 1, respectively.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

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 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. There is a standard LGD indicator for each quality category of security and internal rating of the counterparty. A 100% LGD is used for financial institutions.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when there is an actual and/or expected decrease in internal rating to 7 and lower for the clients having the internal ratings of 1-5, to 8 and lower for the clients having the internal rating of 6, or a decrease by one or more categories for the clients having the internal ratings 7-9.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The class of assets that is used to calculate ECL on an individual basis includes all Stage 3 assets.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- Refinancing rate
- BYN/USD exchange rate
- Interest rate for one-day interbank loan
- Inflation rate in the Republic of Belarus.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

The Bank uses the forward-looking information from third party sources (external rating agencies, governmental bodies, central banks, and international financial institutions) and makes a short-term macroeconomic forecast. The results of the macroeconomic forecast are used in the ECL model. Weight coefficients attributable to multiple scenarios are determined using an expert judgment. The tables show the values of the key forward-looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

Key drivers	*ECL scenario*	*Assigned probability, %*	*Q1 2019*	*Q2 2019*	*Q3 2019*	*Q4 2019*
Refinancing rate						
	Base case	1	9.5	9.5	9.0	9.0
BYN/USD exchange rate						
	Base case	0.5	2.1893	2.2212	2.2292	2.4622
	Downside	0.5	2.2398	2.2501	2.3051	2.4622
Interbank loans						
	Base case	1	10.5	10.5	10.0	10.0
Inflation (price index 1990=100)						
	Upside	0.2	6888317419	6924536601	7017867830	7027046864
	Base case	0.6	6781693497	6774605478	6855830403	7003195475
	Downside	0.2	6953303352	6965233511	7044093357	7262299696

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The grade is assigned based on the probability of default. Stage 3 loans and POCI assets have low grade.

The Bank uses the following quality categories for financial assets.

Minimal estimated PD	*Maximum estimated PD*	*Quality scale*
0.00%	2.00%	High grade
2.00%	12.50%	Standard grade
12.50%	33.00%	Substandard grade
33.00%	100.00%	Low grade

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

The table below shows the credit quality by class of assets for loan-related lines in the consolidated statement of financial position, based on the Bank's credit grading system. The gross carrying amount was calculated in accordance with IFRS 9 at 31 December 2018 based on the Bank's credit grading system.

	Note	*Stage*		*High grade*	*Standard grade*	*Substandard grade*	*Low grade*	*Total*
Cash and cash equivalents	7	Stage	1	**–**	**623,805**	**–**	**–**	**623,805**
Amounts due from credit institutions	8							
		Stage	1	–	62,214	–	–	**62,214**
		Stage	2	–	–	–	–	**–**
		Stage	3	–	–	–	–	**–**
Total amounts due from credit institutions				**–**	**62,214**	**–**	**–**	**62,214**
Investment securities	10							
Debt securities at FVOCI		Stage	1	555,837	–	–	–	**555,837**
		Stage	2	–	–	–	–	**–**
		Stage	3	–	–	–	–	**–**
Total investment securities				**555,837**	**–**	**–**	**–**	**555,837**
Loans to customers at amortized cost	9							
Corporate lending				**1,263,936**	**680,509**	**7,421**	**276,452**	**2,228,318**
		Stage	1	1,194,542	443,870	17	–	**1,638,429**
		Stage	2	69,394	236,639	7,404	–	**313,437**
		Stage	3	–	–	–	249,490	**249,490**
			POCI	–	–	–	26,962	**26,962**
Small and medium business lending				**375,545**	**89,626**	**66,849**	**72,559**	**604,579**
		Stage	1	326,609	75,044	–	–	**401,653**
		Stage	2	48,936	14,582	66,849	–	**130,367**
		Stage	3	–	–	–	33,477	**33,477**
			POCI	–	–	–	39,082	**39,082**
Consumer lending				**185,206**	**–**	**1,082**	**726**	**187,014**
		Stage	1	184,984	–	894	10	**185,888**
		Stage	2	222	–	188	147	**557**
		Stage	3	–	–	–	569	**569**
			POCI	–	–	–	–	–
Residential mortgages				**67,982**	**414**	**2**	**53**	**68,451**
		Stage	1	67,935	408	–	–	**68,343**
		Stage	2	47	6	2	–	**55**
		Stage	3	–	–	–	53	**53**
			POCI	–	–	–	–	**–**
Total loans to customers at amortized cost				**1,892,669**	**770,549**	**75,354**	**349,790**	**3,088,362**
Total				**2,448,506**	**1,456,568**	**75,354**	**349,790**	**4,330,218**
Credit related commitments and contingencies	25							
Undrawn loan commitments		Stage	1	484,042	35,208	641	723	**520,614**
		Stage	2	3,251	–	–	–	**3,251**
		Stage	3	–	–	–	654	**654**
Letters of credit		Stage	1	63,432	29,605	–	–	**93,037**
		Stage	2	–	–	–	–	–
		Stage	3	–	–	–	6,068	**6,068**
Guarantees		Stage	1	326,792	164,222	–	–	**491,014**
		Stage	2	6	19,496	6,695	–	**26,197**
		Stage	3	–	–	–	1,330	**1,330**
Total credit related commitments and contingencies				**877,523**	**248,531**	**7,336**	**8,775**	**1,142,165**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

