BPS-Sberbank and subsidiaries

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2018

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Independent Auditor's Report

To the Shareholders, Board of Directors and Management Board of Open Joint Stock Company "BPS-Sberbank".

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Open Joint Stock Company "BPS-Sberbank" (the "Bank") (Minsk, Mulyavin avenue, 6, 220005, Republic of Belarus; registered by the National Bank of the Republic of Belarus as at 28 December 1991 in Unified State Register of Legal Entities and Individual Entrepreneurs with № 25; License for banking activities №4 issued by the National Bank of the Republic of Belarus as at 28 November 2014; License for implementation of professional and stock exchange securities activity №02200/5200-1246-1086 with validity up to 30 January 2022) and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the section "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of this auditor's report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Belarus. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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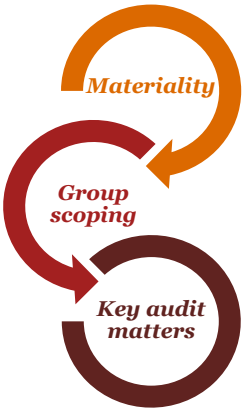
Our audit approach

Overview



Overall group materiality was 6 767 thousand Belarusian rubles

We designed and determined the scope of our audit for 2018 based on the Group's reporting structure. Our audit included procedures for those Group companies with assets (net of intragroup balances) exceeding 0.5% of the total assets of the Bank. The scope of the audit procedures for the components of the Group selected for audit was determined based on our professional judgment.

Provision for impairment of loans and advances to customers.

As part of designing our audit, we determined materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the Group's consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall consolidated Group materiality	6 767 thousand Belarusian rubles
How we determined it	1% of the Group's net assets as of 31 December 2018
Rationale for the materiality benchmark applied	We chose the net assets as a benchmark for determining the level of materiality, since, in our opinion, this indicator is widely used in the banking sector, including regulatory authorities, for analyzing the financial position of the banks. We have established the materiality at the level of 1%, which falls within the range of acceptable quantitative thresholds for materiality.

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.

Key audit matter	How our audit addressed the key audit matter
Provision for impairment of loans and advances to customers	
We focused on this matter due to significance of loans and advances to customers balance and significance of judgment and estimates required for calculation of the related provision. Key audit matter is applied for the Bank and one of the Bank's subsidiaries engaged in leasing activities. The provision policies applied in the bank were also applied in the leasing subsidiary for the purposes of consolidation. The provision represents management's best estimation of expected credit losses from loans and advances to customers as at the balance sheet date. Provision for impairment of loans and advances to customers is created applying three stages approach, based on the credit risk growth since the moment of initial recognition. Provision is assessed individually for significant customers if there are identified factors of significant increase in credit risk and/or default indicators. The Group applies judgment to estimate excepted credit losses on loans as well as risk and probability that a credit loss occurs taking into consideration reasonably possible and probability-weighted scenarios. Collective provision is estimated on a group basis for loans and advances of a similar credit risk nature. Key parameters of the model are probability of default (PD) and loss given default (LGD).	We assessed the key methodologies for calculation of the provision for impairment of loans and advances to individuals and legal entities for compliance with the requirements of International Financial Reporting Standards. Our procedures were performed in respect of the Bank and its subsidiary. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over impairment data and calculations: the authorization of the loan agreement and the disbursement of money; process of loan agreements data input into the Bank's software systems; timely transfer of the overdue debt to the accounts for the overdue debt; determination of provision stage. The purpose of our procedures was to determine that we could rely on these controls for the purposes of our audit. The Group calculates the provision on an individual basis for individually significant clients (legal entities with the total amount of credit exposure not less than 2% of the Group's share capital in accordance with IFRS) with identified significant increase in credit risk and/or default factors. The model represents an estimation of the recoverable amount of credit exposure based on the method of discounted expected future cash flows. The Group estimates the recoverable amount of the credit exposure based on the current data on customers' solvency, factors of their financial instability, negative information, violations of the payment schedule, liquidity of collateral and other relevant information. We tested the calculation of provision for impairment of loans and advances issued to legal entities that are assessed individually. We checked the list of individually assessed borrowers for completeness. Our audit procedures covered 100% individually assessed borrowers. We analyzed loan files of individually significant borrowers, their latest financial statements, information on factors of financial instability, debt management procedures and violations of payment schedules. We assessed the liquidity of the collateral for those loan agreements where it was relevant. We tested the collectively assessed provision for impairment of loans to legal entities. We inspected the PD calculation based on the composition of matrices for credit exposure migration by groups of overdue duration. We tested (on a sample basis) the operating effectiveness of the controls over overdue debt exposure of legal entities. We analyzed the calculation of LGD and recalculated it on a sample basis. We recalculated the final provision amount for impairment of loans and advances to legal entities assessed on collective basis.

Note 3 “Significant accounting policies”, Note 4 "Areas of significant management judgment and sources of estimation uncertainty”, Note 8 "Loans to customers" included in the financial statements, contain detailed information on provisions for impairment of loans and advances to customers.	Total provision for impairment of loans to individuals is calculated under collective assessment by means of similar model as for legal entities. We performed the similar procedures to verify the calculation of key elements of the model and recalculated the allowance for impairment. We performed analytical procedures for the total amount of provision for loans and advances to customers: developed trend lines, analyzed the correlation between changes in loan volumes and created provision for impairment in the context of legal entities and individuals.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the industry in which the Group operates.

We have audited the Bank's financial information. In addition, we applied a professional judgment on the scope of the audit procedures for the companies of the Group and performed audit procedures for their financial statement line items that may represent risk of material misstatements of the Group's consolidated financial statements. We have performed procedures to determine that we have obtained sufficient audit evidence regarding subsidiaries of the Bank selected for audit.

We have also performed the audit procedures regarding consolidation of financial information of the Bank and its subsidiaries and the preparation of the consolidated financial statements of the Group.

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

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

Those charged with governance are responsible for overseeing the financial reporting process of the Group.

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 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of 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 certified auditor responsible for the audit resulting in this independent auditor's report is Alena Tsyalyak.

PricewaterhouseCoopers Assurance Unitary Enterprise on Services Rendering

22 March 2019
Minsk, Republic of Belarus

Director
Alena Tsyalyak

Qualification certificate of the Auditor of the Ministry of Finance of the Republic of Belarus No. 767 of May 20, 2003, without limitation of validity.
Certificate of compliance with the qualification requirements for specialists engaged in auditing in banks and non-bank financial institutions No. 19 of September 10, 2008, without limitation of validity (date of the last testing - June 19, 2015)

М. П.

Audit organization:
PricewaterhouseCoopers Assurance Unitary Enterprise on Services Rendering
Location:
Minsk, Gikalo, 3, floor 3, office 3, 220005, Republic of Belarus.
Information on state registration:
registered by the Minsk City Executive Committee on April 3, 2014 in the Unified State Register of Legal Entities and Individual Entrepreneurs for No. 191315745. Certificate of state registration No. 0104031.

Consolidated statement of financial position
as of 31 December 2018

(in thousands of Belarusian Rubles)

	Notes	31 December 2018	31 December 2017
Assets			
Cash and cash equivalents	5	613,422	685,311
Mandatory cash balances with the National Bank of the Republic of Belarus		13,937	3,614
Due from banks	6	46,405	77,976
Derivative financial assets	7	8,243	1,402
Loans to corporate customers	8	2,035,124	1,556,787
Loans to individuals	8	643,393	445,077
Non-current assets held for sale	9	7,754	18,170
Securities	10	625,249	760,874
Investments in associates	11	8,515	7,958
Premises and equipment	12	176,201	176,165
Intangible assets	12	47,921	47,756
Other financial assets	13	14,936	14,868
Other non-financial assets	13	40,898	32,310
Total assets		**4,281,998**	**3,828,268**
Liabilities and equity			
Liabilities			
Loans from the National bank of the Republic of Belarus	14	508	—
Due to banks	15	301,139	329,105
Derivative financial liabilities	7	1,196	106
Due to individuals	16	1,279,101	1,253,240
Due to corporate customers	16	1,429,397	1,252,019
Debt securities issued	17	374,472	186,195
Current income tax liabilities		5,758	2,480
Deferred income tax liabilities	26	1,969	16,559
Provisions for guarantees and other commitments	21	11,843	1,460
Other financial liabilities	18	33,847	23,488
Other non-financial liabilities	18	5,289	6,794
Subordinated debt	29	160,771	153,095
Total liabilities		**3,605,290**	**3,224,541**
Equity			
Share capital	19	321,756	321,756
Share premium		576	576
Revaluation reserve for office premises and assets held for sale		33,151	32,721
Fair value reserve for securities measured at FVOCI		13,306	2,512
Retained earnings		307,919	246,162
Total equity attributable to shareholders of the Bank		**676,708**	**603,727**
Non-controlling interest		—	—
Total equity		**676,708**	**603,727**
Total liabilities and equity		**4,281,998**	**3,828,268**

Signed and authorized for release

Chairperson of the Board
Igor A. Merkulov

22 March 2019
Minsk

Chief Accountant
Nina N. Ilyukevich

22 March 2019
Minsk

Consolidated income statement
for the year ended 31 December 2018
(in thousands of Belarusian Rubles)

	Notes	year ended 31 December 2018	year ended 31 December 2017
Interest income calculated using the effective interest method	20	278,598	309,569
Interest expense calculated using the effective interest method	20	(98,879)	(90,435)
Contributions to deposits protection fund	20	(7,243)	(7,471)
Net interest income	20	**172,476**	**211,663**
Provision charge for credit losses on loans	21	(45,400)	(103,087)
Provision charge for credit losses on securities at amortized cost		(11)	—
Reversal of provision for credit losses on securities at fair value		4,016	—
Reversal of provision for credit losses on cash equivalents		22	—
Provision charge for credit losses on due from banks	6	(19)	—
Net interest income after credit loss allowance charge for debt financial assets		**131,084**	**108,576**
Fee and commission income	22	170,980	156,440
Fee and commission expense	22	(46,429)	(40,229)
Net losses from financial instruments at fair value through other comprehensive income (2017: Net losses from investment securities available for sale)		(145)	(200)
Net gains from trading in foreign currencies and operations with foreign currency derivatives	23	92,702	38,078
Net (losses)/gains arising from operations with precious metals and precious metals derivatives	23	(3,629)	2,245
Positive revaluation of office premises	12	395	—
Reversal of impairment of non-current assets held for sale		128	209
Other provisions	21	(2,807)	(1,360)
Other income	24	26,451	12,771
Net non-interest income		**237,646**	**167,954**
Operating income		**368,730**	**276,530**
Operating expenses	25	**(222,806)**	**(203,539)**
Share of profit of associates	11	480	159
Profit before income taxes		**146,404**	**73,150**
Income tax expense	26	(15,460)	(8,124)
Net profit		**130,944**	**65,026**
Attributable to:			
Shareholders of the Bank		130,944	65,026
Non-controlling interest		—	—
Net profit		**130,944**	**65,026**

Signed and authorized for release

Chairperson of the Board
Igor A. Merkulov

22 March 2019
Minsk

Chief Accountant
Nina N. Ilyukevich

22 March 2019
Minsk

Consolidated statement of comprehensive income
for the year ended 31 December 2018

(in thousands of Belarusian Rubles)

	Notes	*year ended 31 December 2018*	*year ended 31 December 2017*
Net profit		**130,944**	**65,026**
Other comprehensive income:			
Items to be reclassified to profit or loss in subsequent periods:			
Net change in fair value (2017: Net change in fair value of investments available for sale)		(3,541)	589
Accumulated losses transferred to profit or loss upon disposal		145	200
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(3,396)**	**789**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of office premises		3,000	—
Net change in income tax relating to office premises revaluation		(750)	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**2,250**	**—**
Other comprehensive (loss)/income		**(1,146)**	**789**
Total comprehensive income		**129,798**	**65,815**
Attributable to:			
Shareholders of the parent		129,798	65,815
Minority interest		—	—
Total comprehensive income		**129,798**	**65,815**

Consolidated statement of changes in equity
for the year ended 31 December 2018

(in thousands of Belarusian Rubles)

	Notes	Share capital	Share premium	Revaluation reserve for office premises	Fair value reserve for securities measured at FVOCI	Retained earnings	Total equity attributable to shareholders of the Bank	Non-control-ling interest	Total equity
31 December 2016		**321,756**	**576**	**33,516**	**1,723**	**180,385**	**537,956**	**–**	**537,956**
Profit for the year		–	–	–	–	65,026	65,026	–	**65,026**
Other comprehensive income for the year		–	–	–	789	–	789	–	**789**
Total comprehensive income for the year		**–**	**–**	**–**	**789**	**65,026**	**65,815**	**–**	**65,815**
Transfer of revaluation reserve for office premises upon disposal or depreciation		–	–	(795)	–	795	–	–	**–**
Dividends	19	–	–	–	–	(44)	(44)	–	**(44)**
31 December 2017		**321,756**	**576**	**32,721**	**2,512**	**246,162**	**603,727**	**–**	**603,727**
31 December 2017		**321,756**	**576**	**32,721**	**2,512**	**246,162**	**603,727**	**–**	**603,727**
Impact of adopting IFRS 9 as at 1 January 2018		**–**	**–**	**–**	**14,190**	**(41,547)**	**(27,357)**	**–**	**(27,357)**
Profit for the year		–	–	–	–	130,944	130,944	–	**130,944**
Other comprehensive loss for the year		–	–	2,250	(3,396)	–	(1,146)	–	**(1,146)**
Total comprehensive income for the year		**–**	**–**	**2,250**	**(3,396)**	**130,944**	**129,798**	**–**	**129,798**
Transfer of revaluation reserve for office premises upon disposal or depreciation		–	–	(1,820)	–	1,820	–	–	**–**
Dividends	19	–	–	–	–	(29,460)	(29,460)	–	**(29,460)**
31 December 2018		**321,756**	**576**	**33,151**	**13,306**	**307,919**	**676,708**	**–**	**676,708**

Consolidated statement of cash flows
for the year ended 31 December 2018
(in thousands of Belarusian Rubles)

	Notes	year ended 31 December 2018	year ended 31 December 2017
Cash flows from operating activities			
Interest income, calculated using the effective interest method, received		273,290	324,715
Interest expense, calculated using the effective interest method, paid		(105,399)	(88,852)
Fee and commissions received		172,129	156,357
Fee and commissions paid		(46,623)	(41,034)
Net gains received on foreign exchange operations		40,740	23,350
Net gains/(losses) incurred on derivative financial instruments		35,669	(33,436)
Net losses received from financial instruments at fair value through other comprehensive income (2017: net loss on disposal of investments available for sale)		(145)	(200)
Net (losses incurred)/gains received on precious metals operations		(2,561)	7,902
Other net operating income received		26,335	12,674
Operating expenses paid		(195,232)	(183,794)
Income taxes paid		(18,402)	(12,974)
Cash flows from operating activities before changes in operating assets and liabilities		**179,801**	**164,708**
Changes in operating assets and liabilities			
(Increase) / decrease in operating assets			
Net (increase) / decrease in mandatory cash balances with the National Bank of the Republic of Belarus		(10,323)	10,668
Net decrease / (increase) in due from banks		36,657	(72,392)
Net (increase) / decrease in loans to corporate customers		(463,571)	213,103
Net increase in loans to individuals		(195,873)	(263,964)
Net (increase) / decrease in other assets		(6,428)	25,989
Increase / (decrease) in operating liabilities:			
Net increase / (decrease) in loans from the National Bank of the Republic of Belarus		509	(624)
Net decrease in due to banks		(50,346)	(128,694)
Net decrease in due to individuals		(44,621)	(269,603)
Net increase in due to corporate customers		161,044	269,332
Net increase in debt securities issued		178,332	57,339
Net increase in other liabilities		10,526	315
Net cash used in operating activities		**(204,293)**	**6,177**
Cash flows from investing activities			
Acquisition of premises, equipment and intangible assets		(18,012)	(20,692)
Proceeds from disposal of premises, equipment and non-current assets held for sale		4,306	13,013
Acquisition of securities		—	(153,420)
Proceeds from disposal of securities		159,562	378,771
Dividends received		309	2,766
Net cash from investing activities		**146,165**	**220,438**
Cash flows from financing activities			
Dividends paid		(29,434)	(44)
Net cash used in financing activities		**(29,434)**	**(44)**
Effect of exchange rate changes on cash and cash equivalents		15,673	13,782
Net (decrease)/increase in cash and cash equivalents		**(87,562)**	**226,571**
Cash and cash equivalents, beginning of the year	5	**685,311**	**444,958**
Cash and cash equivalents, end of the year	5	**613,422**	**685,311**

(in thousands of Belarusian Rubles)

1. Organisation

Open Joint-Stock Company «BPS-Sberbank» (previous name – «BPS-Bank»), or OJSC BPS-Sberbank (the »Bank»), was established from the Belarusian branch of Promstroibank USSR and registered with the National Bank of the Republic of Belarus (the National Bank) as a closed joint-stock company on 28 December 1991. On 17 February 1993 the Bank was reorganized into an open joint stock company and accordingly registered by the National Bank. The Bank conducts its business under License of the National Bank for performing banking operations No. 4 issued on 28 November 2014. The Bank accepts deposits from the public, issues loans and transfers payments in the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its commercial and retail customers.

The registered office of the Bank is located at 6 Mulyavin Boulevard, 220005, Minsk, Republic of Belarus. As at 31 December 2018 the Bank had 1 representative office in the Republic of Poland, Warsaw, 6 regional directories, 27 universal additional offices, 22 basic additional offices.

The Bank is a parent company of a banking group (the »Group») which consists of the following enterprises:

		Proportion of ownership interest / voting rights, %		
Name	***Country of operation***	***31 December 2018***	***31 December 2017***	***Type of operation***
Subsidiaries				**Subsidiaries**
Limited Liability Company «SB-Global»	Belarus	99.90	99.90	Advisory activity
Closed Joint Stock Company «Service Desk»	Belarus	99.90	99.90	Software development and consulting
Joint-Stock Company «INCASS.EXPERT»	Belarus	99.99	99.99	Cash delivery and collection
Closed Joint Stock Company «BPS-Leasing»	Belarus	99.90	99.90	Finance lease activities
Associates				**Associates**
Closed Joint Stock Insurance Company «TASK»	Belarus	25.60	25.60	Insurance services
Limited Liability Company «Sberbank-Technologies»	Belarus	—	25.00	Software development and consulting

With the aim of strengthening control over distressed borrower's operational activity the Bank's subsidiary LLC «SB-Global» has acquired 20% of the share capital of LLC «Gruzovaia sluzhba-Vostok» . As a result of withdrawal of the other stockholder, who owned 80% of the share capital, as of 2 October 2017 LLC «Gruzovaia sluzhba-Vostok» is a subsidiary of LLC «SB-Global». 80% of the share capital of LLC «Gruzovaia sluzhba-Vostok» belonged to the company itself and was undistributed. As at 29 November 2018 the Bank's subsidiary LLC «SB-Global» in accordance with the legislation of the Republic of Belarus has bought back 80% of the share capital LLC «SB-Global».

As of the end of the 1st half-year of 2017, LLC «Service Desk Techno» was established. Subsidiary of the Bank CJS «Service-Desk» owns 49% of the shares in the statutory fund of the company. On basis of control principle the company LLC «Service Desk Techno» is consolidated by the Group, starting from 30 June 2017. As at 14 November 2018 LLC «Service Desk Techno» in accordance with the legislation of the Republic of Belarus has bought back the remaining share in the statutory fund of the company.

As of the end of the 1st half-year of 2017, LLC «SanBridz» was established. Subsidiary of the Bank LLC «SB-Global» owns 50% share in the statutory fund of the company. The company is a joint venture, based on an investment project, which was financed via syndicated loan.

As of the end of the 1st half-year of 2018, the recognition of LLC «Sberbank-Technologies» was discontinued due to liquidation of the company.

The average number of employees of the Group during during year ended 31 December 2018, and year ended 31 December 2017 was 3,451 and 3,436 persons, respectively.

As at 31 December 2018 and 31 December 2017 the following shareholders owned the issued shares of the Bank:

Shareholder	***31 December 2018, %***	***31 December2017, %***
Sberbank	98.43	98.43
Other	1.57	1.57
Total	**100.00**	**100.00**

On 14 December 2009 Savings Bank of the Russian Federation (Sberbank) acquired 834,795,559 ordinary shares and 708,404 preference shares. The ultimate controlling party of Sberbank is the Bank of Russia.

These consolidated financial statements were authorized for issue by the Management Board on 22 March 2019.

