# REPUBLICAN UNITARY ENTERPRISE "BELARUSIAN NATIONAL REINSURANCE ORGANIZATION"

## Financial Statements and the Independent Auditors' Report for 2018

## *Contents*

# Independent Auditors' Report

**To the Owner and General Director of Republican Unitary Enterprise "Belarusian National Reinsurance Organization"**

## Opinion

We have audited the financial statements of Republican Unitary Enterprise "Belarusian National Reinsurance Organization" (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company 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 financial statements in Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

## Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditors' report is:

Irina Vereschagina

Partner

Director of LLC KPMG

Minsk, Belarus

22 April 2019

| ***All amounts in thousands BYN*** | **Notes** | **2018** | **2017** |
|---|---|---|---|
| Gross written premiums | 9 | 87,770 | 85,081 |
| Retrocessionaires' share in written premiums | 9 | (32,536) | (41,280) |
| ***Net written premiums*** | 9 | **55,234** | **43,801** |
| Gross changes in unearned premium and unexpired risk technical reserves | 11 | (4,321) | (17,329) |
| Retrocessionaires' share | 11 | (8,225) | 8,462 |
| ***Change in net unearned premium and unexpired risk technical reserves*** | 11 | ***(12,546)*** | ***(8,867)*** |
| **Net earned premiums** | 10 | **42,688** | **34,934** |
| Paid claims, gross | | (14,353) | (14,212) |
| Loss adjustment expenses | | (205) | (125) |
| Retrocessionaires' share of claims paid | 12 | 1,518 | 1,866 |
| **Net paid claims** | 12 | **(13,040)** | **(12,471)** |
| **Change in outstanding claim technical reserves** | | | |
| Gross change in outstanding claim technical reserves | 14 | (13,423) | (2,440) |
| Retrocessionaires' share | 14 | 2,630 | 3,502 |
| ***Net change in outstanding claim technical reserves*** | 14 | ***(10,793)*** | ***1,062*** |
| **Net incurred claims** | 13 | **(23,833)** | **(11,409)** |
| **Operating expenses** | | | |
| Client acquisition costs | 15 | (5,980) | (4,978) |
| Change in deferred client acquisition costs | 15 | 237 | 221 |
| Retrocessionaires' commission income | | 1,255 | 1,352 |
| Administrative expenses | 16 | (3,906) | (3,640) |
| **Net operating expenses** | | **(8,394)** | **(7,045)** |
| Investment income | 17 | 18,630 | 15,332 |
| Investment expenses | | (99) | (41) |
| Other income | 18 | 7,936 | 3,407 |
| Other expenses | 18 | (6,066) | (3,372) |
| **Profit before tax** | | **30,862** | **31,806** |
| Income tax expense | 19 | (3,924) | (4,820) |
| **Profit for the year** | | **26,938** | **26,986** |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income for the year** | | **26,938** | **26,986** |

The accompanying notes on pages 12-67 form an integral part of these financial statements.

A.T. Unton
*General Director*

T. F. Sopeleva
*Chief Accountant*

22 April 2019

| *All amounts in thousands BYN* | Notes | 31 December 2018 | 31 December 2017 (restated) | 1 January 2017 (restated) |
|---|---|---|---|---|
| **Assets** | | | | |
| Property and equipment | 21 | 2,264 | 2,219 | 88 |
| Intangible assets | | 61 | 79 | 34 |
| **Financial investments** | | | | |
| Financial investments in debt securities | 22 | 73,390 | 50,633 | 31,076 |
| Available-for-sale financial assets | 23 | 43,745 | 41,470 | 39,115 |
| Deposits with banks | | - | 50,794 | 86,752 |
| **Total financial investments** | | **117,135** | **142,897** | **156,943** |
| **Receivables** | | | | |
| Receivables from reinsurance activities | 24 | 46,614 | 37,642 | 22,864 |
| Receivables from retrocession activities | | 847 | 1,405 | 1,279 |
| Other receivables | 25 | 34 | 155 | 229 |
| **Total receivables** | | **47,495** | **39,202** | **24,372** |
| Deferred client acquisition costs | 15 | 5,554 | 5,317 | 5,096 |
| **Retrocession contract assets** | | | | |
| Retrocessionaires' share in unearned premium technical reserve | 11 | 34,686 | 40,542 | 30,846 |
| Retrocessionaires' share in outstanding claim technical reserve | 14 | 13,184 | 10,172 | 6,214 |
| **Total assets from retrocession contracts** | | **47,870** | **50,714** | **37,060** |
| Deferred tax asset | | 3,344 | - | 209 |
| Prepayments | 25 | 96 | 83 | 2,451 |
| Current income tax asset | | - | 578 | - |
| Cash and cash equivalents | 26 | 94,530 | 35,476 | 830 |
| **Total assets** | | **318,349** | **276,565** | **227,083** |

***All amounts in thousands BYN***

| | Notes | 31 December 2018 | 31 December 2017 (restated) | 1 January 2017 (restated) |
|---|---|---|---|---|
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital | 27 | 348,950 | 333,726 | 328,915 |
| Accumulated loss | | (194,623) | (199,596) | (214,898) |
| **Total equity** | | **154,327** | **134,130** | **114,017** |
| **Liabilities** | | | | |
| **Technical reserves** | | | | |
| Technical reserves for unearned premium and unexpired risks | 11 | 88,972 | 80,740 | 60,454 |
| Outstanding claim technical reserves | 14 | 59,728 | 45,790 | 41,315 |
| **Total technical reserves** | | **148,700** | **126,530** | **101,769** |
| **Payables** | | | | |
| Payables from reinsurance activities | | 3,585 | 2,803 | 1,949 |
| Payables from retrocession activities | | 7,829 | 12,085 | 6,957 |
| Current income tax payables | | 1,701 | - | 1,296 |
| Other payables | 28 | 2,207 | 741 | 1,095 |
| **Total payables** | | **15,322** | **15,629** | **11,297** |
| Deferred tax liabilities | 19 | - | 276 | - |
| **Total liabilities** | | **164,022** | **142,435** | **113,066** |
| **Total equity and liabilities** | | **318,349** | **276,565** | **227,083** |

The accompanying notes on pages 12-67 form an integral part of these financial statements.

A.T. Unton
*General Director*

T. F. Sopeleva
*Chief Accountant*

22 April 2019

| *All amounts in thousands BYN* | Notes | Share capital | Accumulated loss | Total capital |
|---|---|---|---|---|
| **Balance at 1 January 2017** | | **328,915** | **(194,867)** | **134,048** |
| Prior year adjustment | 34 | - | (20,031) | (20,031) |
| **Balance at 1 January 2017 (restated)** | | **328,915** | **(214,898)** | **114,017** |
| **Total comprehensive income for the reporting year** | | | | |
| Profit for the year | | - | 26,986 | **26,986** |
| **Other comprehensive income** | | - | - | - |
| **Total comprehensive income for the reporting year** | | - | **26,986** | **26,986** |
| **Transactions with owner** | | | | |
| Increase of share capital due to profit reallocation | 27 | 4,811 | (4,811) | - |
| Payments from profit to the owner | 27 | - | (6,873) | **(6,873)** |
| **Total transactions with owner** | | **4,811** | **(11,684)** | **(6,873)** |
| **Balance at 31 December 2017 (restated)** | 34 | **333,726** | **(199,596)** | **134,130** |
| **Total comprehensive income for the reporting year** | | | | |
| Profit for the year | | - | 26,938 | **26,938** |
| **Other comprehensive income** | | - | - | - |
| **Total comprehensive income for the reporting year** | | - | **26,938** | **26,938** |
| **Transactions with owner** | | | | |
| Increase of share capital due to profit reallocation | 27 | 15,224 | (15,224) | - |
| Payments from profit to the owner | 27 | - | (6,741) | **(6,741** |
| **Total transactions with owner** | | **15,224** | **(21,965)** | **(6,741)** |
| **Balance at 31 December 2018** | 27 | **348,950** | **(194,623)** | **154,327** |

The accompanying notes on pages 12-67 form an integral part of these financial statements.