The gross carrying amounts calculated under IAS 39 based on the Bank's internal credit grading system as at 31 December 2017 are as follows:

		Neither past due nor individually impaired			*Past due but*		
	Note	***High grade***	***Standard grade***	***Substandard grade***	***not individually impaired***	***Individually impaired***	***Total***
Cash and cash equivalents less cash on hand	7	–	660,594	–	–	–	**660,594**
Amounts due from credit institutions	8	–	59,207	–	–	–	**59,207**
Corporate lending		257,369	1,163,071	–	113	493,968	**1,914,521**
Small and medium business lending		243,533	177,061	–	477	363,597	**784,668**
Consumer lending		–	131,675	–	1,083	515	**133,273**
Residential mortgages		–	35,920	–	65	28	**36,013**
		500,902	**1,507,727**	**–**	**1,738**	**858,108**	**2,868,475**
Investment securities available for sale	10	–	536,964	–	–	–	**536,964**
Total		**500,902**	**2,764,492**	**–**	**1,738**	**858,108**	**4,125,240**

In the tables above, loans to banks and customers of high grade are those having a minimal level of credit risk. Other borrowers with good financial position and good debt service are included in the standard grade. Substandard grade comprises loans below standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard –below Baa3 but above B3, substandard – below B3.

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be individually impaired.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2018	***31 to 60 days 2018***	***61 to 90 days 2018***	***More than 90 days 2018***	***Total 2018***
Loans to customers					
Residential mortgages	431	5	2	–	**438**
Consumer lending	999	151	180	–	**1,330**
Small and medium business lending	338	5	–	–	**343**
Total	**1,768**	**161**	**182**	**–**	**2,111**

	Less than 30 days 2017	***31 to 60 days 2017***	***61 to 90 days 2017***	***More than 90 days 2017***	***Total 2017***
Loans to customers					
Corporate lending	73	–	–	40	**113**
Residential mortgages	43	8	–	14	**65**
Consumer lending	777	142	101	63	**1,083**
Small and medium business lending	171	280	–	26	**477**
Total	**1,064**	**430**	**101**	**143**	**1,738**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Credit risk (continued)

See Note 9 for information with respect to the allowance for impairment of loans to customers.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

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

	2018				*2017*			
	Belarus	*OECD*	*CIS and other foreign banks*	*Total*	*Belarus*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	499,212	101,582	84,830	**685,624**	585,104	89,711	45,572	**720,387**
Amounts due from credit institutions	28,765	992	32,348	**62,105**	27,648	892	30,667	**59,207**
Loans to customers	2,883,177	–	–	**2,883,177**	2,586,356	–	–	**2,586,356**
Investment securities	556,286	–	–	**556,286**	537,381	32	–	**537,413**
Other financial assets	16,704	11	–	**16,715**	12,994	7	–	**13,001**
	3,984,144	**102,585**	**117,178**	**4,203,907**	**3,749,483**	**90,642**	**76,239**	**3,916,364**
Liabilities								
Amounts due to credit institutions	153,186	212,886	934,168	**1,300,240**	230,163	94,148	726,359	**1,050,670**
Amounts due to the National Bank of the Republic of Belarus	22	–	–	**22**	5,009	–	–	**5,009**
Amounts due to customers	2,029,081	30,768	132,855	**2,192,704**	2,198,926	11,461	131,387	**2,341,774**
Debt securities issued	102,928	–	–	**102,928**	4,507	–	–	**4,507**
Other financial liabilities	16,943	–	–	**16,943**	25,126	377	4,620	**30,123**
Subordinated debt	–	–	220,461	**220,461**	–	–	199,340	**199,340**
	2,302,160	**243,654**	**1,287,484**	**3,833,298**	**2,463,731**	**105,986**	**1,061,706**	**3,631,423**
Net assets/ (liabilities)	**1,681,984**	**(141,069)**	**(1,170,306)**	**370,609**	**1,285,752**	**(15,344)**	**(985,467)**	**284,941**

Liquidity risk and funding management

Liquidity risk is the probability of the losses, failure to obtain the planned revenues due to the inability to ensure the timely performance of the obligations in full.