(in thousands of Belarusian Rubles)

2. Basis of presentation

Accounting basis

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

With the effect from 1 January 2011 untill 31 December 2014, the Belarusian economy was considered to be hyperinflationary in accordance with the criteria in IAS 29 Financial Reporting in Hyperinflationary Economies («IAS 29»). Starting 1 January 2015, the economy of the Pepublic of Belarus is no longer considered to be hyperinflationary and values of the Group's non-monetary assets, liabilities and equity as stated in measuring units at 31 December 2014 have formed the basis for the amounts carried forward to 1 January 2015.

The Group maintains its accounting records in accordance with the legislation of the Republic of Belarus. These consolidated financial statements are based on the Belarusian statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain measurement adjustments and reclassifications to reflect the economic substance of underlying transactions including reclassifications and adjustments of certain assets and liabilities, consolidated income and expenses to appropriate financial statement captions.

Functional and presentation currency

The functional and presentation currency of these consolidated financial statements is the currency of the Republic of Belarus – Belarusian ruble, the currency of the primary economic environment in which the Group operates.

On 1 July 2016 Belarusian rouble was denominated 10,000 BYR up to 1 BYN.

The exchange rates at the year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2018	***31 December 2017***
BYN/ USD	2.1598	1.9727
BYN/ EUR	2.4734	2.3553
BYN/ RUB	0.0311	0.0343

3. Significant accounting policies

Basis of consolidation

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

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

- the contractual arrangements with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

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

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

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises 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 recognised in other comprehensive income to profit or loss.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Investments in an associate

Associates are entities in which the Group 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 recognised at cost, including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate. The Group's share of its associates' profits or losses is recognised in profit or loss, and its share of movements in reserves is recognised in other comprehensive income. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Fair values of financial instruments measured at amortised 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 Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their 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 Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial instruments

Initial recognition of financial instruments. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention («regular way» purchases and sales) are recorded at trade date, which is the date when the Group commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments. On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income («FVOCI») or fair value through profit or loss («FVTPL»).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give right on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Financial instruments (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give right on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment. The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates, which is not consistent with the interest payment period.

The Group holds a portfolio of long-term fixed rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or repay the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassification of financial assets. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial liabilities. The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Financial assets impairment – credit loss allowance for Expected Credit Losses (ECL)

The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at amortised cost and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- time value of money; and
- all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at amortised cost are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a dercognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

IFRS 9:Financial instruments applied to certain Group's operations

The Group has entered into Funded Participation Deals. The Group issued loans to its corporate customers (assets side) funded by the banks of Sberbank of Russia Group (liability side). The Group acts as Bank-Agent for the banks, which funded corporate loans (Banks-Participants). As a result of the aforesaid deals, the Group has transferred 99% and 100% of credit risks of its loan portfolio to the banks of Sberbank of Russia Group.

The Group is not exposed to credit risk or to liquidity risk: terms of Funded Participation agreement provides that Bank-Agent has no obligation to pay amounts to the Bank-Participant unless it collects equivalent amounts from its corporate customers.

Funded Participation Deals comply with all the provisions for applications of IFRS 9.3.2.5 and, therefore, comply with the criteria of application IFRS 9.3.2.5 on the transfer of assets. In light of compliance with all the provisions of application IFRS 9.3.2.5 the Bank has ceased recognition of funding in Due from banks, received from banks of Sberbank of Russia Group (Note 15), in connection with loans issued under terms of Funded Participation agreement; and the respective loans, issued to corporate customers (Note 8). The Bank has recognized on these financial statements net result as Fee and commission income.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

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 recognised in the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Belarus with original maturity up to 1 day, loans and advances to banks and reverse sale and repurchase agreements with original maturity up to 1 day, except for guarantee deposits and other amounts of a restricted nature. For purposes of determining cash flows, the mandatory reserve deposit required by the National Bank of the Republic of Belarus is not included as a cash equivalent due to restrictions on its availability.

Mandatory cash balances with the National Bank of the Republic of Belarus

Belarusian banks 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 bank. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

Precious metals

Physical precious metals are recorded at the lower of cost and net realizable value on the reporting date. Assets and liabilities in monetary precious metals are recognized at accounting prices on precious metals of the National bank. Changes in accounting prices of the National bank are recorded as net result from revaluation of precious metals.

Due from banks

In the normal course of business the Group maintains advances and deposits for various periods of time with other banks and financial institutions. Amounts due from other banks and other financial institutions are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Due from banks and other financial institutions are initially recognized at fair value. Due from banks and other financial institutions are subsequently measured at amortized cost using the effective interest method. Correspondent accounts in precious metals are recognized and measured at fair value. Amounts due from banks and other financial institutions are carried net of any allowance for impairment losses.

Derivative financial instruments

The Group enters into derivative financial instruments to manage currency and liquidity risks. Derivatives entered into by the Group include foreign currency forwards and swaps and swaps with precious metals. Derivative financial instruments entered into by the Group are not designated as hedges and do not qualify for hedge accounting according to IFRS 9.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived using appropriate pricing or valuation models. Fair values for foreign currency contracts and precious metals contracts which do not have quoted prices available are obtained from the interest rates parity model, using risk-free rates prevailing on the market of the Republic of Belarus. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the consolidated income statement for the period in which they arise in net gain/(loss) on derivative financial instruments.

Securities repurchase and reverse repurchase agreements

In the normal course of business the Group enters into sale and purchase back agreements ("repos") and purchase and sale back agreements of financial assets ("reverse repos"). Repos and reverse repos are utilized by the Group as an element of its liquidity management.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received within balances due to banks. Liability to repay such assets is recognised at fair value as payables on business operations.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Securities repurchase and reverse repurchase agreements (continued)

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets and are classified within balances due from banks.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense in the consolidated income statement.

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Group as a lessor

The Group as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Before commencement of the lease premises and equipment purchased for future transfer to financial lease is recognized in the consolidated financial statements as other assets.

Operating leases

The Group as lessee

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

The Group as lessor

Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognised 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.

Premises, equipment and intangible assets

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

Intangible assets are carried at hyperinflated cost less accumulated depreciation and any recognized impairment loss.

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

Following initial recognition at cost, premises 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 the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated income statement, in which case the increase is recognised in the consolidated income statement. A revaluation deficit is recognised in the consolidated income statement, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for office premises.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Premises, equipment and intangible assets (continued)

An annual transfer from the revaluation reserve for office premises 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.

Construction in progress is carried at historical cost restated for hyperinflation less provision for impairment where required. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired in the case of cost increase of objects.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis for each object over the useful lives of objects.

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

Investment property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. Fair value of the Group's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

Assets classified as held for sale

The Group classifies a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case the non-current asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable.

The sale qualifies as highly probable if the Bank's management is committed to a plan to sell the non-current asset (or disposal group) and an active program to locate a buyer and complete the plan must have been initiated. Further, the non-current asset (or disposal group) must have been actively marketed for a sale at price that is reasonable in relation to its current fair value and in addition the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification of the non-current asset (or disposal group) as held for sale.

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognises an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

Taxation

Income taxes expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income.

Due to banks, due to individuals, due to corporate customers and debt securities issued

Due to banks, due to individuals, due to corporate customers and debt securities issued are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized as interest expenses in the consolidated income statement over the period of the borrowings using the effective interest rate method.

Provisions

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

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit guarantees that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

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. Contingent assets are not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Share capital

Contributions to share capital are recognized at their initial cost restated for hyperinflation. Non-cash contributions are included into the share capital at fair value of the contributed assets. Treasury shares are carried at cost restated for hyperiinflation. Non-redeemable preferred shares are classified as equity.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 *Events after the Reporting Period* and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Belarusian legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the Social security fund. Such pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the Social Security Fund. The Group does not have any pension arrangements separate from the State pension system of the Republic of Belarus and the Group has no significant post-retirement compensated benefits requiring accrual.

Recognition of income and expenses

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

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

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (net of the expected credit loss («ECL») allowance); and
- financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Other interest income and expense. Other interest income and expense represents interest income and expense recorded for debt instruments measured at FVTPL and is recognised on an accrual basis using nominal interest rate.

Fee and commission income and expense. All other fees, commissions and other income and expense items are generally recorded on an accrual basis over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, usually on a straight- line basis.

Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned when the Group satisfies the performance obligation are recorded upon the completion of the transaction.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, usually on a straight-line basis. Asset management fees relating to investment funds are recognised over the period in which services are rendered as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, usually on a straight-line basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange fixed by the National Bank of the Republic of Belarus at the date of the transaction. Monetary assets and liabilities denominated in currencies other than the entity's functional currency (foreign currencies) are translated into BYN at the rate of exchange fixed by the National Bank of the Republic of Belarus at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the consolidated income statement in the account 'Net gains arising from trading in foreign currencies, operations with foreign currency derivatives and foreign exchange translation gains'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the National Bank of the Republic of Belarus exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

Segment reporting

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10% or more of the greater, in absolute amount, of (a) the combined reported profit of all operating segments that did not report a loss and (b) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10% or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75% of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75% of the Group's revenue is included in reportable segments.

Changes in accounting policies

IFRS 9 «Financial Instruments». The Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below.

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortized cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVTPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVTPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition. For an explanation of how the Group classifies financial assets under IFRS 9, see further in this Note.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 replaces the incurred loss model in IAS 39 with and the expected credit loss (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for trade receivables. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. For an explanation of how the Group applies the impairment requirements of IFRS 9, see further in this Note.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

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

- Amounts for the previous periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
  - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition. The financial instrument has a low risk of default if the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9. The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Measurement category under IAS 39	Measurement category under IFRS 9	IAS 39 carrying amount 31 December 2017	Reclassi-fication	Remeasure-ment under IFRS 9	IFRS 9 carrying amount 1 January 2018
Financial assets						
Cash and cash equivalents	Loans and receivables	Amortised cost	685,311	-	(22)	685,289
Mandatory cash balances with the National Bank of the Republic of Belarus	Loans and receivables	Amortised cost	3,614	-	-	3,614
Due from banks	Loans and receivables	Amortised cost	77,976	(65,944)	(43)	11,989
Due from banks	Loans and receivables	FVTPL (mandatory)	-	65,944	-	65,944
Derivative financial assets	FVTPL	FVTPL (mandatory)	1,402	-	-	1,402
Loans to corporate customers	Loans and receivables	Amortised cost	1,556,787	-	(29,415)	1,527,372
Loans to individuals	Loans and receivables	Amortised cost	445,077	-	579	445,656
Investments available for sale	Available-for-sale	FVOCI (designated)	759,813	-	-	759,813
Investments held to maturity	Held-to-maturity	Amortized cost	1,061	-	-	1,061
Other financial assets	Loans and receivables	Amortised cost	14,868	-	-	14,868
Total financial assets			3,545,909	-	(28,901)	3,517,008
Financial liabilities						
Loans from the National bank of the Republic of Belarus	Amortized cost	Amortized cost	–	-	-	-
Due to banks	Amortized cost	Amortized cost	329,105	-	-	329,105
Derivative financial liabilities	FVTPL	FVTPL (mandatory)	106	-	-	106
Due to individuals	Amortized cost	Amortized cost	1,253,240	-	-	1,253,240
Due to corporate customers	Amortized cost	Amortized cost	1,252,019	-	-	1,252,019
Debt securities issued	Amortized cost	Amortized cost	186,195	-	-	186,195
Other financial liabilities	Amortized cost	Amortized cost	23,488	-	-	23,488
Subordinated debt	Amortized cost	Amortized cost	153,095	-	-	153,095
Total financial liabilities			3,197,248	-	-	3,197,248

The above table represents the transition effect to IFRS 9 of financial assets and liabilities before taxation. Related tax effect amounted to BYN 9,120 thousand increase in deferred tax asset.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 3. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- A portfolio of one of the Group's trading desks that consists of short-term placements with banks (accounted within financial statement caption «Due from banks») that was previously measured at amortized cost under IAS 39 has been classified as measured at fair value through profit or loss under IFRS 9 as the Group considers that these financial assets are held for trading within a business model whose objective is neither held to collect assets' cash flows nor held to collect and sell.

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

- Certain debt securities are held by the Group to meet liquidity needs and to maximize the Group's return. The return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The Group considers that under IFRS 9 these financial assets are held within a business model whose objective is to both hold assets to collect contractual cash flows and to sell. As these financial assets had been designated as at fair value through other comprehensive income under IAS 39, transition to IFRS 9 did not have any effect on classification and measurement of this portfolio.
- Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at fair value through other comprehensive income. Before the adoption of IFRS 9, these securities were measured at cost because their fair value was not considered to be reliably measureable. IFRS 9 has removed this cost exception.

The following table analyses the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings. There is no impact on other components of equity.

	Impact of adopting IFRS 9 at 1 January 2018
Fair value reserve for investment securities available-for-sale under IAS 39 (31 December 2017)	**2,512**
Reclassification of equity investment securities measured at cost to FVOCI	-
Recognition of expected credit losses under IFRS 9 for debt financial assets at FVOCI	14,190
Fair value reserve for debt securities measured at FVOCI under IFRS 9 (1 January 2018)	**16,702**
Retained earnings under IAS 39 (31 December 2017)	**246,162**
Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	(14,190)
Recognition of ECL under IFRS 9 for debt financial assets at amortized cost and credit related commitments	(27,357)
Retained earnings under IFRS 9 (1 January 2018)	**204,615**

Adoption of IFRS 15. The Group has adopted IFRS 15 «Revenue from Contracts with Customers», with the date of initial application of 1 January 2018, which did not result in any material impact on the Group.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:
- Amendments to IFRS 2 «Share-based Payments» (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Applying IFRS 9 «Financial Instruments» with IFRS 4 «Insurance Contracts» - Amendments to IFRS 4 (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1 and IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 «Foreign Currency Transactions and Advance Consideration» (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Transfers of Investment Property Amendments to IAS 40 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

Changes in presentation and reclassifications. Starting from 1 January 2018 the Group changed presentation of financial instruments following the application of IFRS 9. In these consolidated financial statements the Group changed presentation of the consolidated statement of financial position as at 31 December 2017 and consolidated statement of profit or loss for the year ended 31 December 2017. These changes were implemented to increase comparability of the financial information for 2017 with the respective information for 2018. The effect of changes on the consolidated statement of financial position as at 31 December 2017 is as follows:

	As previously reported	Reclassification	As reclassified
Assets			
Investment securities available-for-sale	759,813	(759,813)	
Investment securities held-to-maturity	1,061	(1,061)	
Securities		760,874	760,874

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

Changes in accounting policies (continued)

The effect of changes on the consolidated statement of profit and loss for the year ended 31 December 2017 is as follows:

	As previously reported	Reclassification	As reclassified
Interest income	309,569	(309,569)	–
Interest income calculated using the effective interest method	–	309,569	309,569
Interest expense	(90,435)	90,435	–
Interest expense calculated using the effective interest method	–	(90,435)	(90,435)
Net allowance charge for loan impairment	(103,087)	103,087	–
Provision charge for credit losses on loans	–	(103,087)	(103,087)

Beginning from the first quarter of 2018 the Group refined the methodology for classification of project finance loans to legal entities since models of credit risk management for clients with project risk profile were refined. The comparative information as at 31 December 2017 was amended accordingly.

	As previously reported	Reclassification	As reclassified
Gross carrying amount of commercial loans to legal entities	1,255,583	440,339	1,695,922
Commercial loans to legal entities - credit loss allowance	(172,879)	(159,299)	(332,178)
Gross carrying amount of specialized loans to legal entites	687,806	(687,806)	-
Specialized loans to legal entites – provision for loan impairment	(213,723)	213,723	-
Gross carrying amount of project finance loans to legal entites	-	247,467	247,467
Project finance loans to legal entites – credit loss allowance	-	(54,424)	(54,424)

Prior period restatements

In 2018 the Group changed representation with the respect to the following elements of consolidated statement of profit and loss.

Earlier the Group recognized the revenue associated value added tax as part of the income received and operational expenses paid, which was not in accords with the provisions of IAS 18 «Revenue». In 2018 the Group in accordance with IFRS 15 «Revenue from Contracts with Customers», effective from 1 January 2018, which replaced IAS 18 «Revenue», has excluded the revenue associated value added tax from both income and expenses.

In accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" income received and expenses incurred for the 2017 were adjusted.

The Group made respective restatement to 2017 profit and loss statement to comply with the IFRS standarts and to conform to the 2018 presentation. Reclassifications made no effect on the financial result for the 2017. The effect of the reclassifications is also presented in the table below:

Financial statements elements	**As previously reported**	**Reclassifications and restatements**	**After reclassifications and restatements**
Consolidated income statement			
Interest income calculated using the effective interest method	310,390	(821)	309,569
Fee and commission income	160,234	(3,794)	156,440
Other income	14,039	(1,268)	12,771
Operating expenses	(209,422)	5,883	(203,539)

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

IFRS 16 «Leases» (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method, without restatement of comparatives. The Group recognised a right of use asset of BYN 26,842 thousand against a corresponding lease liability on 1 January 2019. A reconciliation of the operating lease commitments disclosed in Note 27 to this liability is as follows:

(in thousands of Belarusian Rubles)

3. Significant accounting policies (continued)

New Accounting Pronouncements (continued)

	Effect of adoption of IFRS 16 as at 1 January 2019
Lease payments under operating lease	**35,867**
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	378
Recognition exemption: the underlying asset is of low value	(2,085)
Revision of lease payments	(1,133)
VAT on premises, which are accounted on net basis under IFRS 16	(5,146)
Future lease payments under IFRS 16	**27,881**
Effect of discounting	(1,149)
Lease liability under IFRS 16	**26,732**
Amount of prepayments and irrevocable security payments on agreements	110
Right of use under IFRS 16	**26,842**

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group does not expect a material impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, eg in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

(in thousands of Belarusian Rubles)

4. Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of the consolidated financial statements in accordance with IFRS requires Management of the Group to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the reporting date, and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Although those estimates are based on the most recent information available to the Management on current actions and events, actual results may differ from these estimates under different assumptions or conditions.

The following estimates and judgments are considered important to the portrayal of the Group's financial condition:

Measurement of expected credit loss («ECL») allowance.

The measurement of expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associate ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Information on the inputs, assumptions, estimation techniques and judgements used in measuring ECL is further detailed in Note 8.

Deferred income tax assets

Deferred income tax assets are 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. Estimation of probability is based on Management forecast of future taxable profit and is supplemented with subjective judgments by the Management of the Group.

Provisions for financial guarantees and other contingent liabilities

Provisions for financial guarantees and other contingent liabilities are measured in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, that requires application of Management estimation and judgment.

Revaluation of office premises

The Group regularly reviews the value of its office premises for compliance with fair value and performs revaluation to ensure that the current carrying amount of office premises does not differ from its fair value by more than 10%.

Office premises were revalued to fair value as at 31 December 2018. The revaluations were performed by the independent appraisers who used mainly comparative and market valuation techniques and information about real estate transactions on the local market.

(in thousands of Belarusian Rubles)

5. Cash and cash equivalents

	31 December 2018	*31 December 2017*
Current accounts with the National Bank	206,972	264,816
Credit loss allowance under IFRS 9 on current accounts with the National Bank	–	–
Total current accounts with the National Bank	**206,972**	**264,816**
Cash	156,407	129,535
Time deposits with the National Bank	–	40,026
Correspondent accounts and placements with other banks:		
- Belarus	49,854	99,921
Credit loss allowance under IFRS 9 on correspondent accounts and placements with banks of Republic of Belarus	(1)	–
Total correspondent accounts and placements with banks of Republic of Belarus	**49,853**	**99,921**
- Other countries	193,695	143,610
- Settlements with non-bank financial institutions	6,495	7,403
Total cash and cash equivalents	**613,422**	**685,311**

Correspondent accounts and placements with other banks mostly represent balances with the largest foreign banks and top rated Belarusian banks. In particular, the balance on correspondent accounts of three large foreign banks at 31 December 2018 amounted BYN 129,386 thousand or 66.8% of the balance on correspondent accounts and placements with banks of other countries.

As at 31 December 2017 the balance on correspondent accounts of three large foreign banks amounted BYN 124,210 thousand or 86.5% of the balance on correspondent accounts and placements with banks of other countries.

Analysis by credit quality of the balances with counterparty banks as at 31 December 2018 made on the basis of ratings of international rating agencies (Fitch, Moody's, Standard & Poors) is as follows:

	Investment rating	*Speculative rating*	*Not rated*	*Total*
Correspondent accounts and placements with other banks:				
- Belarus	–	47,866	1,987	**49,853**
- Other countries	159,636	33,227	832	**193,695**
Total	**159,636**	**81,093**	**2,819**	**243,548**

Analysis by credit quality of the balances with counterparty banks as at 31 December 2017 made on the basis of ratings of international rating agencies (Fitch, Moody's, Standard & Poors) is as follows:

	Investment rating	*Speculative rating*	*Not rated*	*Total*
Correspondent accounts and placements with other banks:				
- Belarus	–	55,688	44,233	**99,921**
- Other countries	132,308	11,302	–	**143,610**
Total	**132,308**	**66,990**	**44,233**	**243,531**

Rating definitions in the tables above represent the rating scale developed by the international rating agencies.