A.T. Unton
*General Director*

T. F. Sopeleva
*Chief Accountant*

22 April 2019

| ***All amounts in thousands BYN*** | **Notes** | **2018** | **2017** |
|---|---|---|---|
| **Cash flows from reinsurance activities** | | | |
| **Profit for the year** | | **26,938** | **26,986** |
| *Adjustments for:* | | | |
| Investment income | 17 | (18,630) | (15,332) |
| Net foreign exchange gain | 18 | (5,560) | (3,019) |
| Depreciation and amortization | 16 | 45 | 37 |
| Income tax expenses | 19 | 3,924 | 4,820 |
| | | **6,717** | **13,492** |
| *Changes in:* | | | |
| Receivables from reinsurance activities | | (7,365) | (13,342) |
| Receivables from retrocession activities | | 555 | 1 |
| Other receivables | | 11 | (36) |
| Prepayments | | (13) | 538 |
| Retrocessionaire's share in technical reserves | | 5,596 | (11,964) |
| Deferred acquisition costs | | (237) | (221) |
| Technical reserves for unearned premium and unexpired risks | | 4,321 | 17,329 |
| Outstanding claim technical reserves | | 13,423 | 2,440 |
| Payables from reinsurance activities | | 732 | 270 |
| Payables from retrocession activities | | (4,954) | 5,009 |
| Other payables | | 292 | (59) |
| **Cash flows from reinsurance activities before income tax paid** | | **19,078** | **13,457** |
| Income tax paid | | (3,968) | (6,280) |
| **Net cash flows from reinsurance activities** | | **15,110** | **7,177** |
| **Cash flows from investing activities** | | | |
| Interest income received | | 2,914 | 4,240 |
| Acquisition of available-for-sale financial assets | | (9,434) | (11,554) |
| Acquisition of financial assets held to maturity | | (6,243) | (8,193) |
| Disposal of available-for-sale financial assets | | 7,158 | 9,525 |
| Return of deposits with banks | | 51,640 | 241,172 |
| Placement of deposits with banks | | - | (202,925) |
| Acquisition of property and equipment | | (70) | (49) |
| Acquisition of intangible assets | | - | (58) |
| Dividends received | | 696 | 239 |
| **Net cash flows from investing activities** | | **46,661** | **32,397** |

| ***All amounts in thousands BYN*** | **Notes** | **2018** | **2017** |
|---|---|---|---|
| **Cash flows from financing activities** | | | |
| Payment of deductions to the owner | | (6,523) | (7,373) |
| **Net cash flows used in financing activities** | | **(6,523)** | **(7,373)** |
| **Net increase in cash and cash equivalents** | | **55,248** | **32,201** |
| Cash and cash equivalents at 1 January | 26 | 35,476 | 830 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 3,806 | 2,445 |
| **Cash and cash equivalents at 31 December** | 26 | **94,530** | **35,476** |

The accompanying notes on pages 12-67 form an integral part of these financial statements.

A.T. Unton
_General Director_

T. F. Sopeleva
_Chief Accountant_

22 April 2019

## (1) GENERAL INFORMATION

The Company was incorporated in 2006 as a Republican Unitary Enterprise and registered under the laws of the Republic of Belarus. The Company is the first specialised reinsurance organization in the Republic of Belarus and was established by Regulation of the Council of Ministers of the Republic of Belarus dated 4 November 2006 № 1463 "On Establishment of Belarusian National Reinsurance Organization" in compliance with the Order of the President of the Republic of Belarus dated 25 August 2006 № 530 "On Insurance Operations". During the reporting year the Company operated under reinsurance license #02200/13-00048 valid from the day of the decision of the licensing authority on its issuance for the unlimited period of time, in accordance with the applicable legislation.

The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with the insured. Consequently, all references to insurance contracts refer to reinsurance assumed. In accordance with the legislation of the Republic of Belarus all insurance companies operating on the territory of the Republic of Belarus are obliged to cede to Republican Unitary Enterprise "Belarusian National Reinsurance Organization" a portion of liabilities insured by them in excess of liability limits set by the legislation of the Republic of Belarus. Insurance companies are obliged to agree their tariffs for such cases with the Company.

The main insurance lines of the Company are aviation reinsurance, property reinsurance, pecuniary reinsurance, liability reinsurance in the "Green card" system.

The head office is located in Minsk, Chkalova str., 14-2, Republic of Belarus.

As at 31 December 2018 and 31 December 2017 the Company's shareholder was:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| The Council of Ministers of the Republic of Belarus | 100.00% | 100.00% |
| | **100.00%** | **100.00%** |

## (2) BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company has applied temporary exemption from IFRS 9 *Financial Instruments* as permitted by IFRS 4 *Insurance Contracts* and has not previously adopted any version of IFRS 9, including the requirements from the presentation of gains and losses on financial liabilities designated as at FVTPL, for annual periods beginning before 1 January 2018. Consequently, the Company plans to have a single date of initial application of 1 January 2021 for IFRS 9 in its entirety.

The financial statements have been prepared on a going concorn basis.

The financial year of the Company coincides with the calendar year. The financial statements for the year ended 31 December 2018 were approved for issue on 22 April 2019 and signed by the management on behalf of General Director and Chief Accountant.

## (3) FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of Belarus is the Belarusian ruble ("BYN") and the same currency is the functional currency of the Company, as well as the currency in which these financial statements are presented.

## (4) USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The actual results ultimately may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is presented below:

*Assessment of whether the Company's activities are predominantly connected with insurance*

The temporary exemption from IFRS 9 applies for those entities whose activities are predominantly connected with insurance. Eligibility is assessed at the reporting entity level and is therefore applied at the reporting entity level – i.e. it applies to all financial assets and financial liabilities held by the reporting entity.

The Company applied temporary exemption from IFRS 9 as:

- the Company has not previously applied any version of IFRS 9; and
- Company's activities as a whole are predominantly connected with insurance at its annual reporting date that immediately precedes 1 April 2016, i.e. as at and 31 December 2015.

Under IFRS 4, an insurer's activities are predominantly connected with insurance if, and only if:

(a) the carrying amount of its liabilities arising from contracts within the scope of IFRS 4, which includes any deposit components or embedded derivatives unbundled from insurance contracts, is significant compared to the total carrying amount of all its liabilities; and

(b) the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:

(i) greater than 90 per cent; or

(ii) less than or equal to 90 per cent but greater than 80 per cent, and the insurer does not engage in a significant activity unconnected with insurance.

Under IFRS 4, liabilities connected with insurance comprise:

(a) liabilities arising from contracts within the scope of IFRS 4;

(b) non-derivative investment contract liabilities measured at fair value through profit or loss applying IAS 39; and

(c) liabilities that arise because the insurer issues, or fulfils obligations arising from, the contracts in (a) and (b). Examples of such liabilities include derivatives used to mitigate risks arising from those contracts and from the assets backing those contracts, relevant tax liabilities such as the deferred tax liabilities for taxable temporary differences on liabilities arising from those contracts, and debt instruments issued that are included in the insurer's regulatory capital, liabilities for salaries and other employment benefits for the employees of the insurance activities.

As at 31 December 2015 the carrying amount of the Company's liabilities arising from contracts within the scope of IFRS 4 is BYN 91,386 thousand, that comprises 92.5% of carrying amount of Company's total liabilities. The Company considers that this amount is significant compared to the total carrying amount of all its liabilities as insurance operations is the primary business of the Company. There were no changes in business after the reporting date that could affect calculation of this indicator.

*Reinsurance liabilities*

The nature of the business makes it difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances, information available from loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises.

The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The provision estimation difficulties also differ by class of business due to claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

The most significant assumptions are related to the recognition of incurred but not reported claims reserve ("IBNR") and unexpired risks reserve ("URR"). The adequacy of insurance technical reserves is monitored on a regular basis by conducting the test on the adequacy of commitments, performed in the context of the business lines.

*Recognition of provision*

Provisions are established when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

*Impairment of available-for-sale assets carried at acquisition cost*

In case of any impairment indicators for available-for-sale assets carried at acquisition cost, the Company believes that their recoverable amount equals to their par value, as the par value reflects cash flows that the Company expects to obtain from sale of these assets.

*Measurement of fair value*

A number of accounting policies and disclosures require the measurement of fair value of financial and non-financial assets and liabilities.

The Company has established a control system for the measurement of fair value. As part of this system, the Accounting and Reporting Department is responsible for overseeing all significant fair value measurements, including Level 3 assessments, and reports directly to the General Director of the Company.

The Accounting and Reporting Department employees monitor significant unobservable inputs and corrections of estimates on a regular basis. If information received from third parties, for example quotes from brokers or price determination agencies, is used to estimate fair value, then the responsible employees analyze the confirmation received from third parties to justify the conclusion that this assessment is in accordance with IFRS, including determination of the level in the hierarchy of the fair the value to which this estimate should be attributed.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

*Loans and receivables*

The fair value of loans and receivables is measured at the present value of future cash flows, discounted at the market interest rate at the reporting date. This fair value is determined for disclosure purposes. Short-term receivables are not discounted.

*Financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate at the reporting date. Short-term financial liabilities are not discounted.

## (5) BASIS OF MEASUREMENT

The financial statements have been prepared on the historical cost basis, except for the bonds of the Development Bank of the Republic of Belarus and the Ministry of Finance of the Republic of Belarus, which are classified as available-for-sale financial assets and recorded at fair value.

## (6) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### *(a) Foreign currency transactions*

Transactions in foreign currencies are initially recorded at the exchange rate of the Belarusian ruble to foreign currencies at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency in accordance with the exchange rate set by the National Bank of the Republic of Belarus at the last date of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value or historical cost are translated at the exchange rate as at the date fair value or cost was determined.

Profit or loss relating to fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency is recognised in the statement of profit or loss and other comprehensive income in the period in which the fluctuation occurs.