Liquidity risk management process includes identification, measurement (assessment) and stress testing, limitation, monitoring and control of the liquidity risk, a system of key early warning indicators, financing plans in crises, the disclosure of liquidity risk.

The Bank has developed a number of documents which regulate issues of liquidity risk management and liquidity position, management define goals, objectives, principles and methods of management, the division of responsibility between departments and procedures of interaction between them on liquidity risk management and liquidity position.

The liquidity risk is managed and controlled by the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board, the Asset and Liability Management Committee, the official responsible for risk management at Bank BelVEB OJSC, the Risk Management Department, the Bank Treasury, the Department of Operations in the Financial Markets, the Finance and Economic Department and the Internal Audit Department.

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Bank BelVEB OJSC performs daily monitoring of the implementation of regulations set by the National Bank of the Republic of Belarus, local liquidity risk limits, prepares a management report on liquidity risk. The National Bank of the Republic of Belarus set new mandatory liquidity ratios - Liquidity Coverage Ratio and Net Stable Funding Ratio - that are effective from 1 January 2018.

The Bank takes into account the interaction between the risk of funding liquidity and market liquidity risk, which it is exposed, and provides a comprehensive assessment of the liquidity risk that includes an analysis of the balance sheet structure, cash flow forecasting, in all material balance and off-balance positions and activities both under normal conditions and in stressful situations.

The Bank uses payment calendars to manage its current liquidity position. To monitor the risk of loss of liquidity, the Bank monitors the limits of liquidity deficit as well as the key indicators of liquidity risk.

The assets and liabilities formation is based on the principle of diversification of sources and destinations, the volume and terms of attraction and allocation. The main external sources of financing are the resources of the parent bank − the State Development Corporation VEB.RF.

Maintaining funding sources and increase in the resource base of the Bank is provided by improving the quality of customer service, offering new products, providing more flexible conditions of deposit contracts.

The Bank maintains a sufficient liquidity to meet all the requirements of the National Bank of the Republic of Belarus and perform its obligations to clients in a timely manner.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the National Bank of the Republic of Belarus. As at 31 December, these ratios were as follows:

	Minimum value	***2018***	***2017***
Liquidity Coverage Ratio	Min. 100%	167.1%	Not applicable
Net Stable Funding Ratio	Min. 100%	116.7%	Not applicable
Current Liquidity Ratio (assets receivable or realizable within 30 days / liabilities repayable within 30 days)	Min. 70%	Not applicable	87.2%
Short-Term Liquidity Ratio (assets receivable within a year / liabilities repayable within a year)	Min 1	Not applicable	1.5
Quick Liquidity Ratio (assets on demand / liabilities on demand)	Min. 20%	Not applicable	162.2%

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The tables below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Exception is made for derivatives settled through delivery of their underlying asset which are shown by amounts payable and receivable and contractual maturity. Repayments which are subject to notice are treated as of notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities at 31 December 2018	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	365,871	344,988	643,932	3,072	**1,357,863**
Amounts due to the National Bank of the Republic of Belarus	22	–	–	–	**22**
Amounts due to customers	912,249	734,930	577,697	2,974	**2,227,850**
Debt securities issued	100,944	3,678	–	–	**104,622**
Other liabilities	9,261	2,037	5,317	328	**16,943**
Subordinated debt	–	17,286	238,519	35,150	**290,955**
Total undiscounted financial liabilities	**1,388,347**	**1,102,919**	**1,465,465**	**41,524**	**3,998,255**

Financial liabilities at 31 December 2017	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	518,987	236,334	350,693	5,085	**1,111,099**
Amounts due to the National Bank of the Republic of Belarus	5,106	–	–	–	**5,106**
Amounts due to customers	1,006,371	942,594	442,711	4,446	**2,396,122**
Debt securities issued	4,583	–	–	–	**4,583**
Other liabilities	14,632	4,721	2,544	665	**22,562**
Subordinated debt	3,771	13,670	137,741	119,078	**274,260**
Total undiscounted financial liabilities	**1,553,450**	**1,197,319**	**933,689**	**129,274**	**3,813,732**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2018	327,678	261,090	377,948	175,449	**1,142,165**
2017	871,067	134,280	227,236	12,574	**1,245,157**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Market risk

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

The maturity analysis does not reflect the historical stability of current accounts and customer deposits. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in "less than 3 months" in the tables above.

Market risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions related to the trade portfolio, foreign currency denominated positions and commodities due to changes in market interest rates, exchange rates, securities quotations, commodity prices and other factors.

The Bank is exposed to market risks due to the effect of general or specific market changes on its products. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate limits on the tolerable loss. With the exception of foreign currency positions, the Bank 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 Bank has developed a number of documents which in generally organizes risk management process. The Asset and Liability Committee determines process of resource attraction and placement based on monitoring of the corresponding sectors in the banking sector.