As at 31 December 2018 and 31 December 2017 all cash and cash equivalents are not past due.

6. Due from banks

Due from banks comprise:

	31 December 2018	*31 December 2017*
Time deposits and loans to banks:		
- Belarus	41,895	7,104
Credit loss allowance under IFRS 9 on deposits and loans to banks of Republic of Belarus	(62)	–
Total deposits and loans to banks of Republic of Belarus	**41,833**	**7,104**
- Other countries	4,572	70,872
Total due from banks	**46,405**	**77,976**

Time deposits and loans to banks represent balances with top rated Belarusian and foreign banks.

The following table shows reconciliations from the opening to the closing balance of due from banks credit loss allowance. Comparative amounts for 2017 due from banks credit loss allowance reflect measurement basis under IAS 39:

	31 December 2018				*31 December 2017*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	**Total**	**Total**
Due from banks at amortised cost					
Balance at 1 January	43	–	–	43	–
Credit loss allowance charge for the period	19	–	–	19	–
Balance at 31 December 2018	**62**	**–**	**–**	**62**	**–**

(in thousands of Belarusian Rubles)

6. Due from banks (continued)

Analysis by credit quality of the balances with counterparty banks as at 31 December 2018 made on the basis of ratings of international rating agencies is as follows: Analysis is done on overall number of investment and speculative ratings assigned and simple majority principle is applied. If the counterparty is assigned equal number of investment and speculative ratings speculative rating is used for the purpose of the financial statements preparation.

	Investment rating	*Speculative rating*	*Not rated*	*Total*
Time deposits and loans to banks:				
- Belarus	–	20,567	21,266	**41,833**
- Other countries	288	4,284	–	**4,572**
Total	**288**	**24,851**	**21,266**	**46,405**

Analysis by credit quality of the balances with counterparty banks as at 31 December 2017 made on the basis of ratings of international rating agencies is as follows:

	Investment rating	*Speculative rating*	*Not rated*	*Total*
Time deposits and loans to banks:				
- Belarus	–	691	6,413	**7,104**
- Other countries	425	70,447	–	**70,872**
Total	**425**	**71,138**	**6,413**	**77,976**

As at 31 December 2018 and 31 December 2017 included in due from banks are long-term loans issued to JSC »Belagroprombank» under the Government's program on financing for acquisition of agricultural equipment for the total amount of BYN 132 thousand and BYN 691 thousand, respectively, with maturities of 7 and 12 years and interest rate amounting to the refinancing rate of the National Bank.

As at 31 December 2018 and 31 December 2017 in due from banks are unallocated precious metals accounts for the total amount of BYN 5,374 thousand and BYN 65,944 thousand, respectively, in Sberbank.

7. Derivative financial instruments

The Group's derivative financial instruments comprise of short-term contracts with settlement date less than 1 year from the origination date. As at 31 December 2018 and 31 December 2017 derivative financial instruments comprise:

Derivative type	*Nominal amount (in units of currency to be purchased)*	*Fair value as at 31 December 2018*	
		Asset	*Liability*
USD/EUR foreign currency forward	USD 353,621,026	7,370	1,173
XAU/USD precious metals swap	XAU 631,401	650	—
XAG//USD precious metals swap	XAG 5,909,665	209	—
USD/PLN foreign currency forward	USD 828,198	5	—
RUB/USD foreign currency forward	RUB 136,325,750	4	—
BYN/USD foreign currency forward	BYN 2,162,650	3	—
USD/RUB foreign currency forward	USD 4,389,961	1	13
CNY/USD foreign currency forward	CNY 1,200,000	1	—
PLN/USD foreign currency forward	PLN 300,000	—	—
EUR/USD foreign currency swap	EUR 4,500,000	—	3
EUR/RUB foreign currency forward	EUR 1,605,000	—	7
Total derivative financial instruments		**8,243**	**1,196**

Derivative type	*Nominal amount (in units of currency to be purchased)*	*Fair value as at 31 December 2017*	
		Asset	*Liability*
			81
USD/EUR foreign currency forward	USD 201,209,646	846	
RUB/ EUR foreign currency forward	RUB 2,425,945,500	520	–
BYN/USD foreign currency forward	BYN 16,406,687	33	–
RUB/ USD foreign currency forward	RUB 36,921,900	3	–
CHF/USD foreign currency forward	CHF 31,000	–	–
EUR/RUB foreign currency forward	EUR 105,000	–	3
EUR/USD foreign currency forward	EUR 4,080,000	–	11
USD/ RUB foreign currency forward	USD 1,375,000	–	11
Total derivative financial instruments		**1,402**	**106**

(in thousands of Belarusian Rubles)

8. Loans to customers

The tables below show credit quality of the Group's loan portfolio by loan classes at amortised cost as at 31 December 2018 and 31 December 2017.

31 December 2018	***Gross loans***	**ECL allowance**	***Net loans***
Commercial loans to legal entities	2,326,695	(442,611)	**1,884,084**
Project finance loans to legal entities	158,907	(7,867)	**151,040**
Consumer and other loans to individuals	120,644	(5,206)	**115,438**
Credit cards and overdrafts	71,633	(5,121)	**66,512**
Mortgage loans to individuals	427,013	(2,009)	**425,004**
Car loans to individuals	36,641	(202)	**36,439**
Total loans to customers at amortised cost	**3,141,533**	**(463,016)**	**2,678,517**

31 December 2017	***Gross loans***	**Allowance for loan impairment**	***Net loans***
Commercial loans to legal entities	1,695,922	(332,178)	**1,363,744**
Project finance loans to legal entities	247,467	(54,424)	**193,043**
Consumer and other loans to individuals	117,148	(5,413)	**111,735**
Credit cards and overdrafts	52,431	(3,800)	**48,631**
Mortgage loans to individuals	266,747	(2,508)	**264,239**
Car loans to individuals	20,823	(351)	**20,472**
Total loans to customers at amortised cost	**2,400,538**	**(398,674)**	**2,001,864**

Commercial lending to legal entities comprises corporate loans, loans to individual entrepreneurs and municipal authorities of the Republic of Belarus. Loans are granted for current needs (working capital financing, acquisition of movable and immovable property, portfolio investments, expansion and consolidation of business, etc.). Commercial lending also includes overdraft lending and lending for export-import transactions. The repayment source is cash flow from current production and financial activities of the borrower.

Project finance loans to legal entities includes investment and construction project financing and also developers' financing. As a rule, loan terms are linked to payback periods of investment and construction projects, contract execution periods and exceed the terms of commercial loans to legal entities. The principal and interest may be repaid from cash flows generated by the investment project at the stage of its commercial operation.

Consumer and other individual loans comprise loans to individuals other than housing acquisition, construction and repair of real estate as well as car loans and credit cards and overdrafts. These loans include loans granted for emergency purposes.

Credit cards and overdrafts represent revolving credit lines. These loans are considered a comfortable instrument for customers as a reserve source of funds in case of need available everywhere and anytime.

Mortgage loans to individuals include loans for acquisition, construction and reconstruction of real estate. These loans are mostly long-term and are collateralized by guarantees of individuals.

Car loans to individuals include loans for purchasing a car or other vehicle.

Adoption of IFRS 9: Credit risk. Expected credit losses allowance model. The Group applies a model for assessment of credit loss allowance for financial debt instruments, the key principle of which is the timely reflection of the deterioration or improvement in the credit quality of debt financial instruments taking into account current and forecasted information. The amount of expected credit losses recognized as a credit loss allowance depends on the degree of deterioration in credit quality since the initial recognition of a debt financial instrument.

Depending on the change in credit quality from the time of initial recognition, the Group classifies financial instruments as:

- «12-month expected credit loss (ECL)» (Stage 1) - debt financial instruments for which there was recorded no significant increase in credit risk, and provisions for such debt financial instruments are created on the basis of 12-month expected credit losses;
- «Lifetime ECL not credit-impaired» (Stage 2) - debt financial instruments for which there was recorded significant increase in credit risk, but not being impaired, and provisions for such instruments are created on the basis of expected credit losses aor the whole lifetime;
- «Lifetime ECL credit-impaired» (Stage 3) - Impaired debt financial instruments.

For purchased or originated credit impaired financial instruments the credit loss allowance represents the amount of cumulative changes of expected credit losses for the entire life of the instrument from the moment of acquisition or origination.

Signs of a significant increase in credit risk before transfer of assets to credit impaired. The main factors that indicate that a significant increase in credit risk occurred are:

1) Overdue payments for the period of 31-90 days;
2) Significant changes in the external and internal credit rating that arose as a result of changes in credit risk compared to the date of initial recognition;
3) Deterioration of the internal rating to the level at which the Group does not issue loans;
4) Identification of criteria that may affect the ability of the counterparty to pay (revocation of a license, availability of claims, violation of credit documentation, etc.).

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

The main signs of debt financial instrument being credit-impaired (stage 3):

1) the borrower is past due more than 90 days on credit obligation to the Group;
2) default restructuring of the debt and / or financial obligation on financial markets operations and the expected insolvency;
3) Other signs of insolvency, which lead to assignment of default rating to the borrower (bankruptcy, expected decision on borrower's liquidation or activity ceasing, expectations of overdue payments etc).

Recovery of the credit quality. Improvement of borrower's debt credit quality to Stage 1 risk level, for which significant increase in credit risk was recorded on previous reporting dates, is based on the assessment of the credit risk at reporting date as compared with those at the date of initial recognition.

Recovery of the credit-impaired debt credit quality to stage 1 risk level is recognized only if as of the reporting date no signs of impairment or indicators of significant increase in credit risk are noted.

Expected credit loss allowance recognition for assets that are purchased or originated credit-impaired. Expected credit loss allowance for purchased or originated credit impaired financial assets is measured as a cumulative changes in lifetime expected credit losses since initial recognition.

Expected credit loss allowance valuation methods and approaches. For the purpose of expected credit loss allowance assessment two methods are used: at the transaction level or at the counterparty level. An assessment at the transaction level is used for all debt financial instruments except for Retail segment.

An assessment at the counterparty level is used for all debt financial instruments assigned to Retail segment.

The Group mainly uses collective assessment for calculation of expected credit loss allowance. Collective assessment is mandatory for financial instruments that are not individually material for the Group or for which there were no significant increase in credit risk recorded during the reporting period, including default.

Individual assessment of expected credit losses. The amount of expected credit loss allowance is determined as the difference between the gross carrying amount of a debt financial asset and its recoverable amount. Estimation of expected credit losses with an individual approach takes into account time value of money, as well as reasonable information on past, current and expected future economic conditions. Discounted cash flow method is used for calculation of recoverable amount. This method is based on expected future payments on the debt financial asset (or other cash flows) and effective interest rate used as discount rate. Assessment of the recoverable amount takes into account following cash inflows:

1) free cash flows from operating activities;
2) future amounts recoverable upon the sale of a collateral;
3) cash receipts from other sources - for example, as a result of court proceedings (other than the sale of a collateral) or bankruptcy.

The amount of expected credit loss allowance for each debt financial asset is based on an estimate of the weighted average expected credit losses for scenarios under consideration. The number of scenarios (not less than two including one with 100% loss) and their weights are determined in accordance with the Group methodology, taking into consideration current and reasonable forcasted information. As a result of the assessment on an individual basis, the carrying amount after deduction of expected credit loss allowance for debt financial asset is calculated. The collateral factor in assessment of expected credit losses is immaterial.

Collective assessment of expected credit losses. Collective assessment of expected credit loss allowance for debt financial assets is performed on the basis of individual risk metrics (PD, LGD, EAD), which are assigned to each particular counterparty / issuer upon the analysis of financial and other information. Regular monitoring is carried out for such risk metrics.

PD – a probability of default which is based of the risk segment and the internal rating (or past due group) for the relevant period (12 months or the entire life of the instrument (Lifetime PD)). Values are determined based on internal models, as well as migration matrices (Markov chains). Lifetime PD calculation is adjusted for forward looking information.

The basic segmentation principle for calculation of the probability of default (PD) for the provisioning purposes implies that debt financial instruments with a similar risk profile should be assigned to the same portfolio with a similar level of risk. The risk segment is determined on the basis of the counterparty / issuer specifics, its country of residence, size and business model.

LGD – a level of the loss arising on default, defined as the amount of losses of the debt at a time of possible default. Internal models developed on internal data are used for assignment of particular values.

EAD – exposure at default. Internal models developed on internal data are used for assessment of EAD.

The collateral factor in assessment of expected credit losses is immaterial.

Assessment of loss allowance for credit related commitments. Assessment of loss allowance for credit related commitments is performed on a similar basis with balance sheet exposures by application of credit conversion factor (CCF) if the counterparty has current balance sheet exposure. Statistical information and Basel Committee values are used for calculation of CCF. If the counterparty does not have balance sheet exposure the assessment of expected credit loss allowance is performed on an individual or collective basis depending on the amount of exposure by applying CCF.

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

The table below shows the credit quality analysis of the Group's loans at amortised cost as at 31 December 2018:

	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
Commercial loans to legal entities				
Minimum credit risk	–	–	–	**–**
Low credit risk	1,505,120	288,439	–	**1,793,559**
Moderate credit risk	502	30	–	**532**
High credit risk	51	198	–	**249**
Default	–	–	532,355	**532,355**
Total commercial loans to legal entities before credit loss allowance	**1,505,673**	**288,667**	**532,355**	**2,326,695**
Credit loss allowance	(15,200)	(27,037)	(400,374)	**(442,611)**
Total commercial loans to legal entities after credit loss allowance	**1,490,473**	**261,630**	**131,981**	**1,884,084**
Project finance loans to legal entities				
Minimum credit risk	–	–	–	**–**
Low credit risk	150,113	–	–	**150,113**
Moderate credit risk	–	–	–	**–**
High credit risk	–	–	–	**–**
Default	–	–	8,794	**8,794**
Total project loans to legal entities before credit loss allowance	**150,113**	**–**	**8,794**	**158,907**
Credit loss allowance	(1,544)	**–**	(6,323)	**(7,867)**
Total project loans to legal entities after credit loss allowance	**148,569**	**–**	**2,471**	**151,040**
Consumer and other loans to individuals				
Minimum credit risk	–	–	–	**–**
Low credit risk	114,979	–	–	**114,979**
Moderate credit risk	1,041	–	–	**1,041**
High credit risk	–	457	–	**457**
Default	–	–	4,167	**4,167**
Total consumer and other loans to individuals before credit loss allowance	**116,020**	**457**	**4,167**	**120,644**
Credit loss allowance	(1,487)	(140)	(3,579)	**(5,206)**
Total consumer and other loans to individuals after credit loss allowance	**114,533**	**317**	**588**	**115,438**
Credit cards and overdrafts				
Minimum credit risk	–	–	–	**–**
Low credit risk	66,597	–	–	**66,597**
Moderate credit risk	–	–	–	**–**
High credit risk	678	268	–	**946**
Default	–	–	4,090	**4,090**
Total consumer and other loans to individuals before credit loss allowance	**67,275**	**268**	**4,090**	**71,633**
Credit loss allowance	(1,552)	(99)	(3,470)	**(5,121)**
Total consumer and other loans to individuals after credit loss allowance	**65,723**	**169**	**620**	**66,512**
Mortgage loans to individuals				
Minimum credit risk	422,183	–	–	**422,183**
Low credit risk	2,335	–	–	**2,335**
Moderate credit risk	–	580	–	**580**
High credit risk	–	132	–	**132**
Default	–	–	1,783	**1,783**
Total mortgage loans to individuals before credit loss allowance	**424,518**	**712**	**1,783**	**427,013**
Credit loss allowance	(725)	(67)	(1,217)	(2,009)
Total mortgage loans to individuals after credit loss allowance	**423,793**	**645**	**566**	**425,004**
Car loans to individuals				
Minimum credit risk	36,177	–	–	**36,177**
Low credit risk	–	–	–	**–**
Moderate credit risk	201	64	–	**265**
High credit risk	–	–	–	**–**
Default	–	–	199	**199**
Total mortgage loans to individuals before credit loss allowance	**36,378**	**64**	**199**	**36,641**
Credit loss allowance	(56)	(6)	(140)	**(202)**
Total mortgage loans to individuals after credit loss allowance	**36,322**	**58**	**59**	**36,439**

Credit quality in the table above is based on the following scale developed internally by the Group:

- «Minimum credit risk» – assets with counterparties that demonstrate stable ability to fulfill financial obligations in time, with insignificant probability of default.
- «Low credit risk» – assets with counterparties with low probability of default with high ability to fulfill financials obligations in time.
- «Moderate credit risk» – assets with counterparties with average probability of default and with moderate ability to fulfill financials obligations in time; more detailed consideration is required during monitoring.
- «High credit risk» – assets with high probability of default; specific attention is required during monitoring.
- «Default» – assets that are qualified as defaulted considering all available signs of impairment.

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

The table below shows the analysis of loans at amortised cost and credit loss allowance as at 31 December 2018:

	Gross loans	***Credit loss allowance***	***Net loans***	***Credit loss allowance to gross loans***
Commercial loans to legal entities				
Not past due	1,882,642	(85,470)	1,797,172	4.5%
Loans 1 to 90 days overdue	8,795	(6,016)	2,779	68.4%
Loans over 90 days overdue	435,258	(351,125)	84,133	80.7%
Total commercial loans to legal entities	**2,326,695**	**(442,611)**	**1,884,084**	**19.0%**
Project finance loans to legal entities				
Not past due	150,113	(1,544)	148,569	1.0%
Loans 1 to 90 days overdue	–	–	–	–
Loans over 90 days overdue	8,794	(6,323)	2,471	71.9%
Total project finance loans to legal entities	**158,907**	**(7,867)**	**151,040**	**5.0%**
Total loans to legal entities	**2,485,602**	**(450,478)**	**2,035,124**	**18.1%**
Consumer and other loans to individuals				
Not past due	114,979	(1,379)	113,600	1.2%
Loans 1 to 90 days overdue	1,498	(249)	1,249	16.6%
Loans over 90 days overdue	4,167	(3,578)	589	85.9%
Total consumer and other loans to individuals	**120,644**	**(5,206)**	**115,438**	**4.3%**
Credit cards and overdrafts				
Not past due	66,597	(1,372)	65,225	2.1%
Loans 1 to 90 days overdue	946	(278)	668	29.4%
Loans over 90 days overdue	4,090	(3,471)	619	84.9%
Total credit cards and overdrafts	**71,633**	**(5,121)**	**66,512**	**7.1%**
Mortgage loans to individuals				
Not past due	422,184	(675)	421,509	0.2%
Loans 1 to 90 days overdue	3,046	(117)	2,929	3.8%
Loans over 90 days overdue	1,783	(1,217)	566	68.3%
Total mortgage loans to individuals	**427,013**	**(2,009)**	**425,004**	**0.5%**
Car loans to individuals				
Not past due	36,177	(50)	36,127	0.1%
Loans 1 to 90 days overdue	265	(12)	253	4.5%
Loans over 90 days overdue	199	(140)	59	70.4%
Total car loans to individuals	**36,641**	**(202)**	**36,439**	**0.6%**
Total loans to individuals	**655,931**	**(12,538)**	**643,393**	**1.9%**
Total loans and advances to customers	**3,141,533**	**(463,016)**	**2,678,517**	**14.7%**

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

The table below shows the analysis of loans at amortised cost and allowance for loan impairment as at 31 December 2017:

	Gross loans	*Credit loss allowance*	*Net loans*	*Allowance for loan impairment to gross loans*
Commercial loans to legal entities				
Not past due	1,335,761	(78,828)	1,256,933	5.9%
Loans 1 to 90 days overdue	15,133	(4,701)	10,432	31.1%
Loans over 90 days overdue	345,028	(248,649)	96,379	72.1%
Total commercial loans to legal entities	**1,695,922**	**(332,178)**	**1,363,744**	**19.6%**
Project finance loans to legal entities				
Not past due	161,194	(10,550)	150,644	6.5%
Loans 1 to 90 days overdue	62,473	(21,868)	40,605	35.0%
Loans over 90 days overdue	23,800	(22,006)	1,794	92.5%
Total project finance loans to legal entities	**247,467**	**(54,424)**	**193,043**	**22.0%**
Total loans to legal entities	**1,943,389**	**(386,602)**	**1,556,787**	**19.9%**
Consumer and other loans to individuals				
Not past due	110,863	(207)	110,656	0.2%
Loans 1 to 90 days overdue	1,561	(482)	1,079	30.9%
Loans over 90 days overdue	4,724	(4,724)	–	100.0%
Total consumer and other loans to individuals	**117,148**	**(5,413)**	**111,735**	**4.6%**
Credit cards and overdrafts				
Not past due	49,351	(3,577)	45,774	7.2%
Loans 1 to 90 days overdue	3,080	(223)	2,857	7.2%
Loans over 90 days overdue	–	–	–	–
Total credit cards and overdrafts	**52,431**	**(3,800)**	**48,631**	**7.2%**
Mortgage loans to individuals				
Not past due	262,646	(283)	262,363	0.1%
Loans 1 to 90 days overdue	2,439	(563)	1,876	23.1%
Loans over 90 days overdue	1,662	(1,662)	–	100.0%
Total mortgage loans to individuals	**266,747**	**(2,508)**	**264,239**	**0.9%**
Car loans to individuals				
Not past due	20,380	(8)	20,372	0.0%
Loans 1 to 90 days overdue	109	(9)	100	8.3%
Loans over 90 days overdue	334	(334)	–	100.0%
Total car loans to individuals	**20,823**	**(351)**	**20,472**	**1.7%**
Total loans to individuals	**457,149**	**(12,072)**	**445,077**	**2.6%**
Total loans and advances to customers	**2,400,538**	**(398,674)**	**2,001,864**	**16.6%**

Movements in allowances for credit losses for the periods ended 31 December 2018 and 31 December 2017 are disclosed in Note 21.