Official exchange rates of principal currencies, established by the National Bank of the Republic of Belarus, are as follows:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| BYN/USD | 2.1598 | 1.9727 |
| BYN/EUR | 2.4734 | 2.3553 |
| BYN/100 RUB | 3.1128 | 3.4279 |

## (b) Property and equipment

Property and equipment is recorded at cost of acquisition net of accumulated depreciation and impairment losses (if any). Cost includes expenditure that is directly attributable to bringing the asset to a working condition for their intended use. Depreciation is charged using a straight-line method over the entire useful life of the respective asset. When the useful life is over, the asset's value is written down to its residual value. Depreciation is calculated on the following rates:

| | |
|---|---|
| Office equipment and furniture | 10-20% per year |
| Vehicles | 12.5% per year |
| Other fixed assets | 7-20% per year |

Maintenance costs for property and equipment are recognised in the statement of profit or loss and other comprehensive income as incurred. Costs of capital repairs of equipment (leasehold improvements) are added to the value of the respective asset and written off on a straight-line basis during the shorter of the useful lifetime and the period of lease.

Profit or loss from disposal of property and equipment is calculated as the difference between the carrying amount of the asset and income generated from sale, and recorded in the statement of profit or loss and other comprehensive income.

Depreciation method, useful life and residual value are reviewed annually.

At each reporting date, the Company reviews the carrying amount of fixed assets in order to identify the indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment loss (if any). If it is impossible to determine the recoverable amount of an individual asset, the Company estimates the recoverable value of the cash-generating unit to which the asset belongs.

If the recoverable amount of the asset (cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised immediately as expenses.

## (c) Operating lease

Lease of assets under which the risks and benefits of ownership are retained by the lessor is classified as operating lease. Operating lease payments are recognised in profit or loss for the period on a straight-line basis over lease term.

## (*d*) Reinsurance and retrocession agreements

*Classification of reinsurance agreements*

An insurance contract signed by the insurer is classified as an insurance contract only if it transfers a significant insurance risk from the policy holder to the insurer. All the Company's insurance contracts are classified as reinsurance contracts. An assumed reinsurance contract is a type of insurance contract whereas the insurance risk is assumed from another insurer. The Company underwrites assumed reinsurance contracts exclusively and cannot conclude insurance contracts directly with the insured. Consequently, all references to insurance contracts refer to reinsurance assumed.

When classifying reinsurance contracts for accounting purposes, the basis is the substance of the transferred insurance risk and common indications of possible risk. For example:

- aviation reinsurance;
- property reinsurance;
- pecuniary reinsurance (including the risk of outstanding credit occurrence reinsurance);
- liability reinsurance in the "Green card" system;
- transport reinsurance;
- liability reinsurance;
- marine reinsurance;
- accident reinsurance;
- medical expenses reinsurance.

Each of these lines of reinsurance may be divided in more detail by taking into account the substance of the transferred insurance risk.

*Retrocession*

During the course of its business, the Company enters into retrocession contracts to restrict the potential net loss through diversification of risks. Retrocession contracts do not relieve the Company from its liabilities to the insured.

*Insurance premium and premium income*

Written premiums include the amounts, which are due for reinsurance contracts signed during the reporting year, that have come into force in the reporting year, irrespective of whether these premiums have been received or not. Written premiums are decreased by the amount of premiums under the cancelled reinsurance contracts during the reporting period.

The earned portion of written premiums is recognised as revenue. Premiums are earned from the date of bearing of risk, over the indemnity period, based on the pattern of risks underwritten. The unearned portion of premiums, relating to future periods, is recognised under technical reserves of unearned premiums with the use of Pro Rata Temporis method.

Retrocessionaires' share in written premiums is calculated in accordance with retrocession contracts in force. Outward retrocession premiums are recognised as expenses in accordance with the retrocession services received, and the portion of retrocession expenses attributable for future periods is recognised as the retrocessionaires' share of the unearned premium reserve.

*Termination of reinsurance contracts*

Reinsurance contracts are terminated if there is an objective evidence that the reinsured does not want or cannot pay the reinsurance premium. Consequently, the terminations affect mainly reinsurance contracts, under which the reinsurance premium is paid partly during the entire term of the reinsurance contract. Terminations are reflected in the financial statements separately from the total amount of insurance premiums.

*Reinsurance and retrocession receivables and payables*

Amounts due to and from reinsured, brokers and retrocessionaires are financial instruments and are included in reinsurance and retrocession receivables and payables.

Receivables are disclosed net of impairment allowance. The amount of allowance represents the difference between the gross and recoverable amount of receivables.

Allowances for doubtful debts are recognised when the Company's management believes that the recoverability of these assets is uncertain. Receivables are written off when their recoverability is considered impossible.

Retrocession assets include recoveries due from retrocession companies in respect of claims paid. These are classified as receivables and included within receivables from retrocession activities in the statement of financial position.

Amounts recoverable under retrocession contracts are assessed for impairment at each reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts incurred.

*Insurance claims incurred*

Insurance claims incurred from insurance activities are claims attributable to the reporting period and consist of claims paid in the financial year, the corresponding claim handling expenses (loss adjustment expenses) and changes in the claim reserves. Claims paid are decreased by the amount of losses recoverable through retrocession or subrogation.

The claims amounts recoverable under ceded retrocession contracts are assessed on each reporting date. The value of those assets decrease if due to an event subsequent to initial recognition there is objective evidence that the Company will not be able to recover all the amounts, and this event has a reasonable measurable impact on the amounts receivable by the Company from the retrocessionaire.

*Technical reserves*

The Company establishes technical reserves to record the estimate of liabilities arising from reinsurance contracts: unearned premium and unexpired risk reserves, outstanding claim technical reserves.

The retrocessionaires' share in the technical reserves is disclosed under assets in the statement of financial position.

*Unearned premium reserve (UPR)*

Unearned premium reserve represents the proportion of premiums written which relate to the period of risk subsequent to the accounting year. Reserve is calculated for each insurance policy under the 365-day Pro Rata Temporis method based on the period in force for a particular contract.

*Outstanding claims technical reserves*

An outstanding claims technical reserve comprises a reserve for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and the related internal and external claim handling expenses. Claims reserves are not discounted.

*Reported but not settled claims reserve (RBNS)*

The RBNS claims reserve includes case reserves. Case reserves are set on a case-by-case basis by the Company's loss adjusters for claims reported and not yet settled as at the reporting date. The sensitivity analysis for insurance liabilities is disclosed in note 32 (h) and claim development analysis is disclosed in note 32 (i).

_Incurred but not reported claims reserve (IBNR)_

IBNR is calculated in respect of claims incurred but not reported prior to the end of the reporting period. For the purposes of IBNR determination as at the reporting date, the management uses data on historical accidents in the reporting and previous periods using the claim development triangle method. The claim development analysis is disclosed in note 32 (i).

_Acquisition costs_

Acquisition costs represent commissions paid to intermediaries related to the acquisition of reinsurance contracts.

Deferred acquisition costs represent the portion of acquisition costs that are attributable to future reporting periods in accordance with the proportion of unearned premium technical reserves versus gross written premiums for each reinsurance contract.

_Liability adequacy test_

Management assesses at each reporting date the adequacy of its recognised insurance liabilities (net of deferred acquisition costs) using current estimates of future cash flows arising from its insurance contracts, and comparing those estimated future cash flows against the carrying amount of liabilities after the deduction of the deferred acquisition costs. Current best estimates of all future contractual cash flows and related expenses, such as claims handling expenses, backing the reinsurance contract provisions, are used in performing these tests.

If the liability adequacy test shows a deficiency in the carrying amount of liabilities, the deficiency is recognised as expenses for the financial year by setting aside additional unexpired risk reserves.

The liability adequacy test is applied to the gross amount of reserves, i.e. the effect of retrocession is not taken into account.

### (e) Financial instruments

_Classification_

All financial instruments are initially classified into one of the following categories:

**_Financial instruments at fair value through profit or loss_** are financial assets or liabilities that are acquired or incurred principally for the purpose of selling or repurchasing in the near term; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or that are a derivative (except for a derivative that is a designated and effective hedging instrument); or that are upon initial recognition, are designated by the Company at fair value through the profit or loss.

**_Available-for-sale assets_** are financial assets, initially classified as available-for-sale or assets other than classified as held for trading, held to maturity or loans and receivables. Available-for-sale instruments include certain equity securities. Generally, this category is assigned by the Company to financial assets that are held for an indeterminate period of time and may be sold based on liquidity or interest rate needs, or as a result of changes in exchange rates and share prices.

***Held-to-maturity financial instruments*** are non-derivative financial assets with fixed or determinable payments and a fixed maturity with respect to which the Company has a positive intent and ability to hold to maturity.

***Loans and receivables*** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include loans, term deposits with banks and receivables from reinsurace and retrocession activities, cash and cash equivalents, financial investments in debt securities. Reinsurance receivables are also classified in this category.

***Financial liabilities carried at amortised cost*** represent financial liabilities of the Company other than financial instruments recorded at fair value through profit or loss. This category includes payables.

*Non-derivative financial assets and liabilities - recognition and de-recognition*

The Company initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Company currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Company and all counterparties.

*Initial and subsequent measurement*

Financial instruments are initially measured at fair value and include directly attributable transaction costs, except for financial instruments at fair value through profit or loss.