Treasury performs analysis of volume-time structure of the Bank's balance and interest rate levels in the context of risk management process. Risk Management Departments performs independent assessment of the Bank's exposure to interest rate risk and stress testing of risk tolerance.

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit or loss.

The sensitivity of the consolidated 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 floating rate non-trading financial assets and financial liabilities held as at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	***Increase in basis points 2018***	***Sensitivity of profit or loss 2018***	***Sensitivity of equity less effect on profit and loss 2018***
BYN	+250	1,270	–
USD	+50	(2,853)	(2,939)
EUR	+20	(850)	(480)

Currency	***Decrease in basis points 2018***	***Sensitivity of profit or loss 2018***	***Sensitivity of equity less effect on profit and loss 2018***
BYN	-250	(1,270)	–
USD	-15	856	892
EUR	-1	42	24

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Market risk (continued)

Currency	*Increase in basis points 2017*	*Sensitivity of profit or loss 2017*	*Sensitivity of equity less effect on profit and loss 2017*
BYN	+700	16,319	–
USD	+70	(1,579)	(5,117)
EUR	+25	(119)	–

Currency	*Decrease in basis points 2017*	*Sensitivity of profit or loss 2017*	*Sensitivity of equity less effect on profit and loss 2017*
BYN	-300	(6,994)	–
USD	-8	173	593
EUR	-1	5	–

Currency risk

Currency risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions nominated in foreign currency, due to the exchange rate changes. The Bank`s positions in precious metals as bank bars are also exposed to currency risk.

Currency risk management system of the Bank provides for the following:

- distributing the responsibilities of currency risk management;
- regulating the methods of assessment and stress-testing of currency risk;
- preparing daily management reports on currency risk;
- setting and controlling position and risk limits and other key indicators to restrict the level of risk.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 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 ruble, with all other variables held constant, on the consolidated statement of profit or loss. The effect on 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 consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, % 2018*	*Effect on profit before tax 2018*	*Change in currency rate, % 2017*	*Effect on profit before tax 2017*
USD	+10	885	+10	1,499
EUR	+10	(577)	+15	(1,231)
RUB	+13	21	+14	95

Currency	*Change in currency rate, % 2018*	*Effect on profit before tax 2018*	*Change in currency rate, % 2017*	*Effect on profit before tax 2017*
USD	+5	443	+5	750
EUR	+5	(289)	+5	(425)
RUB	-13	(21)	-9	(61)

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Risk management (continued)

Market risk (continued)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The management of the Bank believes that the realization of the prepayment risk will not have a material effect on the Bank.

Operational risk

Operational risk is the risk of loss arising from inconsistency of the Bank's local documents of execution banking transactions and operations to the legislation of the Republic of Belarus, or its breach by the employees, incompetence or errors of the Bank's employees, discrepancy or failure the system used by the Bank including information systems, and as result of external factors.

The Bank has established and maintained a comprehensive centralized operational risk management system, which provides for an effective methodology of operational risk management, risk assessment, monitoring, control and restriction of operational risk in accordance with the local documents of the Bank.

Operational risk management functions are fixed at the level of the Bank's management, collegiate bodies, departments and responsible persons.

To manage the operational risk, the Bank is maintaining the database of realization of the facts of operational risk. Recommendations for optimization of the business process are generated using this database.

The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Fair value measurement

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

		Fair value measurement using			
31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities — debt securities at FVOCI	31 December 2018	–	555,837	–	**555,837**
Investment securities - equity securities at FVOCI	31 December 2018	–	–	449	**449**
Property and equipment − buildings	31 December 2018	–	–	81,254	**81,254**
		–	**555,837**	**81,703**	**637,540**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	685,624	–	–	**685,624**
Precious metals	31 December 2018	334	–	–	**334**
Amounts due from credit institutions	31 December 2017	–	62,043	–	**62,043**
Loans to customers	31 December 2018	–	–	2,905,526	**2,905,526**
		685,958	**62,043**	**2,905,526**	**3,653,527**

		Fair value measurement using			
31 December 2018	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2018	–	106,840	1,194,574	**1,301,414**
Amounts due to the National Bank of the Republic of Belarus	31 December 2018	–	–	22	**22**
Amounts due to customers	31 December 2018	–	500,379	1,690,148	**2,190,527**
Debt securities issued	31 December 2018	–	102,600	–	**102,600**
Subordinated debt	31 December 2018	–	–	220,603	**220,603**
		–	**709,819**	**3,105,347**	**3,815,166**

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Fair value measurement (continued)