Information on loans which terms have been renegotiated, as at 31 December 2018 and 31 December 2017 is presented in the tables below. It shows the carrying amount for renegotiated loans by class.

	31 December 2018	*31 December 2017*
Commercial loans to legal entities	456,360	107,221
Consumer and other loans to individuals	22	88
Mortgage loans to individuals	327	471
Total renegotiated loans before credit loss allowance	**456,709**	**107,780**

The loans to legal entities within the business size of borrowers as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	*31 December 2017*
Largest clients	1,100,513	746,507
Large clients	853,794	796,813
Medium business	379,549	113,649
Small business	151,746	286,420
Total loans to legal entities before before credit loss allowance	**2,485,602**	**1,943,389**

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

Included in commercial loans to legal entities are net investments in finance lease. The analysis of net investments in finance lease as at 31 December 2018 and 31 December 2017 is as follows:

	31 December 2018	*31 December 2017*
Gross investment in finance lease	140,697	102,500
Unearned future finance income on finance lease	(34,654)	(38,166)
Net investment in finance lease before before credit loss allowance	**106,043**	**64,334**
Credit loss allowance	(30,379)	(16,956)
Net investment in finance lease after credit loss allowance	**75,664**	**47,378**

The contractual maturity analysis of net investments in finance lease as at 31 December 2018 is as follows:

	Net investment in finance lease before allowance for impairment	*Credit loss allowance*	*Net investment in finance lease after allowance for impairment*
Not later than 1 year	16,750	(4,109)	12,641
Later than 1 year but not later than 5 years	80,579	(21,420)	59,159
Later than 5 years	8,714	(4,850)	3,864
Total as at 31 December 2018	**106,043**	**(30,379)**	**75,664**

The contractual maturity analysis of net investments in finance lease as at 31 December 2017 is as follows:

	Net investment in finance lease before allowance for impairment	*Credit loss allowance*	*Net investment in finance lease after allowance for impairment*
Not later than 1 year	15,942	(1,562)	14,380
Later than 1 year but not later than 5 years	28,046	(10,250)	17,796
Later than 5 years	20,346	(5,144)	15,202
Total as at 31 December 2017	**64,334**	**(16,956)**	**47,378**

The analysis of minimal finance lease receivables as at 31 December 2018 and 31 December 2017 per contractual maturity is as follows:

	31 December 2018	*31 December 2017*
Not later than 1 year	31,797	27,195
Later than 1 year but not later than 5 years	99,320	49,916
Later than 5 years	9,580	25,389
Total	**140,697**	**102,500**

Economic sector risk concentrations within the customer loan portfolio as 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		*31 December 2017*	
	Amount	*%*	*Amount*	*%*
Individuals	655,931	20.9	457,149	19.0
Trade and catering	444,395	14.0	317,811	13.2
Chemical and oil refinery industry	359,169	11.4	142,768	6.0
Real estate	319,279	10.2	314,441	13.1
Machinery and equipment	315,883	10.1	248,032	10.3
Food	279,755	8.9	279,069	11.6
Construction	102,304	3.3	68,002	2.8
Transport and communication Other	98,547	3.1	59,399	2.5
Mining	85,569	2.7	54,610	2.3
Agriculture	79,738	2.5	76,345	3.2
Metallurgy	66,310	2.1	102,877	4.3
Light industry	61,594	2.0	48,287	2.0
Energy and fuel	61,264	2.0	28,529	1.2
Timber and woodworking industry	50,332	1.6	62,280	2.6
Financial services	33,531	1.1	75,045	3.1
Building materials	22,628	0.7	30,643	1.3
Other	105,304	3.4	35,251	1.5
Total loans to customers before allowance for loan impairment	**3,141,533**	**100.0**	**2,400,538**	**100.0**

(in thousands of Belarusian Rubles)

8. Loans to customers (continued)

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31December 2018	***31 December 2017***
Loans collateralized by real estate or rights thereon	1,333,862	982,422
Loans collateralized by lien over receivables	533,890	311,686
Loans collateralized by guarantees of individuals	293,019	160,796
Loans collateralized by inventories	254,207	124,061
Loans collateralized by guarantees of enterprises	220,411	187,716
Loans collateralized by equipment and rights thereon	199,421	362,767
Loans collateralized by means of transport	68,903	23,250
Loans collateralized by guarantees of the Government and local authorities	2,053	18,459
Loans collateralized by cash or guarantee deposits	642	14,688
Loans collateralized by other types of collateral	235,125	214,693
	3,141,533	**2,400,538**
Less allowance for loan impairment	(463,016)	(398,674)
Total loans to customers	**2,678,517**	**2,001,864**

As at 31 December 2018 the aggregated loan amount of 20 largest borrowers was BYN 1,340,195 thousand or 42.7% of the total gross loan portfolio of the Group (31 December 2017: BYN 983,812 thousand or 41.0%).

All loans are granted to companies operating in the Republic of Belarus, which represents significant geographical concentration in one region.

At 31 December 2018 the Group has entered into Funded Participation Deals. As at 31 December 2018 The Group issued loans to its corporate customers funded by the banks of Sberbank of Russia Group in amount of BYN 372,412 thousand (31 December 2017: 674,630). As a result of the transfer of credit risks and rewards on related financial assets in the share 99% and 100% took place and respective part of loans to customers was derecognized on the Bank' balance. The rest of credit risks and rewards comprised BYN 2,232 thousand and BYN 3,554 thousand as at 31 December 2018 and 31 December 2017 respectively.

9. Non-current assets held for sale

	Office premises and other property previously used by the Group	***Assets repossessed from the borrowers***		***Total non-current assets held for sale***
		Machinery equipment	***Real estate***	
As at 31 December 2016	**617**	**415**	**16,890**	**17,922**
Additions	–	–	1,814	**1,814**
Transfers	11,261	111	–	**11,372**
Transfers to other assets	(903)	–	–	**(903)**
Disposals	(1,242)	(459)	(10,334)	**(12,035)**
As at 31 December 2017	**9,733**	**67**	**8,370**	**18,170**
Additions	158	–	184	**342**
Transfers (to)/from premises and equipment	(3,274)	337	–	**(2,937)**
Transfers to other assets	–	(13)	–	**(13)**
Disposals	(4,409)	(75)	(3,292)	**(7,776)**
Reversal of impairment/(impairment) of non-current assets held for sale, recognized in the consolidated statement of profit or loss	171	–	(59)	**112**
Impairment of non-current assets held for sale, recognized in the consolidated statement of other comprehensive income	(144)	–	–	**(144)**
As at 31 December 2018	**2,235**	**316**	**5,203**	**7,754**

The Management has elaborated a plan to dispose premises and equipment. The Management has initiated an active programme to locate a buyer and complete the plan. During the year 2018 the sale transactions were not completed for reasond beyond the Management's control. The sale transactions for these assets are expected to be completed in 2019.

(in thousands of Belarusian Rubles)

10. Securities

Securities comprise:

	Interest to nominal, %	*31 December 2018*	*Interest to nominal, %*	*31 December 2017*
Securities measured at fair value through other comprehensive income - debt instruments	4.70%-10.00%	619,437	—	—
Securities designated at fair value through other comprehensive income - equity instruments	—	4,762	—	—
Securities measured at amortized cost	10.00%	1,050	—	—
Investments available for sale	—	—	4.70%-11.00%	759,813
Investments held to maturity	—	—	11.00%	1,061
Total securities		**625,249**		**760,874**

Securities measured at fair value through other comprehensive income - debt instruments as at 31 December 2018 comprise:

	Interest to nominal, %	*31 December 2018*
Long-term government bonds in foreign currency	4.70%-7.50%	558,226
Long-term government bonds in national currency	10.00%	60,128
Bonds issued by municipalities	10.00%	1,083
Total securities measured at fair value through other comprehensive income - debt instruments		**619,437**

Securities measured at amortized cost as at 31 December 2018 comprise:

	Currency	*Maturity date*	*Interest to nominal*	*31 December 2018*
Bonds issued by municipalities	BYN	July 2020	10.00%	1,050
Total securities at amortized cost				**1,050**

Investments available for sale as at 31 December 2017 comprise:

	Interest to nominal, %	*31 December 2017*
Long-term government bonds in foreign currency	4.70%-7.75%	531,186
Long-term government bonds in national currency	11.00%	60,128
Short-term bonds of the National Bank in foreign currency	5.61%	113,267
Shares	–	4,103
Bonds issued by municipalities	11.00%	1,124
Short-term bonds of the National Bank in national currency	9.46%	50,005
Total investments available for sale		**759,813**

Investments held to maturity as at 31 December 2017 comprise:

	Currency	*Maturity date*	*Interest to nominal*	*31 December 2017*
Bonds issued by municipalities	BYN	July 2020	11.00%	1,061
Total investments held to maturity				**1,061**

The Group's investments in shares comprise:

	31 December 2018	*31 December 2017*
Investments in shares of high-grade foreign issuers («blue chips»)	3,132	2,473
Shares of Belorusian companies	1,630	1,630
Total investments in shares	**4,762**	**4,103**

(in thousands of Belarusian Rubles)

11. Investments in associates

Movements in investments in associates / joint ventures were:

	year ended 31 December 2018	*year ended 31 December 2018*
As at 1 January	**7,958**	**10,564**
Share of the results of associates for the period	480	159
Dividends received	(193)	(2,765)
Acquisition of share in LLC «SanBridz»	380	—
Disposal of share in LLC «Sberbank-Technologies»	(110)	—
As at 31 December	**8,515**	**7,958**

The following table illustrates summarised financial information of the associates and joint ventures:

	Limited Liability Company «Sberbank-Technologies»		*Limited Liability Company «SanBridz»*		*Closed Joint Stock Insurance Company «TASK»*	
	31 December 2018	*31 December 2017*	*31 December 2018*	*31 December 2017*	*31 December 2018*	*31 December 2017*
Assets	—	999	22,976	—	86,892	75,748
Liabilities	—	561	37,077	—	53,631	45,090
Net assets	**—**	**438**	**(14,101)**	**—**	**33,261**	**30,658**
The share of the Group in net assets	—	25%	50%	—	25.60%	25.60%
Book value of investment in associate/joint venture	**—**	**110**	**–**	**—**	**8,515**	**7,848**
Revenue	—	—	–	—	89,317	73,531
Net profit	—	(2,501)	(14,860)	—	3,361	3,954

The sum of unrecognized loss for the joint venture LLC «SanBridz» amounted to BYN 7,051 thousand.

(in thousands of Belarusian Rubles)

12. Premises and equipment and intangible assets

Premises and equipment comprise:

	Notes	Office premises	Other premises	Computer equipment	Vehicles	Furniture and other assets	Construc-tion in progress	Total
Cost								
At 31 December 2016		**83,788**	**5,594**	**55,079**	**9,628**	**70,106**	**7,103**	**231,298**
Additions		439	89	2,284	114	2,213	1,596	**6,735**
Acquisitions through business combinations		–	–	–	–	36,159	–	**36,159**
Transfers		934	651	1,613	–	2,238	(5,436)	**–**
Transfers to non-current assets held for sale		(11,331)	–	–	(274)	–	–	**(11,605)**
Transfers from other types of property		747	–	–	–	–	–	**747**
Disposals		(22)	(112)	(1,804)	(163)	(3,587)	(133)	**(5,821)**
At 31 December 2017		**74,555**	**6,222**	**57,172**	**9,305**	**107,129**	**3,130**	**257,513**
Additions		–	38	6,152	237	2,466	1,065	**9,958**
Transfers		–	287	1,695	–	703	(2,685)	**–**
Transfers to non-current assets held for sale		(144)	–	–	(880)	–	–	**(1,024)**
Transfers from/(to) other types of property		3,274	200	(268)	13	68	–	**3,287**
Disposals		(4)	(389)	(1,858)	(29)	(4,577)	(3)	**(6,860)**
Revaluation of premises recognised in the income statement		203	–	–	–	–	–	**203**
Revaluation of premises recognised in other comprehensive income		1,527	–	–	–	–	–	**1,527**
At 31 December 2018		**79,411**	**6,358**	**62,893**	**8,646**	**105,789**	**1,507**	**264,604**
Accumulated depreciation								
At 31 December 2016		**–**	**1,493**	**30,981**	**4,360**	**37,877**	**–**	**74,711**
Depreciation charge		874	859	4,819	735	4,309	–	**11,596**
Acquisitions through business combinations		–	–	–	–	38	–	**38**
Transfers to non-current assets held for sale		(70)	–	–	(163)	–	–	**(233)**
Disposals		–	(38)	(1,776)	(121)	(2,829)	–	**(4,764)**
At 31 December 2017		**804**	**2,314**	**34,024**	**4,811**	**39,395**	**–**	**81,348**
Depreciation charge		815	979	5,398	806	6,657	–	**14,655**
Transfers to non-current assets held for sale		(2)	–	–	(543)	–	–	**(545)**
Transfers from/(to) other types of property		–	37	(103)	–	66	–	–
Disposals		–	(314)	(1,844)	(9)	(3,271)	–	**(5,438)**
Accumulated depreciation changes caused by revaluation of premises recognised in the income statement		(192)	–	–	–	–	–	**(192)**
Accumulated depreciation changes caused by revaluation of premises recognised in other comprehensive income		(1,425)	–	–	–	–	–	**(1,425)**
At 31 December 2018		**–**	**3,016**	**37,475**	**5,065**	**42,847**	**–**	**88,403**
Carrying amount								
At 31 December 2018		**79,411**	**3,342**	**25,418**	**3,581**	**62,942**	**1,507**	**176,201**
At 31 December 2017		**73,751**	**3,908**	**23,148**	**4,494**	**67,734**	**3,130**	**176,165**

Premises were revalued to fair value as at 31 December 2018. The revaluations were performed by the independent appraisers who used mainly comparative and market valuation techniques and information about real estate transactions on the local market.

(in thousands of Belarusian Rubles)

12. Premises and equipment and intangible assets (continued)

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

	31 December 2018	*31 December 2017*
Cost	231,665	224,922
Accumulated depreciation and impairment	(99,133)	(92,516)
Net carrying amount	**132,532**	**132,406**

As at 31 December 2018 included in computer equipment are fully depreciated items in the amount of BYN 11,830 thousand (31 December 2017: BYN 12,138 thousand), in vehicles in the amount of BYN 1,086 thousand (31 December 2017: BYN 304 thousand) and in furniture and other assets in the amount of BYN 15,380 thousand (31 December 2017: BYN 12,712 thousand).

Standard span of service of different types of the Group's property is as follows:

Type of property	**years**
Office premises	10 - 120
Other premises	4 - 50
Computer equipment	5 - 15
Vehicles	5 - 15
Furniture and other assets	10 - 50

The Group analizes and makes adjustments to residual values, span of service and depreciation methods of fixed assets on a regular basis.

Movements in intangible assets are presented in the table below:

	Intangible assets
Cost	
At 31 December 2016	**66,547**
Additions	11,590
Disposals	(1,021)
At 31 December 2017	**77,116**
Additions	8,192
Disposals	(2,522)
At 31 December 2018	**82,786**
Accumulated amortization	
At 31 December 2016	**22,403**
Depreciation charge	7,978
Disposals	(1,021)
At 31 December 2017	**29,360**
Depreciation charge	8,027
Disposals	(2,522)
На 31 декабря 2018 года	**34,865**
Carrying amount	
At 31 December 2018	**47,921**
At 31 December 2017	**47,756**

There are no intangible assets of indefinite span of service on the Group's balance sheet. The standart life-span of intangible assets ranges from 5 to 10 years.

During the reporting year fixed assets have not been pledged to third parties as collateral, are free from any claim of third parties, no limitations or restrictions of transactions.

(in thousands of Belarusian Rubles)

13. Other assets

Other assets comprise:

	31 December 2018	*31 December 2017*
Other financial assets		
Receivables on Group's cards settlements	7,292	6,914
Accrued income	4,925	5,680
Restricted cash balances	411	—
Other accounts receivables due to business transactions to be settled in cash	2,308	2,274
Total other financial assets	**14,936**	**14,868**
Other non-financial assets		
Inventory	1,779	628
Precious metals	5,133	6,652
Prepaid expenses	4,040	2,693
Taxes recoverable and prepaid, other than income taxes	11,226	10,524
Premises in stock	3,348	3,348
Investment property	1,713	1,713
Prepayments for premises, equipment and intangible assets	3,822	3,858
Other advances and prepayments	9,837	2,894
Total other non-financial assets	**40,898**	**32,310**
Total other assets	**55,834**	**47,178**

Premises in stock include assets obtained by the Group as collateral for loan repayment. Premises previously held as collateral are treated as Premises in stock until the Group determines the best use of these assets. Premises in stock are measured under IAS 2.

14. Loans from the National bank of the Republic of Belarus

Loans from the National Bank of the Republic of Belarus comprise:

	31 December 2018	*31 December 2017*
Other loans from the National Bank	508	—
Total loans from the National Bank	**508**	**—**

15. Due to banks

Due to banks comprise:

	31 December 2018	*31 December 2017*
Correspondent accounts of banks	135,677	153,582
Loans from banks and financial institutions	121,005	79,631
Trade finance deals	44,457	95,892
Total due to banks	**301,139**	**329,105**

As at 31 December 2018 a balance of due to banks amounting to BYN 87,997 thousand was to one counterparty, which individually exceeded 10% of the Group's equity. As at 31 December 2017 a balance of due to banks to no counterparties individually exceeded 10% of the Group's equity.

16. Due to individuals and due to corporate customers

Due to individuals and corporate customers comprise:

	31 December 2018	*31 December 2017*
Individuals:		
- Current/demand accounts	464,436	327,322
- Term deposits	814,665	925,918
Total due to individuals	**1,279,101**	**1,253,240**
Other corporate customers:		
- Current/settlement accounts	646,428	541,306
- Term deposits	662,165	617,485
Total due to other corporate customers	**1,308,593**	**1,158,791**
State and public organisations:		
- Current/settlement accounts	17,388	18,270
- Term deposits	103,416	74,958
Total due to state and public organisations	**120,804**	**93,228**
Total due to corporate customers	**1,429,397**	**1,252,019**
Total due to individuals and corporate customers	**2,708,498**	**2,505,259**

As at 31 December 2018 included in due to corporate customers are deposits of BYN 14,026 thousand (31 December 2017: BYN 10,436 thousand) held as collateral for irrevocable commitments under import letters of credit.

In November 2015 bank deposits classification has changed. According to this change the newly concluded term and conditional bank deposits are classified as irrevocable and revocable. The irrevocable contracts don't have an early repayment by the depositor's initiative option. Repayment of the deposit prior to the expiration of the contract is only possible with the consent of the Bank. The revocable contracts oblige Bank to repay the amount of individual's deposit within 5 days at the request of the depositor in accordance with the Banking Code of the Republic of Belarus.

(in thousands of Belarusian Rubles)

16. Due to individuals and due to corporate customers (continued)

In case a time deposit is repaid upon request of the depositor before the expiry date of deposit contract, interest is paid at a rate corresponding to the rate of interest paid by the Bank current deposits unless a different interest rate is stipulated by the contract.