Financial assets at fair value through profit or loss are subsequently accounted for at fair value with revaluation recognised through profit or loss.

Subsequent to initial measurement, all financial assets and liabilities available for sale are designated at fair value, except those instruments for which no reliable fair value measurement is possible. Such instruments are recognised at cost less impairment losses.

All the financial liabilities and other financial assets, including loans and receivables, deposits with banks and assets held to maturity, are measured at amortised cost using the effective interest rate method. Short-term receivables and payables are not discounted.

Profit or loss arising from changes in the fair value of financial instruments designated at fair value through profit or loss is recognised in the statement of profit or loss. Differences arising from changes in the fair value of available-for-sale financial instruments are recognised through other comprehensive income in equity.

*Equity instruments measured at acquisition cost net of impairment losses*

Investments in OJSC "Belagroprombank" and OJSC "Promagroleasing" are carried at acquisition cost, since their fair value cannot be reliably determined. Therefore, the fair value of these investments is not disclosed in the financial statements. The carrying amount of the investments was as follows:

| **Investment/carrying amount** | **As at 31 December 2018, BYN thousand** | **As at 31 December 2017, BYN thousand** |
|---|---|---|
| Shares of OJSC "Belagroprombank" | 35,000 | 35,000 |
| Shares of OJSC "Promagroleasing" | 4,115 | 4,115 |

The fact that the fair value cannot be determined in the Republic of Belarus is related to the absence of an active security market, insufficiency of security transactions of financial institutes, expert estimates of cost of the specified securities assume high uncertainty in relation to the applied judgements used in evaluation, particularly, in country risk evaluation.

In case of absence of market information for supply and demand prices and absence of transactions with similar equity instruments method of valuation of shares based on carrying amount of assets from IFRS financial statements is used during fair value of investments estimation. The Company recognized such instruments at cost less impairment losses, as nominal value is the best estimation of expected cash flow from their sale and methods and input data for valuation consist of significant judgements and make it impossible to be reliably determined.

The information below on cost of the investees' net assets according to IFRS and the Company's interest in these entities is represented for reference.

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| **Investment** | **% ownership** | **Net assets according to IFRS, BYN thousand** | **% ownership** | **Net assets according to IFRS, BYN thousand** |
| Shares of OJSC "Belagroprombank" | 2.8263% | 1,367,728* | 2.8263% | 1,448,745 |
| Shares of OJSC "Promagroleasing" | 1.6121% | 581,802 | 2.58% | 301,780 |

(*) – estimates of net assets according to IFRS based on the interim financial statements as at 30.09.2018.

*Fair value measurement*

Fair value is the price that would be received upon the sale of an asset or paid when transferring an obligation in a normal transaction between market participants as of the valuation date in the main market or, in its absence, in the most profitable market to which the Company has access to the specified date. Fair value of the liability reflects the risk of its non-performance.

As far as possible, the Company evaluates the fair value of the instrument using the quotations of this instrument in an active market. The market is recognised as active when its transactions for the asset or liability take place with sufficient frequency and volume to provide quotes on an ongoing basis. In the absence of current quotes in an active market, the Company uses valuation methods that maximise the observed source data and use the least observable basic data. The selected valuation methods include all factors that market participants would take into account in the circumstances.

The best evidence of fair value of a financial instrument on initial recognition is usually the price of the transaction, that is, the fair value of the consideration paid or received. If the Company determines that fair value at initial recognition differs from the transaction price and the fair value is not supported by the current quotes in the active market for a similar asset or liability and is not based on valuation techniques that use only observable inputs, the financial instrument is initially measured at fair value, adjusted to postpone the difference between the fair value at initial recognition and the transaction price.

### (f) Impairment

*Financial assets*

At each reporting date the Company assesses whether there is objective evidence that the financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative impact on the future cash flows of the asset that can be estimated reliably.

The Company considers impairment indicators regarding each individual asset under each reiunsurance and retrocession contract.

No impairment allowances are recognised in respect of receivables that have not yet become due.

The Company establishes a impairment allowances for deposits with banks if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and if the event (or events) had an impact on the estimated future cash flows that can be estimated from sufficient degree of reliability.

Financial assets' impairment losses classified as available-for-sale are recognised through reclassification to the profit or loss for the period of the amount of losses accumulated in the fair value changes reserve in equity. The amount of accumulated impairment loss, exempt from equity and recognised in profit or loss, is the difference between the acquiring cost of an asset (net of principal and amortization payments received) and the current fair value net of any impairment loss on that financial asset, previously recognised in profit or loss. Changes in impairment allowances accrued in connection with the application of the effective interest method are recognised as an element of interest income. If, subsequently, the fair value of an impaired debt securities classified as available-for-sale increases and the increase can be objectively attributed to an event occurring after the impairment loss was recognised in profit or loss for the period, the write-off for the loss is reversed, while the recoverable amount is recognised in profit or loss for the period. However, any subsequent recovery of the fair value of an impaired equity securities classified as available-for-sale is recognised in other comprehensive income.

Financial assets recognised at actual costs include unquoted equity instruments included in available-for-sale financial assets that are not recognised at fair value because their fair value cannot be determined reliably. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted using the current market profit rate for similar financial assets.

All impairment losses on these investments are recognised in profit or loss and cannot be reversed.

Features that testify to the impairment of financial assets measured at amortised cost are reviewed at the individual asset level on an individual basis. The amount of the impairment loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the initial effective interest rate of that asset. Losses are recognised in profit or loss for the period and are recorded in the impairment allowance.

*Non -financial assets*

Non-financial assets, other than deferred taxes and deferred acquisition costs, are assessed at each reporting date for any indications of impairment. In the presence of such evidence, the Company estimates the recoverable amount of the related asset. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that records current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash- generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the statement of profit or loss and other comprehensive income and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any reversed impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

## (g) Investment income and expenses

Investment income comprises interest income from financial investments (including available-for-sale financial assets), dividend income and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss and other comprehensive income, using the effective interest rate method.

Dividend income is recognised in statement of profit or loss and other comprehensive income on the date that the Company's right to receive payment is established.

## *(h) Income tax*

### *(i) Current income tax*

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax expense is measured based on taxable income for the year and calculated in accordance with the legislation of the Republic of Belarus. Taxable income differs from the income recognised in the statement of profit or loss and other comprehensive income, since it does not include income or expenses items, which are subject to taxation or deduction in other years, as well as excludes items that have never been taxable or deductible.

### *(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences arising between the carrying amount of assets and liabilities designated for the purpose of their recognition in the financial statements and their tax base. Deferred tax is not recognised for temporary differences arising on the initial recognition of assets and liabilities as a result of a transaction that is not a business combination and does not affect either accounting or taxable profit or tax loss.

Deferred tax assets are recognised for unused tax losses, tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which they can be realised. The amount of future taxable profit is determined on the basis of the value of the corresponding taxable temporary differences to the recovery. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

## *(i) Cash and cash equivalents*

In the cash flow statement cash and cash equivalents comprise demand deposits, overnight deposits and term deposits with banks with the initial maturity term less than three months. In the statement of cash flows, cash flows are presented using the indirect method.

## *(j) Deposits with banks*

Deposits with banks include cash in Belarusian rubles or in foreign currency that the Company placed in the bank for the purpose of saving and generating income for a period exceeding three months.

## *(k) Employee benefits*

Salaries of employees are recognised as expenses of the reporting period. The state pension system provides for calculating current employer contributions to the Social Security Fund as a percentage of current total payments to staff. These costs are accrued in the period when the related wages are accrued. Upon retirement all retirement benefit payments are made by the state. The company does not have any pension arrangements separate from the State pension system of the Republic of Belarus. In addition, the Company has no obligations for pension benefits or other compensation, requiring accrual.

### *(l) Provisions*

Provisions are recognised if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the Company expects to receive a refund of some or all provisions, the reimbursement is recognised as a separate asset but only when the reimbursement cannot be doubted. The expense relating to provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that adequately reflects the risks specific to the liability. If discounting is used, the increase in the allowance with the passage of time is recognised in financial expenses.

### *(m) Profit distribution to the owner*

In accordance with the legislation of the Republic of Belarus, the Company is obliged to distribute part of its profits to the government of the Republic of Belarus. In 2018 and 2017 profit distribution to the owner comprised payments to budget of a certain percentage of the profit for the year earned by the Company in accordance with Belarusian accounting principles. The percentage depends on the profitability of the Company and is stated in the Order of the President of the Republic of Belarus #637 dated 28 December 2005 (with amendments and supplements). The level of the payment is limited by 20% of the profit, calculated on the basis of the data from the financial statements, compiled in accordance with the legislation of the Republic of Belarus.

Also, payments to the owner include payments to investment fund established in accordance with the Decree of the President of Belarus #357 of 7 August 2012 "On the order of formation and use of funds of innovation funds". The maximum level of the payment is limited by 25% of the profit. In 2018 and 2017 actual payments amounted to 8.3% of the profit, calculated on the basis of the data from the financial statements, compiled in accordance with the legislation of the Republic of Belarus.