		Fair value measurement using			
31 December 2017	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities available for sale	31 December 2017	–	536,964	449	**537,413**
Property and equipment − buildings	31 December 2017	–	–	96,471	**96,471**
		–	**536,964**	**96,920**	**633,884**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2017	720,387	–	–	**720,387**
Precious metals	31 December 2017	504	–	–	**504**
Amounts due from credit institutions	31 December 2017	–	59,095	–	**59,095**
Loans to customers	31 December 2017	–	–	2,601,669	**2,601,669**
		720,891	**59,095**	**2,601,669**	**3,381,655**

		Fair value measurement using			
31 December 2017	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2017	–	134,455	916,007	**1,050,462**
Amounts due to the National Bank of the Republic of Belarus	31 December 2017	–	–	5,010	**5,010**
Amounts due to customers	31 December 2017	–	398,643	1,966,322	**2,364,965**
Debt securities issued	31 December 2017	–	3,965	–	**3,965**
Subordinated debt	31 December 2017	–	–	199,243	**199,243**
		–	**537,063**	**3,086,582**	**3,623,645**

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Fair value measurement (continued)

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

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried 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	685,624	685,624	–	720,387	720,387	–
Precious metals	334	334	–	504	504	–
Amounts due from credit institutions	62,105	62,043	(62)	59,207	59,095	(112)
Loans to customers	2,883,177	2,905,526	22,349	2,586,356	2,601,669	15,313
Financial liabilities						
Amounts due to credit institutions	1,300,240	1,301,414	(1,174)	1,050,670	1,050,462	208
Amounts due to the National Bank of the Republic of Belarus	22	22	–	5,009	5,010	(1)
Amounts due to customers	2,192,704	2,190,527	2,177	2,341,774	2,364,965	(23,191)
Debt securities issued	102,928	102,600	328	4,507	3,965	542
Subordinated debt	220,461	220,603	(142)	199,340	199,243	97
Total unrecognized change in unrealized fair value			**23,476**			**(7,144)**

Valuation techniques and assumptions

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

Assets for which fair value approximates their carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and current (settlement) accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost

Fair value of quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the National Bank of the Republic of Belarus and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Fair value measurement (continued)

Movements in Level 3 assets and liabilities at fair value

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

	1 January 2018	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*31 December 2018*
Assets							
Investment securities - equity securities at FVOCI	449	–	–	–	–	–	449
Property and equipment − buildings	96,471	(4,534)	(9,429)	850	(932)	(1,172)	81,254
Total Level 3 assets	**96,920**	**(4,534)**	**(9,429)**	**850**	**(932)**	**(1,172)**	**81,703**
Total Level 3 liabilities	–	–	–	–	–	–	–
Total Level 3	**96,920**	**(4,534)**	**(9,429)**	**850**	**(932)**	**(1,172)**	**81,703**

	1 January 2017	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*31 December 2017*
Assets							
Investment securities available for sale	158	–	–	296	(5)	–	449
Property and equipment − buildings	88,706	–	–	9,562	(655)	(1,142)	96,471
Total Level 3 assets	**88,864**	**–**	**–**	**9,858**	**(660)**	**(1,142)**	**96,920**
Total Level 3 liabilities	–	–	–	–	–	–	–
Total Level 3	**88,864**	**–**	**–**	**9,858**	**(660)**	**(1,142)**	**96,920**

During the year ended 31 December 2018 and 2017, the Bank did not transfer financial instruments between levels of the fair value hierarchy.

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

	2018			*2017*		
	Realized gains/ (losses)	*Unrealized gains/ (losses)*	*Total*	*Realized gains/ (losses)*	*Unrealized gains/ (losses)*	*Total*
Total losses recognized in the consolidated statement of profit or loss	–	4,534	**4,534**	–	–	**–**

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Fair value measurement (continued)

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2018	*Carrying amount*	*Valuation technique*	*Unobservable inputs*	*Range (weighted average)*
Investment securities at FVOCI				
Equity securities	449	Cost is determined as the cost of investments using appropriate indices	–	–
Property and equipment				
Buildings	81,254	Cost is determined by an appraiser using the method of comparing sales and capitalization at the rate of return	–	–
	81,703			

The impact of possible alternative assumptions on measuring the fair value of Level 3 instruments is insignificant.

31. Financial instruments pledged as collateral

Transferred financial instruments that are not derecognized in their entirety

As at 31 December 2017 and 2018, there were no financial instruments that were not derecognized in their entirety.

Assets pledged as collateral

As at 31 December 2017 and 2018, there were no assets pledged as collateral, included in the consolidated statement of financial position.