Since 1st April 2016 according to the Decree of the President of the Republic of Belarus of 11th November 2015 No. 7 On Attracting Cash to Deposits the income tax is levied upon the interest income of citizens received from bank deposits and cash on current bank accounts. Income tax is imposed on interest income from deposits with a repayment period of less than one year for deposits in Belarusian rubles and less than two years for deposits in foreign currency if the interest rate on these accounts is higher than the rate on demand deposits.

As at 31 December 2018 the aggregated balances of 20 largest customers was BYN 365,153 thousand or 13.5% of total due to individuals and corporate customers (31 December 2017: BYN 412,072 thousand or 16.4%).

Industry sector concentrations within customer accounts are as follows:

	31 December 2018		***31 December 2017***	
	Сумма	***%***	***Сумма***	***%***
Individuals	1,279,101	47.2	1,253,240	50.0
Process industry	413,103	15.2	360,186	14.4
Trade	186,842	6.9	164,323	6.6
Construction	171,456	6.3	126,942	5.1
Energy	130,140	4.8	115,617	4.6
Transport	105,884	3.9	82,667	3.3
Scientific work	102,870	3.8	84,416	3.4
State and government bodies	98,880	3.6	3,231	0.1
Communications	50,048	1.8	61,788	2.5
Financial intermediation	33,336	1.2	48,266	1.9
Sport & art	25,065	0.9	14,304	0.6
Mining	20,523	0.8	39,266	1.6
Insurance and other financial services	18,059	0.7	40,604	1.6
Hotel business	17,755	0.7	18,004	0.7
Administrative services	15,453	0.6	22,593	0.9
Agriculture	10,664	0.4	14,254	0.6
Public health	4,132	0.2	8,392	0.3
Education	4,332	0.2	3,675	0.1
Household	17	0.0	24	0.0
Other	20,838	0.8	43,467	1.7
Total due to customers	**2,708,498**	**100**	**2,505,259**	**100**

17. Debt securities issued

Debt securities issued comprise:

	31 December 2018	***31 December 2017***
Bonds issued to legal entities	317,935	185,782
Bonds issued to individuals	56,533	303
Certificates of deposit	4	110
Total debt securities issued	**374,472**	**186,195**

Bonds issued to legal entities are interest-bearing securities issued by the Group. They are denominated in BYN, USD, RUB and EUR and have maturity dates from «on demand» to December 2024 (31 December 2017: from «on demand» to December 2024). Interest rates on such bonds vary from 0.5-8.0% (for bonds in USD, EUR and RUB) to 6.5-10.0% (for bonds in BYN) p.a. (31 December 2017: from 5-7.5% (for bonds in USD, EUR and RUB) to 11.0% (for bonds in BYN).

18. Other liabilities

Other liabilities comprise:

	31 December 2018	***31 December 2017***
Other financial liabilities		
Payments due to other contractors	22,819	13,598
Unused vacation reserve and bonus accrual	4,017	5,158
Settlement accounts on other banking services	4,293	1,976
Accrued contributions to deposits protection fund	1,876	1,806
Accrued fee payable under documentary transactions and transactions with plastic cards	509	945
Payables of dividends	31	5
Payables for premises and equipment	302	—
	33,847	**23,488**
Other non-financial liabilities		
Taxes payable, other than income taxes	4,451	6,360
Other	838	434
	5,289	**6,794**
Total other liabilities	**39,136**	**30,282**

(in thousands of Belarusian Rubles)

19. Share capital

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

	Number of shares		*Nominal amount, BYN*		*Hyperinflation adjustment*	*Total*
	Preferred	*Ordinary*	*Preferred*	*Ordinary*		
31 December 2017	870,805	1,470,828,888	0.05	0.05	248,171	**321,756**
31 December 2018	870,805	1,470,828,888	0.05	0.05	248,171	**321,756**

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividend, the amount of which is determinable by annual shareholders meeting.

During the year ended 31 December 2018 the Bank declared BYN 29,460 thousand dividends for the year 2017. The dividends were BYN 0.02 per ordinary share and BYN 0.05 per preference share. Dividends were fully paid.

During the year ended 31 December 2017 the Bank declared BYN 44 thousand dividends on preference shares for the year 2016. The dividends were BYN 0.05 per preference share. Dividends were fully paid.

In accordance with Belarussian legislation, dividends may only be declared to the shareholders of the Group from retained undistributed earnings of previous years and net profit of the current period as shown in the Group's financial statements prepared in accordance with Belarusian GAAP. The Group had in accordance with Belarusian GAAP approximately BYN 109,383 thousand of net profit during the year ended 31 December 2018 (BYN 85,245 thousand for the year ended 31 December 2017).

20. Net interest income before credit loss allowance charge for assets

The net interest income before credit loss allowance comprises:

	year ended 31 December 2018	*year ended 31 December 2017*
Interest income calculated using the effective interest method		
Interest income on debt financial assets measured at amortized cost:		
Loans to corporate customers measured at amortized cost	166,746	201,746
Loans to individuals measured at amortized cost	70,195	47,218
Due from banks measured at amortized cost	2,983	6,802
Debt securities measured at amortized cost (2017: Investments held-to-maturity)	110	155
Interest income on debt financial assets measured at fair value through other comprehensive income		
Debt securities measured at fair value through other comprehensive income (2017: Investments available-for-sale)	38,564	53,648
Total interest income calculated using the effective interest method	**278,598**	**309,569**
Interest expense calculated using the effective interest method		
Interest expense on financial liabilities calculated using the effective interest method:		
Interest on due to corporate customers	38,192	28,072
Interest on due to individuals	23,956	34,625
Interest on debt securities issued to corporate customers	18,460	7,944
Interest on subordinated loan	10,001	9,085
Interest on deposits from banks	6,072	10,691
Interest on deposits from National Bank of Republic Belarus	2,198	18
Total interest expense calculated using the effective interest method	**98,879**	**90,435**
Contributions to deposits protection fund	7,243	7,471
Net interest income	**172,476**	**211,663**

(in thousands of Belarusian Rubles)

21. Credit loss allowance, other provisions

The following table shows reconciliations from the opening to the closing balance of the credit loss allowance of loans and advances to customers at amortised cost. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39:

	Year, ended 31 December 2018				*Year, ended 31 December 2017*
	12-month ECL	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*	*Total*
Total loans to customers at amortised cost					
Balance at 1 January	**35,880**	**36,335**	**355,295**	**427,510**	**430,805**
Credit loss allowance charge (recovery) for the period	(15,316)	(8,986)	69,702	**45,400**	103,087
Recovery of loans previously written off	–	–	6,972	**6,972**	8,937
Amounts written off	–	–	(29,351)	**(29,351)**	(144,155)
Unwinding (pay off) of discounting	**–**	**–**	12,485	**12,485**	**–**
Balance at 31 December	**20,564**	**27,349**	**415,103**	**463,016**	**398,674**
Commercial loans to legal entities					
Balance at 1 January	**30,075**	**4,055**	**328,866**	**362,996**	**216,877**
Credit loss allowance charge (recovery) for the period	(14,875)	22,982	81,054	**89,161**	35,317
Recovery of loans previously written off	–	–	4,910	**4,910**	6,619
Amounts written off	–	–	(27,578)	**(27,578)**	(57,653)
Unwinding (pay off) of discounting	**–**	**–**	13,122	**13,122**	**–**
Balance at 31 December	**15,200**	**27,037**	**400,374**	**442,611**	**201,160**
Project finance loans to legal entities					
Balance at 1 January	**2,588**	**32,107**	**18,326**	**53,021**	**202,672**
Credit loss allowance charge (recovery) for the period	(1,044)	(32,107)	(10,722)	**(43,873)**	66,954
Recovery of loans previously written off	–	–	2,062	**2,062**	2,318
Amounts written off	–	–	(1,773)	**(1,773)**	(86,502)
Unwinding (pay off) of discounting	**–**	**–**	(1,570)	**(1,570)**	**–**
Balance at 31 December	**1,544**	**–**	**6,323**	**7,867**	**185,442**
Consumer and other loans to individuals					
Balance at 1 January	**1,374**	**87**	**4,125**	**5,586**	**5,431**
Credit loss allowance charge (recovery) for the period	113	53	(101)	**65**	(18)
Recovery of loans previously written off	–	–	–	**–**	–
Amounts written off	–	–	–	**–**	–
Unwinding (pay off) of discounting	**–**	**–**	(445)	**(445)**	**–**
Balance at 31 December	**1,487**	**140**	**3,579**	**5,206**	**5,413**
Credit cards and overdrafts					
Balance at 1 January	**978**	**19**	**2,574**	**3,571**	**2,903**
Credit loss allowance charge (recovery) for the period	574	80	(560)	**94**	897
Recovery of loans previously written off	–	–	–	**–**	–
Amounts written off	–	–	–	**–**	–
Unwinding (pay off) of discounting	**–**	**–**	1,456	**1,456**	**–**
Balance at 31 December	**1,552**	**99**	**3,470**	**5,121**	**3,800**
Mortgage loans to individuals					
Balance at 1 January	**798**	**66**	**1,170**	**2,034**	**2,532**
Credit loss allowance charge (recovery) for the period	(73)	1	103	**31**	(24)
Recovery of loans previously written off	–	–	–	**–**	–
Amounts written off	–	–	–	**–**	–
Unwinding (pay off) of discounting	**–**	**–**	(56)	**(56)**	**–**
Balance at 31 December	**725**	**67**	**1,217**	**2,009**	**2,508**
Car loans to individuals					
Balance at 1 January	**67**	**1**	**234**	**302**	**390**
Credit loss allowance charge (recovery) for the period	(11)	5	(72)	**(78)**	(39)
Recovery of loans previously written off	–	–	–	**–**	–
Amounts written off	–	–	–	**–**	–
Unwinding (pay off) of discounting	**–**	**–**	(22)	**(22)**	**–**
Balance at 31 December	**56**	**6**	**140**	**202**	**351**

The movements in provisions for guarantees and other commitments were as follows:

	Guarantees and other commitments
31 December 2016	**100**
Provision for impairment charge	1,360
31 December 2017	**1,460**
Impact of adopting IFRS 9 as at 1 January 2018	7,576
1 January 2018	**9,036**
Provision for impairment charge	2,807
31 December 2018	**11,843**

(in thousands of Belarusian Rubles)

22. Fee and commission income and expense

Fee and commission income and expense comprise:

	year ended 31 December 2018	*year ended 31 December 2017*
Fee and commission income		
Plastic cards operations	84,666	65,510
Settlement and cash operations with clients	29,350	30,015
Salary transfer on card accounts and related cash withdrawals	21,113	23,856
Cash delivery and collection	15,201	11,037
Documentary operations	7,905	8,648
Agent's fees	5,290	9,577
Securities operations	2,202	1,279
Foreign exchange operations	792	1,750
Other	4,461	4,768
Total fee and commission income	**170,980**	**156,440**
Fee and commission expense		
Plastic cards operations	39,379	30,820
Documentary operations	2,500	6,034
Correspondent bank services	1,683	1,193
Foreign exchange and cash operations	332	401
Other	2,535	1,781
Total fee and commission expense	**46,429**	**40,229**

23. Net gain/(loss) on foreign exchange and precious metals operations

Net gain on foreign exchange operations comprises:

	year ended 31 December 2018	*year ended 31 December 2017*
Net gains arising from trading in foreign currencies	40,740	23,350
Net foreign exchange translation gains	11,400	45,120
Net gains/(losses) from operations with foreign currency derivatives	40,562	(30,392)
Total net gain on foreign exchange operations	**92,702**	**38,078**

Net (loss)/gain from operations with precious metals and precious metals derivatives:

	year ended 31 December 2018	*year ended 31 December 2017*
Net (losses)/gains from operations with precious metals	(2,561)	7,902
Net result arising from revaluation of precious metals	(1,926)	(5,327)
Net gains/(losses) from operations with precious metals derivatives	858	(330)
Total net (loss)/gain from operations with precious metals	**(3,629)**	**2,245**

24. Other income

Other income comprises:

	year ended 31 December 2018	*year ended 31 December 2017*
Income from non-banking activities of subsidiaries	13,717	7,308
Income from operating leases	794	1,700
Penalties received	849	1,524
Income from sale of coins	155	216
Repayment of loans previously written off	816	494
Dividends received	116	97
Other	10,004	1,432
Total other income	**26,451**	**12,771**

(in thousands of Belarusian Rubles)

25. Operating expenses

Operating expenses comprise:

	year ended 31 December 2018	***year ended 31 December 2017***
Staff costs	87,096	84,357
Social security contribution	20,712	20,243
Other staff expenses	3,005	2,861
Personnel expenses	**110,813**	**107,461**
Expenses on maintenance of banking software	20,474	15,435
Depreciation and amortization	22,682	19,574
Operating leases	9,839	9,513
Premises and equipment maintenance	6,679	8,305
Net losses from sale of premises, equipment and intangible assets	4,892	171
Taxes, other than income taxes	4,422	4,842
Security expenses	3,442	3,115
Advertising costs	3,197	1,958
Public utilities payments	4,499	4,931
Communications	2,522	1,858
Vehicles maintenance and fuel expenses	1,928	1,658
Legal and consulting services	1,531	1,543
Charity and sponsorship expenses	51	27
Other expenses	25,835	23,148
Other operating expenses	**111,993**	**96,078**
Total operating expenses	**222,806**	**203,539**

Taxes other than income taxes mainly consists of real estate tax (as at 31 December 2018 and 31 December 2017 BYN 2,788 thousand and BYN 3,184 thousand, respectively) and land tax (as at 31 December 2018 and 31 December 2017 BYN 1,307 thousand and BYN 759 thousand, respectively).

26. Income tax

Income tax expense comprises the following:

	Year ended 31 December 2018	***Year ended 31 December 2017***
Current income tax	21,680	15,371
Deferred tax	(5,470)	(7,247)
Deferred tax recognised in other comprehensive income	(750)	–
Income tax expense	**15,460**	**8,124**

The Group provides for current taxes based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations.

During the years ended 31 December 2018 and 31 December 2017 the tax rate for the Group and its subsidiariy Joint-Stock Company "INCASS.EXPERT" was 25% and for the Bank' other subsidiaries tax rate was 18%. Closed Joint Stock Company «Service Desk» is exempt from income tax.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and a tax free regime for certain income. Major sources of non-deductible expenses include expenses over prescribed norms. Major amounts of non-taxable income relate to operations with securities issued by the government, exempt from income tax in accordance with the Tax Code of the Republic of Belarus.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences at 31 December 2018 and 2017 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2018	***Year ended 31 December 2017***
Profit before income taxes	**146,404**	**73,150**
Combined statutory tax rate	25%	25%
Tax at the statutory tax rate	**36,601**	**18,288**
Capital expenditure tax exemptions	(17,387)	(17,408)
IFRS 9 tax effect	(9,120)	
Tax exempt income	(1,656)	(1,759)
Non-deductible expenditures	10,707	10,355
Other permanent differences	(3,685)	(1,352)
Income tax expense	**15,460**	**8,124**

(in thousands of Belarusian Rubles)

26. Income tax (continued)

Differences between IFRS and statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2017: 25%).

	31 December 2017	*Credited/ (charged) to profit or loss*	*Recognised in other compre-hensive income*	*IFRS 9 tax effect*	*31 December 2018*
Tax effect of deductible temporary differences					
Premises and equipment and intangible assets	9,007	226	–	–	9,233
Other assets	9,628	3,775	–	–	13,403
Provisions for guarantees and other commitments	–	1,030	–	–	1,030
Unused vacations	1,087	(82)	–	–	1,005
Gross deferred tax asset	**19,722**	**4,949**	**–**	**–**	**24,671**
Unrecognised deferred tax asset	–	–	–	–	–
Deferred tax asset, net	**19,722**	**4,949**	**–**	**–**	**24,671**
Tax effect of taxable temporary differences					
Loans to customers	28,679	(98)	–	(9,120)	19,461
Premises and equipment and intangible assets	3,737	–	750	–	4,487
Derivative financial assets	324	2,368	–	–	2,692
Provisions for guarantees and other commitments	3,541	(3,541)	–	–	–
Deferred tax liability	**36,281**	**(1,271)**	**750**	**(9,120)**	**26,640**
Total net deferred tax liability	**(16,559)**	**6,220**	**(750)**	**9,120**	**(1,969)**

	31 December 2016	*Credited/ (charged) to profit or loss*	*Recognised in other comprehensive income*	*31 December 2017*
Tax effect of deductible temporary differences				
Premises and equipment and intangible assets	8,930	77	–	9,007
Other assets	4,206	5,422	–	9,628
Unused vacations	1,324	(237)	–	1,087
Derivative financial assets	99	(99)	–	–
Gross deferred tax asset	**14,559**	**5,163**	**–**	**19,722**
Unrecognised deferred tax asset	–	–	–	–
Deferred tax asset, net	**14,559**	**5,163**	**–**	**19,722**
Tax effect of taxable temporary differences				
Loans to customers	32,707	(4,028)	–	28,679
Premises and equipment and intangible assets	3,737	–	–	3,737
Derivative financial assets	–	324	–	324
Provisions for guarantees and other commitments	1,921	1,620	–	3,541
Deferred tax liability	**38,365**	(2,084)	–	36,281
Total net deferred tax liability	**(23,806)**	**7,247**	**–**	**(16,559)**

27. Commitments and contingencies

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provisions for guarantees and other commitments amounted to BYN 11,843 thousand and BYN 1,460 thousand as at 31 December 2018 and 31 December 2017, respectively (Note 21).

As at 31 December 2018 and 31 December 2017 the nominal or contract amounts of contingent liabilities were:

	31 December 2018	*31 December 2017*
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	659,433	606,642
Guarantees issued and similar commitments	217,355	108,797
Uncovered letters of credit	34,187	56,208
Letters of credit secured by cash	14,026	10,436
Total contingent liabilities and credit commitments	**925,001**	**782,083**

(in thousands of Belarusian Rubles)

27. Commitments and contingencies (continued)

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under cancelable operating leases as at 31 December 2018 and 31 December 2017 are as follows.

	31 December 2018	*31 December 2017*
Not later than 1 year	8,447	8,826
Later than 1 year and not later than 5 years	23,145	20,111
Later than 5 years	4,275	10,198
Total operating lease commitments	**35,867**	**39,135**

Legal proceedings

From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Pensions and retirement plans

Employees receive pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2018 and 31 December 2017 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Legislation

Certain provisions of Belarusian commercial legislation and tax legislation in particular may give rise to varying interpretations and inconsistent application. In addition, as Management's interpretation of legislation may differ from that of the authorities, statutory compliance may be challenged by the authorities, and as result the Group may face additional taxes and charges and other preventive measures. The Management of the Group believes that it has already made all tax and other payments or accruals, and therefore no additional allowance has been made in the financial statements. Past fiscal years remain open to review by the authorities.

Operating environment

The Republic of Belarus displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretation.

The country's implementation of monetary policy aimed at the stabilization of the financial market have been continued during 2018. During 2018 the refinancing rate of the National Bank of the Republic of Belarus decreased by 1 percentage point to 10% at the end of the year. In August 2018 the sale of revenue in foreign currency of economic resident entities was cancelled (at of the beginning of the year mandatory sale of revenue in foreign currency comprised 10%).

As a result of these measures devaluation of national currency was normal during 2018 and amounted to 5.5% for the US dollar, 9.9% for the euro. National currency strengthened against Russian rubble with exchanged rate decreased by 2.2% during 2018. The increase in GDP was 3.0% in 2018, compared with a 2.5% in 2017. Inflation in the economy slowed, the Consumer Price Index was 104.9% in 2018 (106.0% in 2017).

The rating agency "Fitch Ratings Ltd." confirmed the long-term and short-term sovereign credit ratings of the Republic of Belarus at the level of "B-/B" in July 2017, changing the outlook from "stable" to "positive". The rating agency S&P Global Ratings (Standard & Poor's) upgraded the long-term sovereign credit rating for foreign currency liabilities of the Republic of Belarus to "B" in October 2017 (previously, it was "B-" since 2011), it was set a "stable" outlook. 26 January 2018 Fitch Ratings has upgraded Belarus's Long-Term Foreign- and Local-Currency Issuer Default Ratings to 'B' from 'B-'. The Outlook is Stable.

The financial markets continue to be volatile in particular in Europe and Russia, which is the main export market for Belarus, and other risks could have significant negative effects on the Belorussian financial and corporate sectors.