In 2018 the Company also contributed BYN 761 thousand to the National Development Fund of the Republic of Belarus based on the Decree of the Council of Ministers of the Republic of Belarus #869 dated 5 December 2018 "On formation of the state special budgetary fund of national development in 2018" (in 2017 – no contributions).

Acquisitions of bonds from the Ministry of Finance on non-market conditions are accounted for as transactions with owner and are recognised as distribution of retained earnings in equity.

### *(n) Related party transactions*

The Company applies the exemption in respect of requirements for disclosure of transactions and balances with related parties in accordance with the paragraph 25 of IAS 24 *Related Party Disclosures*, which allows a simplified disclosure of transactions with entities related to the Government.

## (7) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Two new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the following new and amended standards in preparing these financial statements.

Of the standards that have not yet become effective, IFRS 17 and IFRS 9 are expected to have a material impact on the Company's financial statements in the period of initial application.

**IFRS 17 *Insurance Contracts***

IFRS 17 *Insurance Contracts* introduces an accounting model that measures groups of insurance contracts based on fulfilment cash flows and a contract service margin (CSM). The CSM is determined for groups of insurance contracts. Insurers will need to account for their business performance at a more granular level. It brings greater comparability and transparency about the profitability of new and in-force business and gives users of financial statements more insight into an insurer's financial health. Separate presentation of underwriting and financial results will give added transparency about the sources of profits and quality of earnings. The insurer can choose to present the effect of changes in discount rates and other financial risks in profit or loss or other comprehensive income to reduce volatility. The reinsurance contract held is accounted for separately form the underlying direct contracts. IFRS 17 requires information to be disclosed at a level of granularity that helps users assess the effects of contracts have on financial positon, financial performance and cash flows.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021. Earlier adoption is permitted for entities that apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on or before the date of application of IFRS 17. Full retrospective approach is required, but expedients (such as modified retrospective approach and fair value approach) could be used. An insurer could apply different approaches for different groups.

At its December 2018 meeting, the IASB voted to propose a narrow-scope amendment to IFRS 17. This follows the Board's tentative decision in November 2018 to propose a one-year deferral of IFRS 17's effective date to 2022. The proposed amendment aims to provide practical relief to insurers by requiring them to present insurance contracts on the statement of financial position at the portfolio level – a higher level of aggregation than currently required by IFRS 17.

Currently the Company is in the process of development of IFRS 17 implementation plan.

**IFRS 9 *Financial Instruments***

IFRS 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

***Classification – Financial assets***

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

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

it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

its contractual terms give rise 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 Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Company 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.

A financial asset is classified into one of these categories on initial recognition. See paragraph *"Transition"* related to IFRS 9 for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

**Business model assessment**

The Company will make an assessment of the objective of the business model in which a financial 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 that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, 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 assets;
- how the performance of the portfolio is evaluated and reported to the Company'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 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 Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be 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, 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 a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considered 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 Company considered:

contingent events that would change the amount and timing of cash flows;

leverage features;

prepayment and extension terms;

terms that limit the Company's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and

features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

**Impact assessment**

For the purpose of preparation of the additional disclosure required by IFRS 4 for insures applying temporary exemption from IFRS 9 the Company finalised the assessment of SPPI criteria. Based on assessment performed SPPI criteria is met for all debt financial assets not measured at FVTPL. The Company has not finalised the assessment of business models for managing the financial assets. Based on its preliminary assessment, the Company does not believe that the new classification requirements will have a material impact on its financial statements.

***Impairment - Financial assets and contract assets***

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Insurance receivables are not within the scope of IFRS 9 impairment requirements.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- *12-month ECLs.* These are ECLs that result from possible default events within the 12 months after the reporting date; and
- *lifetime ECLs.* These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

assessing whether the credit risk of an instrument has increased significantly since initial recognition; and

incorporating forward-looking information into the measurement of ECLs.

***Credit risk grades***

The Company will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. For certain exposures for which published external credit ratings are available the Company will use external credit ratings. The Company will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates – e.g. the difference in the risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

**Impact assessment**

The Company believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Company has not finalised its methodology over ECL assessment.

***Classification - Financial liabilities***

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Company has not designated any financial liabilities at FVTPL and it has no current intention to do so. The Company's assessment did not indicate any material impact regarding the classification of financial liabilities on the day of initial application of IFRS 9.

*Disclosures*

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

*Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will generally be recognised in retained earnings and reserves as at 1 January 2021.
- The following assessments have to be made on the basis of the facts and circumstances that exist 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 and financial liabilities as measured at FVTPL.

The designation of certain investments in equity instruments not held for trading as at FVOCI.Assets with low credit risk are those assets that have investment level rating of international rating agencies.

**IFRS 16 Lease**

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. The Company has assessed that the estimated impact, that initial application of IFRS 16 will have on its financial statements, will not be material.

As at 31 December 2018, the Company entered into only one lease – lease of office premises, under the terms of which the Company may terminate the relationships with a lessee upon providing a 1 month notice prior to the termination of the relationships. As at 31 December 2018, the Company registered the ownership for the office premises that is not ready for use at the preparation of the financial statements.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

***Transition***

The Company plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information. The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

**Other standards**

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements:

- IFRIC 23 *Uncertainty over Tax Treatments*;
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);*
- *Annual Improvements to IFRS Standards 2015-2017 Cycle – various standards;*
- *Amendments to References to Conceptual Framework in IFRS Standards.*

## (8) DISCLOSURES AIMED TO COMPARE THE COMPANY APPLYING THE TEMPORARY EXEMPTION WITH ENTITIES APPLYING IFRS 9

### a. Fair value analysis

The following table sets out information on fair value* as at reporting date and changes in the fair value during the reporting period for financial assets:

| | As at 31 December 2018 BYN'000 | During the year ended 31 December 2018, BYN'000 |
|---|---|---|
| ***Financial assets that meet the solely payments of principal and interest (SPPI) test under IFRS 9 (excluding any financial assets that meet the definition of held for trading in IFRS 9 or that are managed and evaluated on a fair value basis)*** | ***231,548*** | ***9,034*** |
| (a) cash and cash equivalents | 94,530 | - |
| (b) debt financial assets available-for-sale | 4,630 | - |
| (c) financial assets held-to-maturity | 84,688 | 9,034 |
| (d) receivables from reinsurance activities | 46,614 | - |
| (e) receivables from retrocession activities | 847 | - |
| (f) other receivables | 239 | - |
| ***All other financial assets, including financial assets:*** | | |
| *(a) with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding* | - | - |
| (a) equity financial assets available-for-sale | -* | - |

* Information about fair value is not disclosed because at the preparation of the financial statements it could not be determined reliably.

### b. Credit quality analysis

The Company uses external ratings for financial assets with established external ratings.

For banks with established international credit rating the classification is performed by this rating. The Company uses ratings established by Standard and Poor's methodology.

When assessing financial assets issued by the Republic of Belarus in the name of governmental bodies of the Republic of Belarus (the Ministry of Finance), banks under control of the Government of the Republic of Belarus in the name of governmental bodies of the Republic of Belarus, the Company uses sovereign credit rating of the Republic of Belarus.

Due to the business peculiarities of the Company that performs only insurance (reinsurance) activities, all receivables are not due, since in case of non-receipt of the next payment, either the reinsurance/retrocession agreement is terminated or additional agreements for payment delay are concluded. Thus, internal gradation is not stipulated, all types of receivables relate to one category "Undue receivables".

The following table sets out information on credit quality of the financial assets that meet the SPPI test under IFRS 9 (excluding any financial assets that meet the definition of held for trading in IFRS 9 or that are managed and evaluated on a fair value basis). Information on credit quality of financial assets is presented by credit risk rating grades as defined in IFRS 7, the carrying amounts applying IAS 39 (in the case of financial assets measured at amortised cost, before adjusting for any impairment allowances).

| Financial asset category | Balance as at 31 December 2018 |
|---|---|
| **Total cash and cash equivalents** | **94,530** |
| - accounts with banks having credit rating B | 92,061 |
| - accounts with state banks in relation to which sovereign credit rating B was used for presentation purposes | 2,469 |
| **Total debt financial assets available-for-sale** | **4,630** |
| Bonds of the Government of the Republic of Belarus and state bodies having credit rating B | 2,166 |
| Corporate bonds having credit rating B | 2,464 |
| **Total financial assets held-to-maturity** | **73,185** |
| Bonds of the Government of the Republic of Belarus and state bodies having credit rating B | 70,710 |
| Corporate bonds having credit rating B | 2,475 |
| **Total receivables** | **47,700** |
| Not due | 47,700 |

All financial assets as at 31 December 2018 do not relate to low credit risk category.