(Thousands of Belarusian rubles, unless otherwise indicated)

32. 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 29 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Total over 1 year*	*No stated maturity*	*Past due*	*Total*
31 December 2018											
Assets											
Cash and cash equivalents	685,624	–	–	**685,624**	–	–	–	**–**	–	–	**685,624**
Precious metals	334	–	–	**334**	–	–	–	**–**	–	–	**334**
Amounts due from credit institutions	42,731	5,539	4,528	**52,798**	9,165	97	45	**9,307**	–	–	**62,105**
Loans to customers	159,490	1,138,249	449,315	**1,747,054**	756,100	234,033	140,721	**1,130,854**	–	5,269	**2,883,177**
Investment securities	3,532	71,357	260,483	**335,372**	75,727	132,528	12,210	**220,465**	449	–	**556,286**
Investments in associate	–	–	–	**–**	–	–	–	**–**	4,029	–	**4,029**
Property and equipment	–	–	–	**–**	–	–	–	**–**	120,383	–	**120,383**
Assets constructed for sale	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Investment property	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Intangible assets	–	–	–	**–**	–	–	–	**–**	44,376	–	**44,376**
Income tax assets:											
- current income tax asset	–	2,327	–	**2,327**	–	–	–	**–**	–	–	**2,327**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	3,455	–	**3,455**
Other assets	5,449	731	6,507	**12,687**	2,140	340	110	**2,590**	24,375	–	**39,652**
Total assets	**897,160**	**1,218,203**	**720,833**	**2,836,196**	**843,132**	**366,998**	**153,086**	**1,363,216**	**197,067**	**5,269**	**4,401,748**
Liabilities											
Amounts due to credit institutions	138,438	376,787	173,431	**688,656**	539,629	68,910	3,045	**611,584**	–	–	**1,300,240**
Amounts due to the National Bank of the Republic of Belarus	–	–	–	**–**	–	–	–	**–**	22	–	**22**
Amounts due to customers	710,762	423,257	488,178	**1,622,197**	528,511	38,023	2,514	**569,048**	1,459	–	**2,192,704**
Debt securities issued	–	99,337	3,591	**102,928**	–	–	–	**–**	–	–	**102,928**
Income tax liabilities:											
- current income tax liabilities	–	–	–	**–**	–	–	–	**–**	4,177	–	**4,177**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	319	–	**319**
Other liabilities	12,528	5,065	892	**18,485**	1,655	3,662	236	**5,553**	19,366	–	**43,404**
Subordinated debt	–	2,765	5,176	**7,941**	73,386	114,972	24,162	**212,520**	–	–	**220,461**
Total liabilities	**861,728**	**907,211**	**671,268**	**2,440,207**	**1,143,181**	**225,567**	**29,957**	**1,398,705**	**25,343**	**–**	**3,864,255**
Net position	**35,432**	**310,992**	**49,565**	**395,989**	**(300,049)**	**141,431**	**123,129**	**(35,489)**	**171,724**	**5,269**	**537,493**

(Thousands of Belarusian rubles, unless otherwise indicated)

32. Maturity analysis of assets and liabilities (continued)

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Total over 1 year*	*No stated maturity*	*Past due*	*Total*
31 December 2017											
Assets											
Cash and cash equivalents	720,387	–	–	**720,387**	–	–	–	**–**	–	–	**720,387**
Precious metals	504	–	–	**504**	–	–	–	**–**	–	–	**504**
mounts due from credit institutions	36,823	9,666	10,606	**57,095**	2,112	–	–	**2,112**	–	–	**59,207**
Loans to customers	232,005	738,634	502,539	**1,473,178**	661,029	302,066	145,108	**1,108,203**	–	4,975	**2,586,356**
Investment securities available for sale	44,809	3,780	117,050	**165,639**	305,856	18,797	46,672	**371,325**	449	–	**537,413**
Investments in associate	–	–	–	**–**	–	–	–	**–**	3,891	–	**3,891**
Property and equipment	–	–	–	**–**	–	–	–	**–**	147,372	–	**147,372**
Assets constructed for sale	7,848	–	–	**7,848**	–	–	–	**–**	–	–	**7,848**
Investment property	–	–	–	**–**	–	–	–	**–**	4,295	–	**4,295**
Intangible assets	–	–	–	**–**	–	–	–	**–**	36,096	–	**36,096**
Income tax assets:											
- current income tax asset	–	2,757	–	**2,757**	–	–	–	**–**	–	–	**2,757**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	15,385	–	**15,385**
Other assets	11,296	6,516	3,711	**21,523**	3,883	1,235	600	**5,718**	4,260	405	**31,906**
Total assets	**1,053,672**	**761,353**	**633,906**	**2,448,931**	**972,880**	**322,098**	**192,380**	**1,487,358**	**211,748**	**5,380**	**4,153,417**
Liabilities											
Amounts due to credit institutions	435,182	140,527	161,439	**737,148**	291,683	16,829	5,010	**313,522**	–	–	**1,050,670**
Amounts due to the National Bank of the Republic of Belarus	2,117	2,892	–	**5,009**	–	–	–	**–**	–	–	**5,009**
Amounts due to customers	674,607	647,090	586,456	**1,908,153**	410,612	19,621	3,388	**433,621**	–	–	**2,341,774**
Debt securities issued	–	17	–	**17**	–	4,490	–	**4,490**	–	–	**4,507**
Income tax liabilities:											
- current income tax liabilities	140	8,075	–	**8,215**	–	–	–	**–**	–	–	**8,215**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	988	–	**988**
Other liabilities	14,034	7,393	2,306	**23,733**	1,677	866	665	**3,208**	6,169	2	**33,112**
Subordinated debt	114	2,239	3,956	**6,309**	7,146	84,782	101,103	**193,031**	–	–	**199,340**
Total liabilities	**1,126,194**	**808,233**	**754,157**	**2,688,584**	**711,118**	**126,588**	**110,166**	**947,872**	**7,157**	**2**	**3,643,615**
Net position	**(72,522)**	**(46,880)**	**(120,251)**	**(239,653)**	**261,762**	**195,510**	**82,214**	**539,486**	**204,591**	**5,378**	**509,802**

33. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

(Thousands of Belarusian rubles, unless otherwise indicated)

33. Related party disclosures (continued)

Transactions with entities under common control of the Russian Federation, except for Vnesheconombank group of companies (Russian Federation)

In the ordinary course of business, the Bank effects transactions with the entities that are ultimately controlled by the Russian Government. The balances of transactions with such entities at the reporting date comprised balances on correspondent accounts and loans from credit institutions. During the reporting period and at the reporting date, there were no individually or collectively significant transactions with such entities (in the amount exceeding RUB 1 billion).

Transactions with other related parties, including VEB.RF group of companies

The outstanding balances of transactions with other related parties at the end of the reporting period are as follows:

	2018					*2017*				
	Parent	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*
Cash and cash equivalents	402	111,960	–	–	17,130	4,824	70,112	–	–	10,973
Loans outstanding at 1 January	**–**	**–**	**–**	**804**	**–**	**–**	**–**	**–**	**553**	**–**
Loans issued during the year	–	63,200	1,599	444	–	–	15,764	–	473	–
Loans repaid during the year	–	(62,985)	–	(497)	–	–	(15,637)	–	(457)	–
Other changes	–	(215)	–	264	–	–	(127)	–	235	–
Loans outstanding at 31 December	**–**	**–**	**1,599**	**1,015**	**–**	**–**	**–**	**–**	**804**	**–**
Less: allowance for impairment at 31 December	–	–	(691)	–	–	–	–	–	–	–
Loans outstanding at 31 December, net	**–**	**–**	**908**	**1,015**	**–**	**–**	**–**	**–**	**804**	**–**

(Thousands of Belarusian rubles, unless otherwise indicated)

33. Related party disclosures (continued)

Transactions with other related parties, including VEB.RF group of companies (continued)

	2018					*2017*				
	Parent	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to credit institutions at 1 January	**444,098**	**70,412**	**–**	**–**	**152,298**	**773,638**	**28,749**	**–**	**–**	**143,502**
Amounts due to credit institutions received during the year	1,214,915	3,606,191		–	127,062	1,359,623	2,930,487	–	–	232,034
Amounts due to credit institutions repaid during the year	(1,142,011)	(3,606,191)		–	(51,898)	(1,708,255)	(2,906,812)	–	–	(235,570)
Other changes	12,352	38,471	–	–	7,879	19,092	17,988	–	–	12,332
Amounts due to credit institutions at 31 December	**529,354**	**108,883**		**–**	**235,341**	**444,098**	**70,412**	**–**	**–**	**152,298**
Subordinated debt at 1 January	**199,340**	**–**	**–**	**–**	**–**	**196,608**	**–**	**–**	**–**	**–**
Subordinated debt received during the year	–	–	–	–	–	–	–	–	–	–
Subordinated debt repaid during the year	–	–	–	–	–	–	–	–	–	–
Other changes	21,121	–	–	–	–	2,732	–	–	–	–
Subordinated debt at 31 December	**220,461**	**–**	**–**	**–**	**–**	**199,340**	**–**	**–**	**–**	**–**
Deposits at 1 January	**–**	**–**	**–**	**4,686**	**–**	**–**	**–**	**–**	**4,033**	**–**
Deposits received during the year	–	–	9,244	4,848	–	–	–	–	6,125	–
Deposits repaid during the year	–	–	(8,724)	(5,482)	–	–	–	–	(5,556)	–
Other changes	–	–	–	205	–	–	–	–	84	–
Deposits at 31 December	**–**	**–**	**520**	**4,257**	**–**	**–**	**–**	**–**	**4,686**	**–**
Settlement and current accounts at 31 December	**–**	**–**	**216**	**600**	**–**	**–**	**–**	**–**	**376**	**95**
Commitments and guarantees issued	–		–	159	–	–	495	–	155	–