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

28. Transactions with related parties

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, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group had the following transactions outstanding as at 31 December 2018 and 31 December 2017 with related parties:

(in thousands of Belarusian Rubles)

28. Transactions with related parties (continued)

	31 December 2018		31 December 2017	
	Related party balances	*Total category as per the financial statements caption*	*Related party balances*	*Total category as per the financial statements caption*
Cash and cash equivalents	**31,532**	**613,422**	**11,086**	**685,311**
- parent bank	31,238		10,715	
- other members of Sberbank Group	294		371	
Due from banks	**4,284**	**46,405**	**70,447**	**77,976**
- parent bank	4,284		70,447	
Loans to corporate customers	**1,364**	**2,485,602**	**–**	**1,943,389**
- joint venture	1,364		–	
Allowance for impairment losses	**975**	**450,478**	**–**	**386,602**
- joint venture	975			
Loans to individuals, gross	**819**	**655,931**	**1,656**	**457,149**
- key management personnel	819		1,656	
Allowance for impairment losses	**16**	**12,538**	**44**	**12,072**
- key management personnel	16		44	
Investments in associates	**8,515**	**8,515**	**7,958**	**7,958**
Due to banks	**99,357**	**301,139**	**66,152**	**329,105**
- parent bank	87,996		55,294	
- other members of Sberbank Group	11,361		10,858	
Subordinated debt	**160,771**	**160,771**	**153,095**	**153,095**
- parent bank	160,771		153,095	
Due to individuals	**1,599**	**1,279,101**	**1,762**	**1,253,240**
- key management personnel	1,599		1,762	
Due to corporate customers	**55,607**	**1,429,397**	**74,564**	**1,252,019**
- other members of Sberbank Group	55,607		74,127	
- associates	–		437	
Commitments and contingencies	**57,566**	**925,001**	**12,970**	**782,083**
- parent bank	46,372		2,330	
- key management personnel	64		41	
- other members of Sberbank Group	11,130		10,599	
Other financial assets	**353**	**14,936**	**101**	**14,868**
- parent bank	353		101	
Other financial liabilities	**1,914**	**33,847**	**487**	**23,488**
- parent bank	1,875		433	
- other members of Sberbank Group	39		54	

On 29 December 2011 the Group received a subordinated loan from its parent Sberbank of Russia in the amount of EUR 40 million at an interest rate of 6.45%, repayable on 29 December 2022. On 29 October 2013 the Group received a subordinated loan from its parent Sberbank of Russia in the amount of EUR 10 million at an interest rate of 6.45%, repayable on 31 October 2022. On 29 February 2016 the Group received a subordinated loan from its parent Sberbank of Russia in the amount of EUR 15 million at an interest rate of 5.98%, repayable on 1 March 2023.

At 31 December 2018 the Group has entered into Funded Participation Deals. As at 31 December 2018 The Group issued loans to its corporate customers funded by the banks of Sberbank of Russia Group in amount of BYN 372,412 thousand (31 December 2017: 674,630). As a result of the transfer of credit risks and rewards on related financial assets in the share 99% and 100% took place and respective part of loans to customers was derecognized on the Bank' balance. The rest of credit risks and rewards comprised BYN 2,232 thousand and BYN 3,554 thousand as at 31 December 2018 and 31 December 2017 respectively (Note 8).

In accordance with IFRS (IAS) 24 Related Party Disclosures Goverment of the Russian Federation is a related party of JSC BPS-Sberbank, as it is able to control the financial and operational decisions of JSC BPS-Sberbank via JSC Sberbank of Russia. During the year ended 31 December 2018 there were no significant transactions (and transactions significant in aggregate) between JSC BPS-Sberbank and the Goverment of the Russian Federation, as well as with the Russian State companies.

Included in the consolidated income statement for the year ended 31 December 2018 and year ended 31 December 2017 are the following amounts which arose due to transactions with related parties:

(in thousands of Belarusian Rubles)

28. Transactions with related parties (continued)

	31 December 2018		*31 December 2017*	
	Related party transactions	***Total category as per the financial statements caption***	***Related party transactions***	***Total category as per the financial statements caption***
Interest income calculated using the effective interest method	**1,624**	**278,598**	**1,005**	**310,390**
- parent bank	1,509		852	
- key management personnel	115		153	
Fee and commission income	**4,968**	**170,980**	**9,012**	**160,234**
- parent bank	3,820		7,090	
- other members of Sberbank Group	1,010		1,912	
- associates	138		10	
Other income	**1,848**	**26,451**	**2,540**	**14,039**
- parent bank	1,383		2,540	
- other members of Sberbank Group	465		–	
- associates	4		–	
Interest expense calculated using the effective interest method	**(18,627)**	**(98,879)**	**(15,606)**	**(90,435)**
- parent bank	(11,883)		(15,148)	
- other members of Sberbank Group	(6,707)		(235)	
- associates	–		(183)	
- key management personnel	(37)		(40)	
Credit loss allowance	**(947)**	**(45,400)**	**26**	**(103,087)**
- key management personnel	28		26	
- joint venture	(975)		–	
Fee and commission expense	**(2,307)**	**(46,429)**	**(6,524)**	**(40,229)**
- parent bank	(2,102)		(6,322)	
- other members of Sberbank Group	(205)		(202)	
Staff costs	**(5,578)**	**(87,096)**	**(2,139)**	**(84,357)**
- key management personnel	(5,578)		(2,139)	
Operating Expenses	**(31)**	**(222,806)**	**–**	**(209,422)**
- associates	(31)		–	

During the year ended 31 December 2018 and year ended 31 December 2017 remuneration of key management personnel comprised of short-term employee benefits.

29. Segment reporting

The Group discloses information to enable users of its consolidated financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 Operating Segments and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Information on the Group's activity per segments is analyzed by the Management based on data prepared in accordance with the local standarts of accounting. For purposes of disclosure of financial results the financial figures of business segments were adjusted in accordance with IFRS.

The Group is organized on the basis of two main business segments:

- retail banking – provision of banking services to individuals, running private customer current accounts, deposits, custody, credit and debit cards, issuance of consumer loans and loans to finance real estate;
- corporate banking – representing current accounts, deposits, overdrafts, loans and other credit facilities, transactions with foreign currency and securities.

Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's average interest rate of placed and received funds. There are no other material items of income or expense between the business segments.

By the Management's judgment operating income and income tax expense are unable to be allocated between two main business segments for the segment reporting disclosure.Internal charges have been reflected in the performance of each business. Segment information about these businesses is presented below:

(in thousands of Belarusian Rubles)

29. Segment reporting (continued)

	Retail banking	*Corporate banking*	*Unallocated*	*31 December 2018/ year, ended 31 December 2018 Total*
Interest income calculated using the effective interest method	70,195	166,746	41,657	**278,598**
Interest expense calculated using the effective interest method	(23,956)	(56,652)	(18,271)	**(98,879)**
Reversal of provision/(provision charge) for credit losses on loans	(112)	(45,288)	—	**(45,400)**
Provision charge for credit losses on securities at amortized cost	—	—	(11)	**(11)**
Reversal of provision for credit losses on securities at fair value	—	—	4,016	**4,016**
Reversal of provision for credit losses on cash equivalents	—	—	22	**22**
Reversal of provision for credit losses on due from banks	—	—	(19)	**(19)**
Contributions to deposits protection fund	(7,243)	—	—	**(7,243)**
Fee and commission income	102,065	66,713	2,202	**170,980**
Fee and commission expense	(39,379)	(5,367)	(1,683)	**(46,429)**
Net losses from financial instruments at fair value through other comprehensive income	—	—	(145)	**(145)**
Net gains arising from trading in foreign currencies and operations with foreign currency derivatives	—	—	92,702	**92,702**
Net losses arising from operations with precious metals and precious metals derivatives	—	—	(3,629)	**(3,629)**
Positive revaluation of office premises	—	—	395	**395**
Other provisions	—	(2,807)	—	**(2,807)**
Reversal of impairment of non-current asset held for sale	—	128	—	**128**
Other income	—	—	26,451	**26,451**
Operating income	**101,570**	**123,473**	**143,687**	**368,730**
Adjustments based on transfer pricing between segments	—	—	—	**—**
Total operating income	**101,570**	**123,473**	**143,687**	**368,730**
Total operating expenses	**(75,705)**	**(49,492)**	**(97,609)**	**(222,806)**
Share of results of an associate	—	—	480	**480**
Profit before income taxes	**25,865**	**73,981**	**46,558**	**146,404**
Income tax expense	—	—	(15,460)	**(15,460)**
Net profit	**25,865**	**73,981**	**31,098**	**130,944**
Segment assets	**655,931**	**2,485,602**	**1,140,465**	**4,281,998**
Segment liabilities	**(1,335,634)**	**(1,747,336)**	**(522,320)**	**(3,605,290)**
Other segment items				
- Loans to customers	655,931	2,485,602	—	**3,141,533**
- Customer accounts	(1,279,101)	(1,429,397)	—	**(2,708,498)**
- Debt securities issued	(56,533)	(317,939)	—	**(374,472)**

(in thousands of Belarusian Rubles)

29. Segment reporting (continued)

	Retail banking	*Corporate banking*	*Unallocated*	*31 December 2017/ year, ended 31 December 2017 Total*
Interest income	47,218	202,567	60,605	**310,390**
Interest expense	(34,625)	(36,016)	(19,794)	**(90,435)**
Allowance for impairment losses on interest bearing assets	(816)	(102,271)	—	**(103,087)**
Contributions to deposits protection fund	(7,471)	—	—	**(7,471)**
Fee and commission income	87,606	56,269	16,359	**160,234**
Fee and commission expense	(30,820)	(8,216)	(1,193)	**(40,229)**
Net losses arising from investment securities available for sale	—	—	(200)	**(200)**
Net gains arising from trading in foreign currencies and operations with foreign currency derivatives	—	—	38,078	**38,078**
Net gains arising from operations with precious metals and precious metals derivatives	—	—	2,245	**2,245**
Other provisions	—	(1,360)	—	**(1,360)**
Reversal of impairment of non-current asset held for sale	—	209	—	**209**
Other income	—	—	14,039	**14,039**
Operating income	**61,092**	**111,182**	**110,139**	**282,413**
Adjustments based on transfer pricing between segments	27,362	(27,362)	—	**—**
Total operating income	**88,454**	**83,820**	**110,139**	**282,413**
Total operating expenses	**(54,080)**	**(85,616)**	**(69,726)**	**(209,422)**
Share of results of an associate	—	—	159	**159**
Profit before income taxes	**34,374**	**(1,796)**	**40,572**	**73,150**
Income tax expense	—	—	(8,124)	**(8,124)**
Net profit	**34,374**	**(1,796)**	**32,448**	**65,026**
Segment assets	**457,149**	**1,943,389**	**1,427,730**	**3,828,268**
Segment liabilities	**(1,253,543)**	**(1,437,911)**	**(533,087)**	**(3,224,541)**
Other segment items				
- Loans to customers	457,149	1,943,389	—	**2,400,538**
- Customer accounts	(1,253,240)	(1,252,019)	—	**(2,505,259)**
- Debt securities issued	(303)	(185,892)	—	**(186,195)**

All the Group's customers are residents of the Republic of Belarus. Insignificant amount of revenue comes from abroad. All the premises and equipment are also located on the territory of the Republic of Belarus.

(in thousands of Belarusian Rubles)

30. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities not accounted at fair value compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	31 December 2018			***31 December 2017***		
	Carrying value	***Fair value***	***Unrealized gain/(loss)***	***Carrying value***	***Fair value***	***Unrealized gain/(loss)***
Cash and cash equivalents	613,422	613,422	–	685,311	685,311	–
Mandatory cash balances with the National Bank of the Republic of Belarus	13,937	13,937	–	3,614	3,614	–
Due from banks measured at amortised cost	42,121	42,121	–	77,976	77,976	–
Loans to corporate customers	2,035,124	2,035,063	(61)	1,556,787	1,560,414	3,627
Loans to individuals	643,393	649,130	5,737	445,077	450,310	5,233
Investments held to maturity	–	–	–	1,061	1,123	62
Securities measured at amortized cost	1,050	1,072	22			
Other financial assets	14,936	14,936	–	14,868	14,868	–
Loans from the National Bank of the Republic of Belarus	508	508	–	–	–	–
Due to banks	301,139	301,029	110	329,105	324,727	4,378
Due to individuals	1,279,101	1,280,320	(1,219)	1,253,240	1,251,881	1,359
Due to corporate customers	1,429,397	1,429,014	383	1,252,019	1,251,635	384
Debt securities issued	374,472	375,621	(1,149)	186,195	193,485	(7,290)
Other financial liabilities	33,847	33,847	–	23,488	23,488	–
Subordinated debt	160,771	160,771	–	153,095	153,095	–

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

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid have a floating rate or having a short term maturity it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand accounts, current without a specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of these financial instruments is calculated as discounted cash flow using prevailing money-market interest rates for financial instruments with similar characteristics.

Hierarchy of inputs for fair value measurement

Financial instruments recognised at fair value are broken down for disclosure purposes into levels based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – valuations based on quoted prices for identical assets or liabilities in active markets that the Group has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products do not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – valuations for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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30. Fair value measurement (continued)

The Group's fair value valuation approach for certain significant classes of financial instruments recognised at fair value is as follows:

As at 31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets carried at fair value				
Derivative financial instruments	8,243	–	–	**8,243**
Securities measured at fair value through other comprehensive income	3,133	621,066	–	**624,199**
Office premises	–	–	79,411	**79,411**
Investment property	–	–	1,713	**1,713**
Premises held for sale	–	–	2,235	**2,235**
Total assets carried at fair value	**11,376**	**621,066**	**83,359**	**715,801**
Liabilities carried at fair value				
Derivative financial instruments	1,196	–	–	**1,196**
Total liabilities carried at fair value	**1,196**	**–**	**–**	**1,196**

As at 31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets carried at fair value				
Derivative financial instruments	1,402	–	–	**1,402**
Investments available for sale	2,473	757,340	–	**759,813**
Office premises	–	–	73,751	**73,751**
Investment property	–	–	1,713	**1,713**
Premises held for sale	–	–	9,733	**9,733**
Total assets carried at fair value	**3,875**	**757,340**	**85,197**	**846,412**
Liabilities carried at fair value				
Derivative financial instruments	106	–	–	**106**
Total liabilities carried at fair value	**106**	**–**	**–**	**106**

Derivative financial instruments with fair value, calculated by methods with market data inputs, are, mainly, currency swaps and forward contracts on currencies. For derivatives of Level 1 and 2 models of valuation may include various data inputs, among which forward and spot currency rates. For derivatives of Level 3 most often used methods of valuation of swaps and forwads are those which use calculation of discounted values.

The following table shows an analysis of financial assets and liabilities for which fair values are disclosed by level of the fair value hierarchy:

As at 31 December 2018	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	156,407	457,015	–	**613,422**
Mandatory cash balances with the National Bank of the Republic of Belarus	–	13,937	–	**13,937**
Due from banks measured at amortised cost	–	42,121	–	**42,121**
Loans to corporate customers	–	–	2,035,063	**2,035,063**
Loans to individuals	–	–	649,130	**649,130**
Securities measured at amortized cost	–	1,072	–	**1,072**
Other financial assets	–	–	14,936	**14,936**
Total financial assets for which fair values are disclosed	**156,407**	**514,145**	**2,699,129**	**3,369,681**
Financial liabilities for which fair values are disclosed				
Loans from the National Bank of the Republic of Belarus	–	508	–	**508**
Due to banks	–	301,029	–	**301,029**
Due to individuals	–	–	1,280,320	**1,280,320**
Due to corporate customers	–	–	1,429,014	**1,429,014**
Debt securities issued	–	375,621	–	**375,621**
Subordinated debt	–	160,771	–	**160,771**
Other financial liabilities	–	–	33,847	**33,847**
Total financial liabilities for which fair values are disclosed	–	**837,421**	**2,743,181**	**3,580,602**

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30. Fair value measurement (continued)

As at 31 December 2017	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets for which fair values are disclosed				
Cash and cash equivalents	129,535	555,776	–	**685,311**
Mandatory cash balances with the National Bank of the Republic of Belarus	–	3,614	–	**3,614**
Due from banks	–	77,976	–	**77,976**
Loans to corporate customers	–	–	1,560,414	**1,560,414**
Loans to individuals	–	–	450,310	**450,310**
Investments held to maturity	–	1,123	–	**1,123**
Other financial assets	–	–	14,868	**14,868**
Total financial assets for which fair values are disclosed	**129,535**	**638,489**	**2,025,592**	**2,793,616**
Financial liabilities for which fair values are disclosed				
Loans from the National Bank of the Republic of Belarus	–	–	–	–
Due to banks	–	324,727	–	**324,727**
Due to individuals	–	–	1,251,881	**1,251,881**
Due to corporate customers	–	–	1,251,635	**1,251,635**
Debt securities issued	–	193,485	–	**193,485**
Subordinated debt	–	153,095	–	**153,095**
Other financial liabilities	–	–	23,488	**23,488**
Total financial liabilities for which fair values are disclosed	–	**671,307**	**2,527,004**	**3,198,310**

The following tables show a reconciliation of amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2018	*Unrealized gain reported in profit or loss*	*Realized gain reported in profit or loss*	*Unrealized gain reported in comprehensive income*	*Settlements/ movements*	*At 31 December 2018*
Financial assets						
Office premises	73,751	(815)	–	3,347	3,128	79,411
Investment property	1,713	–	–	–	–	1,713
Premises held for sale	9,733	–	–	–	(7,498)	2,235
Total level 3 financial assets	**85,197**	(815)	–	3,347	**(4,370)**	**83,359**

	At 1 January 2017	*Unrealized gain reported in profit or loss*	*Realized gain reported in profit or loss*	*Unrealized gain reportedin comprehensive income*	*Settlements/ movements*	*At 31 December 2017*
Financial assets						
Office premises	83,788	(874)	–	–	(9,163)	73,751
Investment property	–	–	–	–	1,713	1,713
Premises held for sale	617	–	–	–	9,116	9,733
Total level 3 financial assets	**84,405**	(874)	–	–	**1,666**	**85,197**

31. Capital management

The Group manages its capital to ensure compliance with prudential requirements and ability to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Group is comprised of share capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and a subordinated loan in amount less than 50% of tier 1 capital.

The Group's Management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Group' own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The Group's Management considers weighted average cost of capital and risks associated with each class of capital, and balance its overall capital structure through dividend policy and issues of new shares.

For compliance with regulatory Capital Adequacy Ratios there are some metrics used by the Group's Management in accordance with Capital Adequacy Management Policy:

- forecasting of capital adequacy ratios. Forecast is performed at least once in a month (on a nearest reporting date and/or with a one year span) and based on pertinent information about factors, influencing capital adequacy ratios;
- stress-testing of capital adequacy ratios.

For the purpose of managing the Bank's capital adequacy system of limits was developed, including:

- strict limits. The Supervisory Board sets risk tolerance limits towards CAR and risk appetite, which satisfy requirements of the National Bank of the Republic of Belarus. The breach of the strict limits is categorically prohibited;
- warning limits. Assets and Liabilities Management Committee sets internal (indicative) limits for the capital adequacy ratios. The breach of warning limits requires thorough analysis of breaching factors and, in case of need, planning and conducting of certain activities.

The adequacy of the Group's capital is monitored using, among other metrics, the ratios established by the National Bank of the Republic of Belarus and the Basel Capital Accord.

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31. Capital management (continued)

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

	31 December 2018	*31 December 2017*
Tier 1 capital		
Share capital	321,756	321,756
Share premium	576	576
Retained earnings	307,919	246,162
Total Tier 1 capital	**630,251**	**568,494**
Tier 2 capital		
Revaluation reserve for office premises	33,151	32,721
Revaluation reserve for securities measured at fair value through other comprehensive income	13,306	2,512
Applied subordinated loan	126,968	153,095
Total Tier 2 capital	**173,425**	**188,328**
Total capital	**803,676**	**756,822**
Total risk weighted assets (RWA)	**3,949,656**	**3,303,453**
Core capital adequacy ratio (total Tier 1 capital / total RWA), %	16.0	17.2
Total capital adequacy ratio (total capital / total RWA), %	20.3	22.9

As at 31 December 2018 and 31 December 2017 according to the norms established by the National Bank of the Republic of Belarus the capital adequacy ratios were 18.624% and 20.746%, respectively, and they increase norms established by the National Bank of the Republic of Belarus the capital adequacy ratio with the capital conservation buffer –11.875% and 11.25%, respectively.

32. Risk management policies

The Group implements system approach to risk management, having developed the unified standards for the process of risk management based on the requirements of the National Bank of the Republic of Belarus, methodology of Sberbank of Russia Group and recommendations of Basel Committee on Banking Supervision.

The risk management system developed within the Group is integrated into the corporate management system and is aimed at achieving the key goals and targets of the effective risk management strategy adopted by the Bank.