## (9) NET WRITTEN PREMIUMS

| *In thousands BYN* | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Gross written premiums | Retrocessionaires' share in premiums | Net written premiums | Gross written premiums | Retrocessionaires' share in premiums | Net written premiums |
| Property reinsurance | 28,765 | (12,310) | 16,455 | 34,629 | (22,387) | 12,242 |
| Pecuniary reinsurance | 34,409 | (4,368) | 30,041 | 27,868 | (5,076) | 22,792 |
| Aviation reinsurance | 10,584 | (9,467) | 1,117 | 9,968 | (8,305) | 1,663 |
| Liability reinsurance in the "Green card" system | 6,223 | (4,600) | 1,623 | 5,015 | (3,652) | 1,363 |
| Liability reinsurance | 2,778 | (739) | 2,039 | 4,203 | (516) | 3,687 |
| Marine reinsurance | 2,187 | (1,009) | 1,178 | 2,540 | (1,311) | 1,229 |
| Transport reinsurance | 804 | (19) | 785 | 526 | (33) | 493 |
| Medical expenses reassurance | 1,982 | - | 1,982 | 330 | - | 330 |
| Accident reinsurance | 38 | (24) | 14 | 2 | - | 2 |
| | **87,770** | **(32,536)** | **55,234** | **85,081** | **(41,280)** | **43,801** |

## (10) NET EARNED PREMIUMS

| *In thousands BYN* | **2018** | | | **2017** | | |
|---|---|---|---|---|---|---|
| | **Gross earned premiums** | **Retrocessionaires' share in premiums** | **Net earned premiums** | **Gross earned premiums** | **Retrocessionaires' share in premiums** | **Net earned premiums** |
| Property reinsurance | 32,280 | (21,657) | 10,623 | 30,151 | (17,834) | 12,317 |
| Pecuniary reinsurance | 26,372 | (1,855) | 24,517 | 14,820 | (1,475) | 13,345 |
| Aviation reinsurance | 11,138 | (10,912) | 226 | 10,132 | (8,135) | 1,997 |
| Liability reinsurance in the "Green card" system | 6,223 | (4,600) | 1,623 | 5,015 | (3,652) | 1,363 |
| Liability reinsurance | 2,541 | (422) | 2,119 | 4,093 | (506) | 3,587 |
| Marine reinsurance | 2,318 | (1,260) | 1,058 | 2,345 | (1,197) | 1,148 |
| Transport reinsurance | 712 | (34) | 678 | 818 | (19) | 799 |
| Medical expenses reassurance | 1,831 | - | 1,831 | 376 | - | 376 |
| Accident reinsurance | 34 | (21) | 13 | 2 | - | 2 |
| | **83,449** | **(40,761)** | **42,688** | **67,752** | **(32,818)** | **34,934** |

## (11) TECHNICAL RESERVES FRO UNEARNED PREMIUM AND UNEXPIRED RISKS

| *In thousands BYN* | **Gross** | **Retrocessionaires' share** | **Net** |
|---|---|---|---|
| **Balance at 1 January 2017** | **60,454** | **(30,846)** | **29,608** |
| *Written premiums* | *85,081* | *(41,280)* | *43,801* |
| *Premiums earned* | *(67,752)* | *32,818* | *(34,934)* |
| Changes for the year | 17,329 | (8,462) | 8,867 |
| Effect of changes in foreign exchange rate | 2,957 | (1,234) | 1,723 |
| **Balance at 31 December 2017** | **80,740** | **(40,542)** | **40,198** |
| *Written premiums* | *87,770* | *(32,536)* | *55,234* |
| *Premiums earned* | *(83,449)* | *40,761* | *(42,688)* |
| Changes for the year | 4,321 | 8,225 | 12,546 |
| Effect of changes in foreign exchange rate | 3,911 | (2,369) | 1,542 |
| **Balance at 31 December 2018** | **88,972** | **(34,686)** | **54,286** |

| *In thousands BYN* | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Retrocessionaires' share** | **Net** | **Gross** | **Retrocessionaires' share** | **Net** |
| UPR | 88,972 | (34,686) | 54,286 | 80,740 | (40,542) | 40,198 |
| URR | - | - | - | - | - | - |
| | **88,972** | **(34,686)** | **54,286** | **80,740** | **(40,542)** | **40,198** |

As at 31 December 2018 and 31 December 2017 the unrealised risk reserve was not made.

**Technical reserves for unearned premium and unexpired risks as at 31 December 2018 in currencies:**

| *In thousands BYN* | **BYN** | **USD** | **EUR** | **RUB** | **Total** |
|---|---|---|---|---|---|
| Technical reserves for unearned premium and unexpired risks, gross | 8,980 | 41,266 | 29,478 | 9,248 | **88,972** |
| Technical reserves for unearned premium and unexpired risks, net | 7,012 | 18,421 | 22,197 | 6,656 | **54,286** |

**Technical reserves for unearned premiums and unexpired risks as at 31 December 2017 in currencies:**

| *In thousands BYN* | **BYN** | **USD** | **EUR** | **RUB** | **Total** |
|---|---|---|---|---|---|
| Technical reserves for unearned premium and unexpired risks, gross | 7,632 | 50,723 | 17,103 | 5,282 | **80,740** |
| Technical reserves for unearned premium and unexpired risks, net | 5,998 | 19,936 | 11,198 | 3,066 | **40,198** |

## (12) NET PAID CLAIMS

| *In thousands BYN* | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross claims paid** | **Retro-cessionaires' share in claims** | **Net claims paid** | **Gross claims paid** | **Retro-cessionaires' share in claims** | **Net claims paid** |
| Property reinsurance | 7,055 | (347) | 6,708 | 6,397 | (663) | 5,734 |
| Pecuniary reinsurance | 5,760 | (774) | 4,986 | 6,218 | (584) | 5,634 |
| Aviation reinsurance | 952 | (260) | 692 | 570 | (362) | 208 |
| Transport reinsurance | 261 | (5) | 256 | 568 | (1) | 567 |
| Marine reinsurance | 253 | (58) | 195 | 354 | (226) | 128 |
| Liability reinsurance in the "Green card" system | 50 | (5) | 45 | 114 | (26) | 88 |
| Liability reinsurance | 127 | - | 127 | 105 | (4) | 101 |
| Medical expenses reinsurance | 13 | - | 13 | 11 | - | 11 |
| Accident reinsurance | 87 | (69) | 18 | | | |
| | **14,558** | **(1,518)** | **13,040** | **14,337** | **(1,866)** | **12,471** |

## (13) NET INCURRED CLAIMS

| *In thousands BYN* | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross incurred claims** | **Retro-cessionaires' share** | **Net incurred claims** | **Gross incurred claims** | **Retro-cessionaires' share** | **Net incurred claims** |
| Property reinsurance | 6,659 | (750) | 5,909 | 9,204 | (3,829) | 5,375 |
| Pecuniary reinsurance | 14,432 | (1,259) | 13,173 | 4,227 | (317) | 3,910 |
| Marine reinsurance | 4,065 | (2,157) | 1,908 | 344 | (259) | 85 |
| Liability reinsurance in the "Green card" system | (1,304) | 473 | (831) | 1,356 | (410) | 946 |
| Aviation reinsurance | 2,652 | (389) | 2,263 | 933 | (548) | 385 |
| Transport reinsurance | 200 | (1) | 199 | 480 | (4) | 476 |
| Liability reinsurance | 1,141 | 4 | 1,145 | 218 | (1) | 217 |
| Medical expenses reinsurance | (4) | - | (4) | 15 | - | 15 |
| Accident reinsurance | 140 | (69) | 71 | - | - | - |
| | **27,981** | **(4,148)** | **23,833** | **16,777** | **(5,368)** | **11,409** |

## (14) OUTSTANDING CLAIM TECHNICAL RESERVES

| *In thousands BYN* | **Gross** | **Retrocessionaires' share** | **Net** |
|---|---|---|---|
| **Balance at 1 January 2017** | **41,315** | **(6,214)** | **35,101** |
| *Claims incurred during the period* | *16,777* | *(5,368)* | *11,409* |
| *Claims paid* | *(14,337)* | *1,866* | *(12,471)* |
| Changes for the year | 2,440 | (3,502) | (1,062) |
| Effect of changes in foreign exchange rates | 2,035 | (456) | 1,579 |
| **Balance at 31 December 2017** | **45,790** | **(10,172)** | **35,618** |
| *Claims incurred during the period* | *27,981* | *(4,148)* | *23,833* |
| *Claims paid* | *(14,558)* | *1,518* | *(13,040)* |
| Changes for the year | 13,423 | (2,630) | 10,793 |
| Effect of changes in foreign exchange rates | 515 | (382) | 133 |
| **Balance at 31 December 2018** | **59,728** | **(13,184)** | **46,544** |

| *In thousands BYN* | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Retrocessionaires' share** | **Net** | **Gross** | **Retrocessionaires' share** | **Net** |
| RBNS | 48,349 | (13,184) | 35,165 | 39,776 | (10,172) | 29,604 |
| IBNR | 11,379 | - | 11,379 | 6,014 | - | 6,014 |
| | **59,728** | **(13,184)** | **46,544** | **45,790** | **(10,172)** | **35,618** |

Outstanding claim technical reserves as at 31 December 2018 in currencies:

| *In thousands BYN* | BYN | USD | EUR | RUB | Total |
|---|---|---|---|---|---|
| Outstanding claim technical reserves, gross | 13,137 | 23,479 | 6,971 | 16,141 | **59,728** |
| Outstanding claim technical reserves, net | 9,084 | 16,839 | 5,730 | 14,891 | **46,544** |