(Thousands of Belarusian rubles, unless otherwise indicated)

33. Related party disclosures (continued)

Transactions with other related parties, including VEB.RF group of companies (continued)

Income and expenses arising from related party transactions during the reporting period are as follows:

	For the year ended 31 December									
	2018					*2017*				
	Parent	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control*	*Associates*	*Key management personnel*	*Other related parties*
Interest income on loans	1	90	–	45	550	1	75	–	53	243
Interest expense on deposits	(39,847)	(4,157)	(7)	(186)	(8,441)	(63,087)	(1,890)	–	(44)	(8,379)
Fee and commission income	–	–	4	2	19	–	13	9	1	13
Fee and commission expense	(2,117)	(689)	–	(6)	(46)	(2,598)	(436)	–	–	(451)
Income from transactions with foreign currency, precious metals and precious stones	–	5,322	–	–	–	–	2,547	–	–	–
Expenses from transactions with foreign currency, precious metals and precious stones	–	(3,094)	–	–	–	–	(816)	–	–	–
Income from derivative financial instruments	–	–	–	–	–	–	–	–	–	–
Expenses from derivative financial instruments	–	–	–	–	–	–	–	–	–	–

Compensation to key management personnel comprises the following:

	2018	*2017*
Salaries and other short-term employee benefits	5,149	5,237
Social security costs	108	94
Mandatory contributions to the pension fund	502	440
Provision for future payments	293	630
Total compensation to key management personnel	**6,052**	**6,401**

(Thousands of Belarusian rubles, unless otherwise indicated)

34. Changes in liabilities arising from financing activities

	Notes	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2016		**3,352**	**1,056,675**	**196,607**	**1,256,634**
Additions		–	147,220	–	**147,220**
Repayment		(12,262)	(685,399)	–	**(697,661)**
Exchange differences		–	31,916	1,384	**33,300**
Proceeds from sale of repurchased bonds		13,428	–	–	**13,428**
Other		(11)	(4,474)	1,349	**(3,136)**
Carrying amount at 31 December 2017	22, 23	**4,507**	**545,938**	**199,340**	**749,785**
Additions		393,268	538,345	–	**931,613**
Repayment		(295,700)	(417,709)	–	**(713,409)**
Exchange differences		576	22,643	11,221	**34,440**
Proceeds from sale of repurchased bonds		–	–	–	**–**
Other		277	4,669	9,900	**14,846**
Carrying amount at 31 December 2018	22, 23	**102,928**	**693,886**	**220,461**	**1,017,275**

The "Other" item comprises the effect of interest on debt securities issued and subordination loans that was accrued but not paid. The Bank classifies interest paid as cash flows from operating activities.

35. Capital adequacy

Bank BelVEB OJSC maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the capital of Bank BelVEB OJSC is monitored using, among other measures, principals, ratios established by the Basel Capital Accord 1988 and ratios used by the National Bank of the Republic of Belarus in supervising the Bank. In 2018, Bank BelVEB OJSC complied with all the externally imposed capital requirements.

Bank BelVEB OJSC manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Bank BelVEB OJSC may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio of the National Bank of the Republic of Belarus

The National Bank of the Republic of Belarus requires a bank to maintain regulatory capital ratio inclusive of the conservation buffer at the level of 11.875% in 2018 (2017: 11.25%) of credit, market and operational risk-weighted assets computed under the laws of the Republic of Belarus. As at 31 December 2018 and 2017, the capital adequacy ratio of Bank BelVEB OJSC on this basis was as follows:

	2018	*2017*
Main capital	366,575	344,673
Additional paid-in capital	272,690	320,274
Deductions from capital	(15,717)	(24,169)
Total capital	**623,548**	**640,778**
Risk weighted assets	**4,052,223**	**3,844,894**
Capital adequacy ratio	15.4%	16.7%

(Thousands of Belarusian rubles, unless otherwise indicated)

35. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2018 and 2017, the Bank's capital adequacy ratio computed in accordance with Basel Capital Accord 1988, taking into account subsequent amendments relating to the incorporation of market risks, comprised:

	2018	*2017*
Tier 1 capital	513,821	470,425
Tier 2 capital	198,606	222,771
Total capital	**712,427**	**693,196**
Risk weighted assets	**4,721,644**	**4,864,876**
Tier 1 capital adequacy ratio	10.9%	9.7%
Total capital adequacy ratio	15.1%	14.2%

36. Events after the reporting period

On 18 January 2019, Fitch Ratings Ltd., the rating agency, confirmed the "B" long-term and short-term foreign currency and local currency sovereign credit ratings of the Republic of Belarus with a stable outlook. In addition, the agency confirmed the "B" rating of Eurobonds of the Republic of Belarus.