The main components of the Bank's risk management system are the organizational structure, areas of authorities and responsibilities of Bank's officials, risk management methodology and procedures of the following processes: identification, evaluation, monitoring, mitigation and controlling of main risk categories.

The existing organizational structure of the risk management system is in line with the organizational and functional structure, corresponds to the nature and scope of the Bank's activities, rules out the conflict of interest and distributes authority in the sphere of risk management among the following collegiate bodies and structural divisions:

- The Supervisory Board sets the main courses of development and the effective functioning of the risk management system and approves the Bank's Strategic Development Plan, Risk and Capital Management Strategy, system of risk tolerance indicators and risk appetite, as well as exercises control over the implementation of the aforementioned system and plan.
- The Risk Committee is responsible for risk management as part of implementation and internal monitoring of the Bank's Strategic Development and decisions of the Supervisory Board of the Bank, which determine risk parameters, such as: risk profile, risk tolerance and risk appetite).
- The Management Board of the Bank defines goals and tasks of risk management and in accordance with the declared objectives organizes the effective risk management system. The toolset of the risk management include optimal distribution and delegation of authority in the process of risk management, compliance with imposed limits regulation and controlling of the commission of the Bank's officials, as well as in the process of taking measures aimed at risk mitigation (limitation).
- Chief Risk Officer of the Bank sets objectives for the development of the Bank's risk management system within the framework of business strategies and Risk and Capital Management Strategy (including implementation of target risk management processes in the Bank in accordance with the instructions and recommendations of Sberbank of Russia Group and requirements of the National Bank of the Republic of Belarus), elaborates respective plans and ensures their fulfillment to the fullest and timeliest extent.
- Assets and Liabilities Management Committee decides on topics of balance structure management, funding operations, liquidity risk and market risk control, transfer pricing, interest rates, tariffs, the Bank's capital adequacy and capital structure.
- Major Credit Committee decides on transactions settlements/changing the terms of transactions and/or setting/changing of credit limits on loan applications of corporate customer in following cases:
  - corporate customer has loans issued by Central Office of the Bank;
  - the risk category of the loan application is above risk profile of the subordinate to the Major Credit Committee collective board of the Bank;

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32. Risk management policies (continued)

- the transaction is escalated by the subordinate collective board of the Bank and the risk category of the loan application is not above risk profile (commission) of this collective board:
- the transaction was made from the «6-eyes» format of the central office of the Bank;
- and also Major Credit Committee decides on setting/changing of credit risk limits of financial market operations, on the conditions of transactions in financial markets within the established limits of credit risk..

- Minor Credit Committee decides on credit operations with corporate bodies and individual entrepreneurs, categorized as «micro», «small» customers and individuals, decides on transations above commissions of credit committees of regional directories, on transactions escalated by the subordinate collective board and the risk category of the loan application is not above risk profile (commission) of this subordinate collective board, and on other issues of credit operations with these categories of customers.
- Credit committees of the regional directories of the Bank, boards of decision making with the use of practices «4 eyes», «6 eyes» decide on transactions/changing terms of transactions and/or on setting/changing risk limits on transactions with assets, bearing credit risk within its competence.
- Distressed Assets Committee decides on credit transactions and on the issues regarding distressed loans, ranked as «red» or «black» category.
- Operational Risk Committee examines the reports on operational risks (including the analysis of the most significant incidents), decides on measures to be taken for operational risk mitigation and on assuming of operational risks, approves lists of key indicators of operational risk, their threshold values (limits), considers disputable situations relating to the identification of operational risk owners, as well as takes decisions on the matter.
- The Department of Methodology and Risk Control ensures functioning, improvement and development of the Bank's integrated risk management system, identifies risks, conducts evaluation, monitoring and control of risks, develop measures and procedures aimed at risk limitation and mitigation and calculates allowance in accordance with IFRS 9: introduces group risk management approaches into subsidiaries.
- The Department of Credit Risk ensures functioning of the Bank's credit risk management system, identifies credit risks, organizes and coordinates the process of managing credit risks, develops new and improves current policies, methodologies, regulations, technological schemes, instructions, letters and other regulatory materials in the area of credit risk management, develops approaches, makes proposals for establishing limits and credit risk limits.
- Center of Risk Analysis and Expertise implements an independent examination of risks (identification, assessment and analysis) for operations with credit risk (including in the framework of dealing with distressed assets) and makes the conclusion on the basis of the results of the independent examination of risks, monitors credit risks of corporate clients of the Bank. Center of Risk Analysis and Expertise monitors of credit risk per segments «Largest», «Large», «Medium», «Small», «Micro» (excluding clients with loans written off the balance or ranked as «black» category with no credit exposure or contingent liabilities or application of default strategy).
- Other structural divisions of the Bank perform some risk management functions in accordance with the requirements and approaches of Sberbank of Russia Group and local legal regulations of the Bank.

In 2016 the Bank started the group project of raising risk-culture awareness. Risk-culture expands the Bank's existing mechanisms of comprehensive risk mitigation and becomes an essential part of the risk management system.

The Bank implements system approach to risk management, having established the unified standards for identification, evaluation and mitigation of risks. In accordance with the aforementioned standards the Bank has elaborated and duly implemented methodology, processes and procedures for management of main risk categories inherent to the Bank's operations, including credit, liquidity, market risks (including currency, interest rate and operational risks).

A description of the Bank's risk management policies in relation to those risks follows.

Credit risk

Credit risk is the risk of potential losses (failure to get the expected profit) due to the Counterparty's default on its financial obligations or failure to timely or fully meet its financial obligations (in accordance with the terms of the contract or legislation). The purpose of credit risk management is to evaluate and to maintain risk level, that ensures steady development of the Bank. Credit risk management is performed on the level of customer (groups of related customers) and on loans portfolio level.

Credit risk mitigation is exercised by charging of the credit loss allowance, setting credit risk limits, developing procedures of identification, analysis and estimation of risks before credit issuance, approval of maximum level of risk appetite and risk-indicators within the Credit Policy for the financial year, and by accepting of quality collateral and other mechanisms that limit risks.

The Bank has a system of internal ratings and scoring models. They are based on economic and mathematical models of risk assessment. Models are periodically reviewed based on accumulated statistical data. The credit rating system (for estimating the «small +» segment within «Credit Conveyor» technology and for «Middle +» segment) and scoring models (for clients of the «Micro» and retail customers segment the scoring process is automated) ensure a differentiated estimate of the probability of non-fulfillment / improper fulfillment of counterparty's obligations.

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32. Risk management policies (continued)

Credit risk (continued)

Identification and qualitative assessment of credit risk at the level of a customer/ group of related customers is exercised during decision making on the implementation / modification of transactions subject to credit risk and during monitoring.

Limitation of the credit risk of a customer / groups of related customers occurs by: compliance with the requirements of the National Bank of the Republic of Belarus; compliance with restrictions on the powers of the Bank's Management Board, authorized / officers of the Bank, credit committees of the Bank to take decisions and other collegiate bodies, compliance with the requirements of the Bank's Credit Policy; establishment of risk limits and compliance with their parameters when performing transactions subject to credit risk. The amount of the limit depends on the level of credit risks of the participants in the transaction, the specific credit operation, its collateral.

The Bank controls the concentration levels of major credit risks. The Bank has implemented a procedure for monitoring major credit risks and forecasting compliance with the maximum risk limits per customer / groups of related customers established by the National Bank of the Republic of Belarus.

A strict limit level of the maximum concentration of credit risk per customer / groups of related customers is established - no more than 20% of the Bank's regulatory capital as of the date of the decision; for one insider - a legal entity / individual entrepreneur and related persons - no more than 10% of the Bank's regulatory capital as at the date of the decision; restrictions on customers included in the TOP-20.

In order to minimize risks in operations subject to credit risk, the Bank develops and approves the Regulation on the credit policy of JSC «BPS-Sberbank» regarding corporate customers every year and the Regulation on the credit policy of JSC «BPS-Sberbank» in respect of individuals (hereinafter - the Credit Policy).

The credit policy of the Bank determines the main target indicators of loan portfolio and portfolio limits, as well as the requirements for minimizing risks that must be used in transactions subject to credit risk.

Main principles of the Credit Policy:

- the performance of credit operations based on the assessment of credit risks of counterparty/ the ultimate risk carrier, a particular credit operation, its security on the basis of decisions of collective bodies, an authorized officer of the Bank;
- loan portfolio balanced with the Bank's resource base in terms, amounts, currency and other conditions;
- diversification of the loan portfolio among sectors, categories of customers and loan products;
- avoidance of conflict of interest in making decisions on the credit transactions;
- maximum satisfaction of clients' needs for loan products while maintaining a level of risk acceptable to the Bank and observing the established capital adequacy limits;
- compliance with the regulations for limiting the concentration of credit risk established by the National Bank of the Republic of Belarus;
- compliance with the established funding limit for credit transactions.

The following table details the financial assets held by the Group per credit ratings of the counterparties (for state authorities – per country's rating):

31 December 2018	***AA***	***A***	***BBB***	***BB***	***B***	***CCC***	***Not rated***	***Total***
Cash equivalents	12,472	134,441	19,218	31,528	251,614	4,923	2,819	**457,015**
Mandatory cash balances with the National Bank	–	–	–	–	13,937	–	–	**13,937**
Due from banks	–	288	–	4,284	20,436	131	21,266	**46,405**
Derivative financial assets	–	–	8	8,228	–	–	7	**8,243**
Loans to corporate customers	–	–	–	–	–	–	2,035,124	**2,035,124**
Loans to individuals	–	–	–	–	–	–	643,393	**643,393**
Securities	–	3,133	–	–	618,354	–	3,762	**625,249**
Other financial assets	–	–	–	–	–	–	14,936	**14,936**

31 December 2017	***AA***	***A***	***BBB***	***BB***	***B***	***CCC***	***Not rated***	***Total***
Cash equivalents	19,969	112,229	110	11,302	358,634	1,896	51,636	**555,776**
Mandatory cash balances with the National Bank	–	–	–	–	3,614	–	–	**3,614**
Due from banks	–	425	–	70,447	–	691	6,413	**77,976**
Derivative financial assets	–	–	1	1,362	–	–	39	**1,402**
Loans to corporate customers	–	–	–	–	–	–	1,556,787	**1,556,787**
Loans to individuals	–	–	–	–	–	–	445,077	**445,077**
Securities	–	2,473	–	–	754,586	–	3,815	**760,874**
Other financial assets	–	–	–	–	–	–	14,868	**14,868**

As at 31 December 2018 and 31 December 2017 other financial assets comprised past due but not impaired assets in the amount of BYN 588 thousand and BYN 2,232 thousand, respectively. Carrying value of past due loans to customers is disclosed in Note 8.

As at 31 December 2018 and 31 December 2017 the Group had neither past due nor impaired financial assets in addition to those mentioned above.

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32. Risk management policies (continued)

Geographical concentration

The Group assesses influence of geographical risk on its portfolios. Geographical risk cases are caused by the failure of the foreign Counterparties (legal entities, including banks and financial institutions) to fulfill their obligations due to economic, political and social changes, as well as the unavailability of the currency of the obligation to the Counterparty due to the specific characteristics of the legislation (irrespective of the particular characteristics of the Counterparty itself).

The following table presents the analysis of geographic concentration of financial assets and liabilities.

31 December 2018	*Belarus*	*CIS Countries*	*OECD Countries*	*Non-OECD countries*	*Total*
Financial assets					
Cash and cash equivalents	413,232	42,485	152,144	5,561	**613,422**
Mandatory cash balances with the National Bank	13,937	–	–	–	**13,937**
Due from banks	41,833	4,284	288	–	**46,405**
Derivative financial assets	7	8,236	–	–	**8,243**
Loans to corporate customers	2,035,124	–	–	–	**2,035,124**
Loans to individuals	643,393	–	–	–	**643,393**
Securities	622,116	–	3,133	–	**625,249**
Other financial assets	14,936	–	–	–	**14,936**
Total financial assets	**3,784,578**	**55,005**	**155,565**	**5,561**	**4,000,709**
Financial liabilities					
Loans from the National Bank	508	–	–	–	**508**
Due to banks	132,004	118,857	49,861	417	**301,139**
Derivative financial liabilities	7	1,189	–	–	**1,196**
Due to individuals	1,218,835	41,379	5,729	13,158	**1,279,101**
Due to corporate customers	1,343,148	53,701	11,057	21,491	**1,429,397**
Debt securities issued	374,472	–	–	–	**374,472**
Other financial liabilities	33,847	–	–	–	**33,847**
Subordinated debt	–	160,771	–	–	**160,771**
Total financial liabilities	**3,102,821**	**375,897**	**66,647**	**35,066**	**3,580,431**
Net position	**681,757**	**(320,892)**	**88,918**	**(29,505)**	

31 December 2017	*Belarus*	*CIS Countries*	*OECD Countries*	*Non-OECD countries*	*Total*
Financial assets					
Cash and cash equivalents	541,701	11,368	131,989	253	**685,311**
Mandatory cash balances with the National Bank	3,614	–	–	–	**3,614**
Due from banks	7,104	70,447	425	–	**77,976**
Derivative financial assets	39	1,363	–	–	**1,402**
Loans to corporate customers	1,556,787	–	–	–	**1,556,787**
Loans to individuals	445,077	–	–	–	**445,077**
Securities	758,401	–	2,473	–	**760,874**
Other financial assets	14,868	–	–	–	**14,868**
Total financial assets	**3,327,591**	**83,178**	**134,887**	**253**	**3,545,909**
Financial liabilities					
Loans from the National Bank	–	–	–	–	**0**
Due to banks	142,075	81,405	105,566	59	**329,105**
Derivative financial liabilities	8	98	–	–	**106**
Due to individuals	1,212,108	23,951	5,044	12,137	**1,253,240**
Due to corporate customers	1,153,859	77,978	811	19,371	**1,252,019**
Debt securities issued	186,195	–	–	–	**186,195**
Other financial liabilities	23,488	–	–	–	**23,488**
Subordinated debt	–	153,095	–	–	**153,095**
Total financial liabilities	**2,717,733**	**336,527**	**111,421**	**31,567**	**3,197,248**
Net position	**609,858**	**(253,349)**	**23,466**	**(31,314)**	

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32. Risk management policies (continued)

Liquidity risk

Liquidity risk refers to difficulties in obtaining sufficient funds for deposit withdrawals and other financial liabilities associated with financial instruments as they actually fall due.

The tables below show distribution of undiscounted contractual cash flows (taking into account future interest payments) on liabilities by remaining contractual maturities.

31 December 2018	***Demand and less than 1 month***	***From 1 to 6 months***	***From 6 to 12 months***	***From 1 to 3 years***	***More than 3 years***	***Total***
Liabilities						
Loans from the National Bank	–	513	–	–	–	**513**
Due to banks	137,446	110,262	2,151	32,126	22,393	**304,378**
Amounts receivable on derivative financial instruments with negative fair value	(82,860)	(122,986)	–	–	–	**(205,846)**
Amounts payable on derivative financial instruments with negative fair value	83,372	123,670	–	–	–	**207,042**
Due to individuals	578,032	237,125	177,892	315,043	452	**1,308,544**
Due to corporate customers	815,497	254,531	176,311	204,806	6,377	**1,457,522**
Debt securities issued	1,716	7,175	14,840	102,308	313,716	**439,755**
Other financial liabilities	30,486	3,132	1	2	226	**33,847**
Subordinated debt	–	4,217	5,111	20,421	171,159	**200,908**
Total liabilities	**1,563,689**	**617,639**	**376,306**	**674,706**	**514,323**	**3,746,663**

31 December 2017	***Demand and less than 1 month***	***From 1 to 6 months***	***From 6 to 12 months***	***From 1 to 3 years***	***More than 3 years***	***Total***
Liabilities						
Loans from the National Bank	–	–	–	–	–	–
Due to banks	154,715	44,101	34,454	77,870	22,477	**333,617**
Amounts receivable on derivative financial instruments with negative fair value	(189,541)	–	–	–	–	**(189,541)**
Amounts payable on derivative financial instruments with negative fair value	189,647	–	–	–	–	**189,647**
Due to individuals	399,548	298,515	322,387	252,607	1,556	**1,274,613**
Due to corporate customers	693,456	265,733	181,468	133,242	1,689	**1,275,588**
Debt securities issued	1,378	5,005	6,005	106,858	120,368	**239,614**
Other financial liabilities	19,699	3,515	2	–	272	**23,488**
Subordinated debt	–	4,018	4,868	19,443	172,696	**201,025**
Total liabilities	**1,268,902**	**620,887**	**549,184**	**590,020**	**319,058**	**3,348,051**

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

The following table presents the analysis of the liquidity risk based on the carrying values of assets and liabilities.

31 December 2018	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*From 1 to 3 years*	*More than 3 years*	*Overdue*	*No stated maturity*	*Total*
Assets								
Cash and cash equivalents	613,422	–	–	–	–	–	–	**613,422**
Mandatory cash balances with the National Bank	7,143	2,430	1,750	2,580	34	–	–	**13,937**
Due from banks	4,291	42,087	27	–	–	–	–	**46,405**
Derivative financial assets	976	87	7,180	–	–	–	–	**8,243**
Loans to corporate customers	344,102	438,586	194,193	505,105	490,782	62,356	–	**2,035,124**
Loans to individuals	10,097	35,332	43,082	117,196	436,083	1,603	–	**643,393**
Non-current assets held for sale	–	–	7,754	–	–	–	–	**7,754**
Securities measured at fair value through other comprehensive income	3,460	2,299	–	415,580	198,099	–	4,761	**624,199**
Securities measured at amortized cost	–	–	–	1,050	–	–	–	**1,050**
Investments in associates	–	–	–	–	–	–	8,515	**8,515**
Premises and equipment	–	–	–	–	–	–	176,201	**176,201**
Intangible assets	–	–	–	–	–	–	47,921	**47,921**
Deferred income tax assets	42,000	2,155	1,126	8,876	6	588	1,083	**55,834**
Other assets	**1,025,491**	**522,976**	**255,112**	**1,050,387**	**1,125,004**	**64,547**	**238,481**	**4,281,998**
Total assets								
Liabilities	–	508	–	–	–	–	–	**508**
Loans from the National bank of the Republic of Belarus	136,973	107,973	1,996	31,804	22,393	–	–	**301,139**
Due to banks	512	684	–	–	–	–	–	**1,196**
Derivative financial liabilities	575,787	228,067	171,527	303,277	443	–	–	**1,279,101**
Due to individuals	812,343	244,155	168,558	198,136	6,205	–	–	**1,429,397**
Due to corporate customers	3,654	26	6,369	74,641	289,782	–	–	**374,472**
Debt securities issued	5,758	–	–	–	–	–	–	**5,758**
Current income tax liabilities	–	–	–	–	–	–	1,969	**1,969**
Provisions for guarantees and other commitments	–	11,843	–	–	–	–	–	**11,843**
Other liabilities	34,527	4,380	1	2	226	–	–	**39,136**
Subordinated debt	–	–	–	–	160,771	–	–	**160,771**
Total liabilities	**1,569,554**	**597,636**	**348,451**	**607,860**	**479,820**	**–**	**1,969**	**3,605,290**
Net liquidity gap	**(544,063)**	**(74,660)**	**(93,339)**	**442,527**	**645,184**	**64,547**	**236,512**	**676,708**
Cumulative liquidity gap as at 31 December 2018	**(544,063)**	**(618,723)**	**(712,062)**	**(269,535)**	**375,649**	**440,196**	**676,708**	

Mandatory cash balances with the National Bank of the Republic of Belarus allocated on the base of remaining maturity of related deposits.

Significant disbalances in brackets «*Demand and less than 1 month*» - « *From 1 to 6 months*» as at 31 December 2018 caused by significant amount of customer accounts classified under these categories. The Management of the Group considers that despite the significant amount of customer accounts, classified under these categories, diversification of these amounts in number and type of the customers, and also the Group's historic experience suggest that these amount form stable and long-term source of funding the Group's operations. The Management of the Group considers that the Group would be able to attract sufficient funds from interbank market to discharge customers deposits if necessary.

The Group expects that most of the customers will not demand their funds at the earliest maturity date, at which the Group would have an obligation to arrange payments, and therefore the table does not reflect expected cash flows, calculated on the basis of the historic information of claiming deposits.