Outstanding claim technical reserves as at 31 December 2017 in currencies:

| *In thousands BYN* | BYN | USD | EUR | RUB | Total |
|---|---|---|---|---|---|
| Outstanding claim technical reserves, gross | 5,966 | 14,423 | 7,744 | 17,657 | **45,790** |
| Outstanding claim technical reserves, net | 2,639 | 10,743 | 6,293 | 15,943 | **35,618** |

## (15) CLIENT AQUISITION COSTS

Changes in deferred client acquisition costs during 2018 and 2017 were as follows:

| *In thousands BYN* | | |
|---|---|---|
| **Balance at 1 January 2017** | | **5,096** |
| *Written acquisition costs* | | *4,978* |
| *Change in acquisition costs recognised in the statement of profit or loss and other comprehensive income* | | *(4,757)* |
| | Changes for the year | 221 |
| **Balance at 31 December 2017** | | **5,317** |
| *Written acquisition costs* | | *5,980* |
| *Change in acquisition costs recognised in the statement of profit or loss and other comprehensive income* | | *(5,743)* |
| | Changes for the year | 237 |
| **Balance at 31 December 2018** | | **5,554** |

In 2018 and 2017 client acquisition costs by reinsurance types were as follows:

| *In thousands BYN* | 2018 | 2017 |
|---|---|---|
| Property reinsurance | 2,999 | 1,996 |
| Pecuniary reinsurance | 1,723 | 1,761 |
| Liability reinsurance | 426 | 450 |
| Aviation reinsurance | 455 | 439 |
| Marine reinsurance | 148 | 148 |
| Medical expenses reinsurance | 156 | 141 |
| Transport reinsurance | 70 | 43 |
| Accident reinsurance | 3 | - |
| | **5,980** | **4,978** |

| *In thousands BYN* | **2018** | **2017** |
|---|---|---|
| Commissions to insurance and reinsurance companies | 4,654 | 4,543 |
| Commissions to reinsurance brokers | 1,326 | 435 |
| | **5,980** | **4,978** |

## (16) ADMINISTRATIVE EXPENSES

| *In thousands BYN* | **2018** | **2017** |
|---|---|---|
| Labor costs | 1,979 | 1,986 |
| Social security contributions | 432 | 476 |
| Insurance expenses | 384 | 262 |
| Professional services | 152 | 170 |
| Rent | 158 | 147 |
| Bank commissions | 151 | 109 |
| Advertisement and public relations | 94 | 78 |
| Contributions to Belgosstrakh | 93 | 102 |
| Utilities and maintenance | 85 | 97 |
| Business trips | 66 | 52 |
| Depreciation and amortization | 45 | 37 |
| Membership contributions | 29 | 21 |
| Tax payments | 52 | 11 |
| Other | 186 | 92 |
| | **3,906** | **3,640** |

## (17) INVESTMENT INCOME

| *In thousands BYN* | **2018** | **2017** |
|---|---|---|
| Interest income on commercial bonds | 15,977 | 11,232 |
| Interest income on deposits | 1,957 | 3,861 |
| Dividends received | 696 | 239 |
| | **18,630** | **15,332** |

## (18) OTHER INCOME AND EXPENSES

| *In thousands BYN* | **2018** | **2017** |
|---|---|---|
| **Other income** | | |
| Foreign exchange differences | 5,560 | 3,019 |
| Income from termination of retrocession contracts | 1,964 | 120 |
| Income from regression claims | 257 | 124 |
| Income from fines, penalties, forfeits | 145 | 2 |
| Return of reinsurer's share | - | 90 |
| Other | 10 | 52 |
| **Total other income** | **7,936** | **3,407** |

| _In thousands BYN_ | 2018 | 2017 |
|---|---|---|
| **Other expenses** | | |
| Expenses from termination of reinsurance contracts | (3,555) | (2,125) |
| Charity | (1,229) | (847) |
| Change in bad debt allowance | (730) | - |
| Expenses from fines, penalties, forfeits | - | (49) |
| Other | (552) | (351) |
| **Total other expenses** | **(6,066)** | **(3,372)** |

## (19) INCOME TAX EXPENSES

According to the Tax Code of the Republic of Belarus, the rate of corporate income tax in 2018 and 2017 is 18%, for banks and insurance companies is 25%.

| _In thousands BYN_ | 2018 | 2017 |
|---|---|---|
| Current tax | 7,544 | 4,335 |
| Deferred tax expense / benefit | (3,620) | 485 |
| **Income tax expense** | **3,924** | **4,820** |

| _In thousands BYN_ | 2018 | | 2017 | |
|---|---|---|---|---|
| | % | _thousands BYN_ | % | _thousands BYN_ |
| **Income before tax** | | **30,862** | | **31,806** |
| Theoretical tax | 25% | 7,716 | 25% | 7,952 |
| Tax-exempt income | (12.65%) | (3,902) | (9.59%) | (3,049) |
| Non-deductible expenses | 0.80% | 246 | 0.69% | 221 |
| Tax-exempt income (income on bonds) | (0.44%) | (136) | (0.96%) | (304) |
| **Income tax expense** | **12.71%** | **3,924** | **15.14%** | **4,820** |

| _In thousands BYN_ | 2018 | 2017 (restated) |
|---|---|---|
| **Deferred tax (liability)/asset at the beginning of the year** | **(276)** | **209** |
| Deferred tax income/ (expense) during the reporting period attributable to profit or loss | 3,620 | (485) |
| **Deferred tax (liability)/asset at the end of year** | **3,344** | **(276)** |

Deferred tax assets and liabilities as at 31 December 2018, as at 31 December 2017 (**restated**) are as follows:

| | Assets | | Liability | | Net | |
|---|---|---|---|---|---|---|
| | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** | **31 December 2018** | **31 December 2017** |
| Property, plant and equipment | - | - | (172) | (170) | (172) | (170) |
| Intangible assets | 23 | 15 | - | - | 23 | 15 |
| Financial assets available for sale | 1,123 | 1,123 | - | - | 1,123 | 1,123 |
| Receivables on reinsurance agreements | 2,576 | 452 | - | - | 2,576 | 452 |
| Receivables on retrocession agreements | 168 | - | - | - | 168 | - |
| Other receivables | 50 | 15 | - | - | 50 | 15 |
| Deferred acquisition costs | - | - | (1,389) | (1,329) | (1,389) | (1,329) |
| Deferred expenses accrued | 40 | 10 | - | - | 40 | 10 |
| Other deferred expenses | - | - | (212) | (25) | (212) | (25) |
| Reinsurer's share in unearned premium technical reserves | 914 | - | - | (1,086) | 914 | (1,086) |
| Reinsurer's share in outstanding claim technical reserves | 418 | 441 | - | - | 418 | 441 |
| Prepayments | 4 | - | - | - | 4 | - |
| Technical reserves for unearned premium and unexpired risks | - | 3,006 | (1,124) | - | (1,124) | 3,006 |
| Outstanding claim technical reserves | 2,348 | 620 | - | - | 2,348 | 620 |
| Payables on reinsurance agreements | - | - | (87) | - | (87) | - |
| Payables on retrocession agreements | - | - | (1,403) | (424) | (1,403) | (424) |
| Other payables | 67 | - | - | (2,924) | 67 | (2,924) |
| **Net tax assets (liabilities)** | **7,731** | **5,682** | **(4,387)** | **(5,958)** | **3,344** | **(276)** |

## (20) THE RESULT OF RISK TRANSMISSION TO RETROCESSION

*In thousands BYN*

| | Notes | 2018 | 2017 |
|---|---|---|---|
| Premiums transferred to retrocessionaires | 9 | (32,536) | (41,280) |
| Retrocessionaires' share in change in unearned premiums reserve | 11 | (8,225) | 8,462 |
| Retrocessionaires' share of claims paid | 12 | 1,518 | 1,866 |
| Retrocessionaires' share in change in outstanding claim technical reserves | 14 | 2,630 | 3,502 |
| Retrocessionaires' commission income | | 1,255 | 1,352 |
| **Total risk transmission result** | | **(35,358)** | **(26,098)** |