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Liquidity risk (continued)

31 December 2017	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*From 1 to 3 years*	*More than 3 years*	*Overdue*	*No stated maturity*	*Total*
Assets								
Cash and cash equivalents	685,311	–	–	–	–	–	–	**685,311**
Mandatory cash balances with the National Bank	1,553	796	724	537	4	–	–	**3,614**
Due from banks	76,859	703	259	155	–	–	–	**77,976**
Derivative financial assets	1,402	–	–	–	–	–	–	**1,402**
Loans to corporate customers	95,270	331,681	185,876	523,690	342,822	77,448	–	**1,556,787**
Loans to individuals	7,824	27,170	36,401	86,565	284,063	3,054	–	**445,077**
Non-current assets held for sale	–	–	18,170	–	–	–	–	**18,170**
Investments available for sale	56,256	115,458	–	375,278	211,626	–	1,195	**759,813**
Investments held to maturity	–	–	–	1,061	–	–	–	**1,061**
Investments in associates	–	–	–	–	–	–	7,958	**7,958**
Premises and equipment	–	–	–	–	–	–	176,165	**176,165**
Intangible assets	–	–	–	–	–	–	47,756	**47,756**
Other assets	24,306	5,838	126	12,927	1	2,232	1,748	**47,178**
Total assets	**948,799**	**481,640**	**241,544**	**1,000,213**	**838,516**	**82,734**	**234,822**	**3,828,268**
Liabilities								
Loans from the National bank of the Republic of Belarus	–	–	–	–	–	–	–	–
Due to banks	158,020	43,717	34,330	71,952	21,086	–	–	**329,105**
Derivative financial liabilities	106	–	–	–	–	–	–	**106**
Due to individuals	397,807	290,887	317,422	245,613	1,511	–	–	**1,253,240**
Due to corporate customers	691,041	256,730	176,196	126,467	1,585	–	–	**1,252,019**
Debt securities issued	1,841	319	–	86,596	97,439	–	–	**186,195**
Current income tax liabilities	2,480	–	–	–	–	–	–	**2,480**
Deferred income tax liabilities	–	–	–	–	–	–	16,559	**16,559**
Provisions for guarantees and other commitments	–	1,460	–	–	–	–	–	**1,460**
Other liabilities	24,831	5,146	2	–	272	–	31	**30,282**
Subordinated debt	–	–	–	–	153,095	–	–	**153,095**
Total liabilities	**1,276,126**	**598,259**	**527,950**	**530,628**	**274,988**	–	**16,590**	**3,224,541**
Net liquidity gap	**(327,327)**	**(116,619)**	**(286,406)**	**469,585**	**563,528**	**82,734**	**218,232**	**603,727**
Cumulative liquidity gap as at 31 December 2017	**(327,327)**	**(443,946)**	**(730,352)**	**(260,767)**	**302,761**	**385,495**	**603,727**	

The Group's liquidity risk management includes estimation of core deposits, i.e. funds associated with stable customer deposits relationships, the amount of which is calculated with the use of statistical methods applied to historic information on fluctuations of customer accounts balances. Core deposits as at 31 December 2018 and 31 December 2017 are estimated in the amount of BYN 703,363 thousand and BYN 514,341 thousand, respectively. As at 31 December 2018 and 31 December 2017 included in 'Due to banks' were correspondent accounts and short-term non-tied loans attracted from parent bank in the amount of BYN 85,066 thousand and BYN 216 thousand, which commonly are being reinvested on maturity dates. Based on the going concern assumptions the effective maturities of core deposits of funds from parent bank are considered to be undefined.

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Liquidity risk (continued)

Information as to the expected periods of repayment on customer accounts, funds from parent bank and effective liquidity gaps as at 31 December 2018 and 31 December 2017 is as follows:

31 December 2018	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*From 1 to 3 years*	*More than 3 years*	*Overdue*	*No stated maturity*	*Total*
Accounts of individuals analyzed based on expected withdrawal dates	253,372	228,067	171,527	303,277	443	–	322,415	**1,279,101**
Corporate accounts analyzed based on expected withdrawal dates	431,395	244,155	168,558	198,136	6,205	–	380,948	**1,429,397**
Funds attracted from other banks analyzed	135,953	23,927	1,996	31,804	22,393	–	85,066	**301,139**
Liquidity gap (based on expected withdrawal dates for customers' accounts)	**160,320**	**9,386**	**(93,339)**	**442,527**	**645,184**	**64,547**	**(551,917)**	

31 December 2017	*Demand and less than 1 month*	*From 1 to 6 months*	*From 6 to 12 months*	*From 1 to 3 years*	*More than 3 years*	*Overdue*	*No stated maturity*	*Total*
Accounts of individuals analyzed based on expected withdrawal dates	188,486	290,887	317,422	245,613	1,511	–	209,321	**1,253,240**
Corporate accounts analyzed based on expected withdrawal dates	386,021	256,730	176,196	126,467	1,585	–	305,020	**1,252,019**
Funds attracted from other banks analyzed	153,240	45,984	36,627	71,952	21,086	–	216	**329,105**
Liquidity gap (based on expected withdrawal dates for customers' accounts)	**191,794**	**(118,886)**	**(288,703)**	**469,585**	**563,528**	**82,734**	**(296,325)**	

As at 31 December 2018 covenants with European Bank of Reconstruction and Development (EBRD) were violated by the Group, which had no influence on the financial statements for the year ended 31 December 2018 because there is no debt to the EBRD. As at 31 December 2017 due to non-compliance with EBRD covenants, liabilities of the Group in the amount of BYN 4,580 thousand were reclassified into the demand group.

Market risk

Market risk is the possibility of the Group's financial losses, (failure to get the expected profit), as a result of changes in the market value of balance sheet and off-balance sheet items, as well as items nominated in foreign currency and goods due to the change in market prices of financial instruments and goods caused by the fluctuations in foreign currency exchange rates, market interest rates and other factors.

Market risk comprises general (systemic) risk (risk of losses resulting from general fluctuations of the market risk factor, e.g. changes of interest rates, price volatility, etc.) and specific risk (risk of losses resulting from fluctuations of the price of a specific asset due to the factors inherent to this asset (e.g. worsening of the financial position of the securities issuer)).

Market risk covers interest rate risk and currency risk which the Group is exposed to. Market risk management is organized on the basis of both aggregated risk indicators which combine the effects of individual risk-factors (VaR, stress-test) and indicators associated with individual risk-factors (such as, for instance, indicators of open currency position tied to the fluctuation of the exchange rate of a specific currency pair) allowing to estimate and limit the level of potential losses which may be incurred by the Bank due to the change of prices of financial instruments.

In order to take into account the specific characteristics of instruments and factors in the course of market risk assessment all of the Bank's operations are divided into the trading book and banking book operations. In addition to that, all financial market operations are subject to market conformity process.

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Interest rate risk

Interest rate risk is associated with the probability of losses, reduction or lack of planned income from changes in the value of balance sheet and off-balance sheet positions due to changes in the level of interest rates. The main goal of interest rate risk management is the financial stability of the Group, limiting possible financial losses and negative effects of the assumed level of interest rate risk.

The Bank's Assets and Liabilities Management Committee takes decisions on interest rate risk mitigation.

The following table presents an interest rate risk sensitivity analysis based on a scenario of possible changes in interest rates. All the other variables are held constant. This analysis is an estimate of the effect on the financial result of a parallel shift in the interest rate curve at a given time horizon.Additionally, the calculation includes the effect of potential reinvestment of fixed-rate instruments at new market rates as they mature.

Impact on the financial result:

	31 December 2018		*31 December 2017*	
BYN	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***
Impact on profit before taxes				
Assets				
Due from banks	381	(381)	1,221	(1,221)
Loans to customers	9,688	(9,688)	6,321	(6,321)
Investments available for sale	–	–	1,092	(1,092)
Investments held to maturity	–	–	11	(11)
Securities measured at fair value through other comprehensive income	612	(612)	–	–
Securities measured at amortized cost	11	(11)	–	–
Liabilities				
Due to banks	(316)	316	(223)	223
Due to customers	(9,416)	9,416	(8,522)	8,522
Debt securities issued	(2,011)	2,011	(895)	895
Net impact on profit before taxes	**(1,051)**	**1,051**	**(995)**	**995**
Impact on comprehensive income (excluding profit for the year)				
Securities measured at fair value through other comprehensive income	–	–	–	–
Net impact on comprehensive income	**(1,051)**	**1,051**	**(995)**	**995**

	31 December 2018		*31 December 2017*	
USD	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***
Impact on profit before taxes				
Assets				
Due from banks	–	–	61	(61)
Loans to customers	904	(904)	1,507	(1,507)
Investments available for sale	–	–	804	(804)
Securities measured at fair value through other comprehensive income	2	(2)	–	–
Liabilities				
Due to banks	(239)	239	(566)	566
Due to customers	(4,851)	4,851	(4,251)	4,251
Debt securities issued	(6)	6	(3)	3
Net impact on profit before taxes	**(4,190)**	**4,190**	**(2,448)**	**2,448**
Impact on comprehensive income (excluding profit for the year)				
Securities measured at fair value through other comprehensive income	–	–	–	–
Net impact on comprehensive income	**(4,190)**	**4,190**	**(2,448)**	**2,448**

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Interest rate risk (continued)

	31 December 2018		*31 December 2017*	
EUR	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***
Impact on profit before taxes				
Assets				
Due from banks	2	(2)	3	(3)
Loans to customers	4,534	(4,534)	3,339	(3,339)
Investments available for sale	–	–	1,643	(1,643)
Securities measured at fair value through other comprehensive income	1,725	(1,725)	–	–
Liabilities				
Due to banks	(1,072)	1,072	(1,802)	1,802
Due to customers	(2,470)	2,470	(2,212)	2,212
Debt securities issued	(2)	2	(2)	2
Net impact on profit before taxes	**2,717**	**(2,717)**	**969**	**(969)**
Impact on comprehensive income (excluding profit for the year)				
Securities measured at fair value through other comprehensive income	**–**	**–**	**–**	**–**
Net impact on comprehensive income	**2,717**	**(2,717)**	**969**	**(969)**

	31 December 2018		*31 December 2017*	
RUB	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***	***Interest rate +1 p.p.***	***Interest rate -1 p.p.***
Impact on profit before taxes				
Assets				
Loans to customers	1,190	(1,190)	197	(197)
Investments available for sale	–	–	9	(9)
Securities measured at fair value through other comprehensive income	8	(8)	–	–
Liabilities				
Due to banks	(928)	928	(133)	133
Due to customers	(1,304)	1,304	(1,196)	1,196
Debt securities issued	(8)	8	–	–
Net impact on profit before taxes	**(1,042)**	**1,042**	**(1,123)**	**1,123**
Impact on comprehensive income (excluding profit for the year)				
Securities measured at fair value through other comprehensive income	–	–	–	–
Net impact on comprehensive income	**(1,042)**	**1,042**	**(1,123)**	**1,123**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates and precious metals prices. Due to the structure of its balance sheet the Group is exposed to the effects of fluctuations in the foreign currency exchange rates and precious metals prices.

The Group's risk policy aiming at loss minimization from foreign currency and precious metals exchange rates fluctuations includes daily assessment with 95% probability of maximum exposure to losses from liquidating open currency position within one day and determination of the level of currency risk. The Group has set rigid limitation of open currency position by each type of currency for carrying positions over the next day depending on volatility of currency pairs and stop-loss limit. Considering increased volatility of world markets and for estimation of extraordinary, but still possible, events the Group uses stress-testing procedures. The Group also exercises daily control of currency risk limits set by the National Bank of the Republic of Belarus.

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Currency risk (continued)

The Group's exposure to currency risk is presented in the table below:

30 September 2018	*BYN*	*USD 1USD=BYN 2.1598*	*EUR 1EUR=BYN 2.4734*	*RUB 1RUB=BYN 0.0311*	*Precious metals*	*Other currencies*	*Total*
Financial assets							
Cash and cash equivalents	292,561	134,879	120,967	54,664	–	10,351	**613,422**
Mandatory cash balances with the National Bank of the Republic of Belarus	13,937	–	–	–	–	–	**13,937**
Due from banks	41,833	–	288	–	4,284	–	**46,405**
Derivative financial assets	8,243	–	–	–	–	–	**8,243**
Loans to corporate customers	817,717	317,781	711,579	187,558	–	489	**2,035,124**
Loans to individuals	640,518	2,840	35	–	–	–	**643,393**
Securities measured at fair value through other comprehensive income	62,839	16,296	544,228	836	–	–	**624,199**
Securities measured at amortized cost	1,050	–	–	–	–	–	**1,050**
Other financial assets	11,510	1,118	575	1,704	–	29	**14,936**
Total financial assets	**1,890,208**	**472,914**	**1,377,672**	**244,762**	**4,284**	**10,869**	**4,000,709**
Financial liabilities							
Loans from the National bank of the Republic of Belarus	–	–	–	–	–	508	**508**
Due to banks	37,775	25,082	116,320	121,814	1	147	**301,139**
Derivative financial liabilities	1,196	–	–	–	–	–	**1,196**
Due to individuals	353,726	700,465	127,716	42,615	54,579	–	**1,279,101**
Due to corporate customers	750,024	273,612	204,636	180,648	12,035	8,442	**1,429,397**
Debt securities issued	201,159	147,802	22,267	3,244	–	–	**374,472**
Other financial liabilities	21,856	2,554	4,912	4,149	–	376	**33,847**
Subordinated loan	–	–	160,771	–	–	–	**160,771**
Total financial liabilities	**1,365,736**	**1,149,515**	**636,622**	**352,470**	**66,615**	**9,473**	**3,580,431**
Open currency position	**524,472**	**(676,601)**	**741,050**	**(107,708)**	**(62,331)**	**1,396**	

Derivative financial instruments

The analysis of currency risk of derivative financial instruments at par value is given below. Par value of a derivative financial instrument is its contract claims/obligations at the official exchange rate at the reporting date. Par value of derivative financial instruments differs from its fair value, recognized in the statement of financial position, due to the effect of discounting while using interest rate parity model.

31 December 2018	*BYN*	*USD 1USD=BYN 2.1598*	*EUR 1EUR=BYN 2.4734*	*RUB 1RUB=BYN 0.0311*	*Precious metals*	*Other currencies*	*Total*
Claims on derivative financial instruments	2,163	775,021	15,100	4,244	62,339	550	**859,417**
Obligations on derivative financial instruments	–	(79,562)	(757,553)	(13,470)	–	(1,784)	**(852,369)**
Net derivative financial instruments	**2,163**	**695,459**	**(742,453)**	**(9,226)**	**62,339**	**(1,234)**	**7,048**
Total currency position less fair value of derivative	**519,588**	**18,858**	**(1,403)**	**(116,934)**	**8**	**162**	

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Currency risk (continued)

31 December 2017	*BYN*	*USD 1USD=BYN 1.9727*	*EUR 1EUR=BYN 2.3553*	*RUB 1RUB=BYN 0.0343*	*Precious metals*	*Other currencies*	*Total*
Financial assets							
Cash and cash equivalents	228,430	153,229	157,962	143,951	–	1,739	**685,311**
Mandatory cash balances with the National Bank of the Republic of Belarus	3,614	–	–	–	–	–	**3,614**
Due from banks	5,194	6,413	425	–	65,944	–	**77,976**
Derivative financial assets	1,402	–	–	–	–	–	**1,402**
Loans to corporate customers	644,578	364,274	505,206	42,036	–	693	**1,556,787**
Loans to individuals	441,601	3,439	37	–	–	–	**445,077**
Investments available for sale	112,887	127,765	518,238	923	–	–	**759,813**
Investments held to maturity	1,061	–	–	–	–	–	**1,061**
Other financial assets	12,371	1,235	909	333	–	20	**14,868**
Total financial assets	**1,451,138**	**656,355**	**1,182,777**	**187,243**	**65,944**	**2,452**	**3,545,909**
Financial liabilities							
Loans from the National Bank	–	–	–	–	–	–	–
Due to banks	23,108	61,315	222,598	20,859	–	1,225	**329,105**
Derivative financial liabilities	106	–	–	–	–	–	**106**
Due to individuals	279,684	713,811	163,547	41,211	54,987	–	**1,253,240**
Due to corporate customers	703,596	135,959	190,902	210,002	10,963	597	**1,252,019**
Debt securities issued	89,536	79,053	14,490	3,116	–	–	**186,195**
Other financial liabilities	18,871	2,570	1,130	903	–	14	**23,488**
Subordinated loan	–	–	153,095	–	–	–	**153,095**
Total financial liabilities	**1,114,901**	**992,708**	**745,762**	**276,091**	**65,950**	**1,836**	**3,197,248**
Open currency position	**336,237**	**(336,353)**	**437,015**	**(88,848)**	**(6)**	**616**	

Derivative financial instruments

The analysis of currency risk of derivative financial instruments at par value is given below. Par value of a derivative financial instrument is its contract claims/obligations at the official exchange rate at the reporting date. Par value of derivative financial instruments differs from its fair value, recognized in the statement of financial position, due to the effect of discounting while using interest rate parity model.

31 December 2017	*BYN*	*USD 1USD=BYN 1.9727*	*EUR 1EUR=BYN 2.3553*	*RUB 1RUB=BYN 0.0343*	*Precious metals*	*Other currencies*	*Total*
Claims on derivative financial instruments	16,407	399,639	9,857	84,425	–	62	**510,390**
Obligations on derivative financial instruments	–	(27,320)	(478,801)	(2,974)	–	–	**(509,095)**
Net derivative financial instruments	**16,407**	**372,319**	**(468,944)**	**81,451**	–	**62**	**1,295**
Total currency position less fair value of derivative	**351,348**	**35,966**	**(31,929)**	**(7,397)**	**(6)**	**678**	

(in thousands of Belarusian Rubles)

32. Risk management policies (continued)

Currency risk sensitivity

The following table details the Group's sensitivity to an increase and decrease in the USD, EUR and RUB rates against the BYN. This is the sensitivity rate which represents the Management's assessment of the possible change in foreign currency exchange rates as at 31 December 2018 and 31 December 2017. The sensitivity analysis includes only amounts in foreign currency available at the end of the period, the conversion of which at the end of this period is performed with the use of exchange rates changed by a certain percent in comparison with the current exchange rates.

	As at 31 December 2018		***As at 31 December 2017***	
	BYN/USD +2.34%	***BYN/USD -1%***	***BYN/USD +14%***	***BYN/USD -1%***
Impact on profit or loss	441	(189)	5,035	(360)
Impact on comprehensive income	441	(189)	5,035	(360)

	As at 31 December 2018		***As at 31 December 2017***	
	BYN/EUR +2.77%	***BYN/EUR -1%***	***BYN/EUR +26%***	***BYN/EUR -1%***
Impact on profit or loss	(39)	14	(8,302)	319
Impact on comprehensive income	(39)	14	(8,302)	319

	As at 31 December 2018		***As at 31 December 2017***	
	BYN/RUB +7.59%	***BYN/RUB -1%***	***BYN/RUB +25%***	***BYN/RUB -1%***
Impact on profit or loss	(8,872)	1,169	(1,849)	74
Impact on comprehensive income	(8,872)	1,169	(1,849)	74

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into account the fact that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may change in connection with actual market movements. For example, the Group's financial risk management strategy aims to manage possible fluctuations of the market. As financial markets move past various trigger levels, Management actions could include selling positions and taking other protective actions. Consequently, the change in the assumptions may not have any impact on the liabilities and significantly influence the assets, which are held at market value in the statement of financial position. In these circumstances, different measurement bases for liabilities and assets may lead to volatility of shareholders' equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate po tential risk that only represent the Group's view of possible market changes that cannot be predicted with any degree of certainty. And the assumption that all interest rates move in an identical fashion is also a restriction.

Operational risk

Operational risk is the risk of losses and/or additional costs arising from non-compliance of the Group's established norms and procedures of performing banking operations and other deals with the legislation or violation of the norms and procedures by the employees of the Group, incompetence and errors made by the employees of the Group, inadequacy or failure of the systems used within the Group, information systems included, as well as costs and losses arising from external factors. This definition includes legal and cyber-risk (cybersecurity risk), but excludes strategic and reputational risks.

The main objective of managing operational risk as an intergral part of the general process of managing Group's specific risks is a prevention of this risk or maximum possible mitigation of exposure to losses, which the Group may incur due to vulnerabilities of organization of internal processes and due to external factors (events), and also developing of adequate system of internal control within the Group.

The main methods of managing operational risk are:

- securing business-processes with all necessary material, information, human and other resources;
- optimization of information systems and automation of business-processes, including certain (standard) procedures of control;
- formalization of juridical maintenance of the Group's operations, including the usage of standard form conracts;
- control of information and control of access to information, maintaining information security;
- standardization and optimization of accounting and information systems of the Group.

(in thousands of Belarusian Rubles)

33. Subsequent events

As at the issue date of these consolidated financial statements since the beginning of the year Belorusian Ruble has changed against main currencies in a following way: it has gained against American Dollar and Euro 2.9% and 3.3%, respectively, and it has weakened 5.7% against Russian Ruble.