## (21) PROPERTY AND EQUIPMENT

*In thousands BYN*

| | Vehicles | Other fixed assets | Furniture and office equip ment | Construction in progress | Total |
|---|---|---|---|---|---|
| **Initial cost** | | | | | |
| **Balance at 1 January 2017** | **40** | **45** | **125** | **-** | **210** |
| Additions | - | - | 49 | 2,106 | **2,155** |
| Disposals | - | - | - | - | **-** |
| **Balance at 31 December 2017** | **40** | **45** | **174** | **2,106** | **2,365** |
| Additions | - | - | 33 | 37 | **70** |
| Disposals | - | - | (11) | | **(11)** |
| **Balance at 31 December 2018** | **40** | **45** | **196** | **2,143** | **2,424** |
| | | | | | |
| **Accumulated depreciation** | | | | | |
| **Balance at 1 January 2017** | **(8)** | **(37)** | **(77)** | **-** | **(122)** |
| Depreciation for the year | (5) | (3) | (16) | - | **(24)** |
| Disposals | - | - | - | - | **-** |
| **Balance at 31 December 2017** | **(13)** | **(40)** | **(93)** | **-** | **(146)** |
| Depreciation for the year | (3) | - | (22) | - | **(25)** |
| Disposals | - | | 11 | | **11** |
| **Balance at 31 December 2018** | **(16)** | **(40)** | **(104)** | **-** | **(160)** |
| | | | | | |
| **Balance at 1 January 2017** | **32** | **8** | **48** | **-** | **88** |
| **Balance at 31 December 2017** | **27** | **5** | **81** | **2,106** | **2,219** |
| **Balance at 31 December 2018** | **24** | **5** | **92** | **2,143** | **2,264** |

## (22) FINANCIAL INVESTMENTS IN DEBT SECURITIES

| *In thousands BYN* | Currency | Carrying amount 31 December 2018 | Carrying amount 31 December 2017 |
|---|---|---|---|
| Bonds of the Ministry of Finance of the Republic of Belarus | BYN | 54,793 | 39,885 |
| Eurobonds of the Republic of Belarus | USD | 11,592 | 4,347 |
| Bonds of the Ministry of Finance of the Republic of Belarus | USD | 4,530 | 4,045 |
| Bonds of OJSC "Belagroprombank" | EUR | 2,475 | 2,356 |
| | | **73,390** | **50,633** |

According to the sales and purchase agreement, the interest income from bonds of the Ministry of Finance of the Republic of Belarus in Belarussian roubles amounts to 0%; maturity date for the part of the bonds is 23 April 2019, and for the remaining part is 23 April 2020.

The Company considers this agreement as a transaction with the owner. The result of the bonds' initial recognition at fair value is recognised in the statement of changes in equity.

According to the the issue prospectus, the interest income from bonds of the Ministry of Finance of the Republic of Belarus in USD amounts to 5.5%; maturity date for the part of the bonds is 6 February 2020, and for the remaining part is 28 February 2023.

According to the the issue prospectus, the interest income from Eurobonds of the Republic of Belarus in USD amounts to 6.88%; maturity date is 28 February 2023.

According to the issue prospectus, the interest income on the bonds of OJSC "Belagroprombank" is 4.5%, the maturity date is 24 December 2019.

## (23) FINANCIAL ASSETS AVAILABLE-FOR-SALE

Investments classified as available-for-sale financial assets are shares in other companies which are not quoted and quoted Government bonds.

| *In thousands BYN* | | | 31 December 2018 | | 31 December 2017 (restated) | |
|---|---|---|---|---|---|---|
| | | **Sector** | **% owned** | **Carrying amount** | **% owned** | **Carrying amount** |
| OJSC "Belagroprombank" | Shares | Bank | 2.8263% | 35,000 | 2.8263% | 35,000 |
| OJSC "Promagroleasing" | Shares | Leasing company | 1.6121% | 4,115 | 2.58% | 4,115 |
| Development bank | Bonds | Bank | | 2,464 | | 2,355 |
| The Ministry of Finance | Bonds | Government body | | 2,166 | | - |
| | | | | **43,745** | | **41,470** |

As at 31 December 2018 and as at 31 December 2017, there were no indicators reflecting the need to perform impairment test of investments. See Notes 4, 6 (e) and 34 for additional information about accounting of these investments.

According to the sales and purchase agreement, the interest income from available-for-sale bonds of the Development bank as at 31 December 2017 amounted to 6.25%; the bonds were bought back on 29 March 2018.

According to the sales and purchase agreement, the interest income from available-for-sale bonds of the Development bank in EUR and of the Ministry of Finance in USD as at 31 December 2018 amounted to 3.5% and 5.7%, respectively; it is planned to buy the bonds back on 9 October 2019 and 10 December 2019, respectively.

## (24) RECEIVABLES FROM REINSURANCE ACTIVITIES

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Contributions payable to reinsurers | 46,614 | 37,642 |
| | **46,614** | **37,642** |

For the receivables specified above the payment term has not come yet.

## (25) OTHER RECEIVABLES AND PREPAYMENTS

*Other receivables*

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Legal expenses due | - | 54 |
| Claims due | - | 53 |
| Other | 34 | 48 |
| | **34** | **155** |

*Prepayments*

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Taxes, except income tax | 55 | 62 |
| Lease | - | 13 |
| Other | 41 | 8 |
| | **96** | **83** |

## (26) CASH AND CASH EQUIVALENTS

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Deposits under 3 months | 94,271 | 35,069 |
| Current accounts with credit institutions | 259 | 407 |
| **Cash and cash equivalents** | **94,530** | **35,476** |

As at 31 December 2018 and as at 31 December 2017 all cash and cash equivalents were placed in Belarusian financial institutions. As at 31 December 2018 cash in the amount of BYN 9,804 thousand was provided as security under reinsurance agreements and limited in use.

As at 31 December 2018 the major part of cash and cash equivalents was placed in the following banks: OJSC "Belagroprombank" – BYN 49,435 thousand (52.3%), OJSC "ASB Belarusbank" – BYN 20,789 thousand (22%), OJSC "Belinvestbank" – BYN 21,027 thousand (22.2%).

As at 31 December 2017 the major part of cash and cash equivalents was placed in the following bank: OJSC "Belagroprombank" – BYN 30,484 thousand (85.93%).

## (27) CAPITAL AND RESERVES

In 2018, the Company's share capital was increased by BYN 15,224 thousand due to retained earnings (in 2017, by BYN 4,811 thousand). As at 31 December 2018 the Company's share capital amounted to BYN 348,950 thousand (in 2016 – BYN 333,726 thousand).

The sole shareholder of the Company is the Council of Ministers of the Republic of Belarus. Dividend distribution means profit allocation to the owner, details are disclosed in Note 6(m).

The Company's funds distributable to the owner are limited to the amount of distributable funds that are stated in the official statements of the Company, prepared according to Belarusian accounting rules.

Amounts of retained earnings as at 31 December 2018 and 31 December 2017 were BYN 11,875 thousand and BYN 16,881 thousand, respectively.

During the year ended 31 December 2018:

- contributions from the profit of Republican Unitary Enterprises were made in the amount of BYN 4,458 thousand (in 2017: BYN 6,109 thousand),

- contributions to investment fund of the Ministry of Finance of the Republic of Belarus were made in the amount of BYN 1,522 thousand (in 2017: BYN 764 thousand),

- contributions to National Development Fund of the Republic of Belarus were made in the amount of BYN 761 thousand (in 2017: no contributions).

## (28) OTHER PAYABLES

| _In thousands BYN_ | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Payables to owner | 1,860 | 364 |
| Payables to employees | 174 | 168 |
| Payments for social insurance | 56 | 54 |
| Payments for property and personal insurance | 40 | 25 |
| Provision for unused vacations | 37 | 25 |
| Prepayments received under reinsurance contracts | - | 13 |
| Tax liabilities | - | 2 |
| Other | 40 | 90 |
| **Other payables** | **2,207** | **741** |

## (29) RELATED PARTIES

| _In thousands BYN_ | **2018** | **2017** |
|---|---|---|
| **Salary and other personnel costs** | **185** | **165** |
| _- Key management personnel_ | _185_ | _165_ |

The Company is controlled by the Government of the Republic of Belarus. The Company operates in an economic regime dominated by entities directly or indirectly controlled by the Government of the Republic of Belarus through its government authorities, agencies, affiliations and other organizations (collectively referred to as "government-related entities"). The Company has transactions with other government-related entities including assuming risks in reinsurance, reinsuring the risks; receiving services; depositing money.

Related party transactions for the year ended 31 December 2018 and the year ended 31 December 2017 were conducted in the ordinary course of the Company's business on terms comparable to those with other entities that are not government-related; for example non-state insurers. The Company has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

The main counterparties, which are related parties are the state-owned insurance companies:, BRUCEII "Beleximgarant", BRUIC "Belgosstrakh" and insurance companies with more than 50 percent of government shareholding: CJSIC "Belneftestrakh", CJSIC "TASK", CJSIC "Promtransinvest", JLLC "Belkoopstrah". The transactions with state-owned insurance companies are listed below.

| *In thousands BYN* | **2018** | **2017** |
|---|---|---|
| **Gross written premiums** | **71,040** | **70,984** |
| *State insurers* | 71,040 | 70,984 |
| **Acquisition expenses** | **(4,116)** | **(3,944)** |
| *State insurers* | (4,116) | (3,944) |
| **Retrocessionaires' share in written premiums** | **(3,220)** | **(5,068)** |
| *State insurers* | (3,220) | (5,068) |
| **Retrocessionaires' commission income** | **156** | **226** |
| *State insurers* | 156 | 226 |
| **Paid claims** | **(8,109)** | **(7,373)** |
| *State insurers* | (8,109) | (7,373) |
| **Retrocessionaires' share in claims paid** | **389** | **714** |
| *State insurers* | 389 | 714 |

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| **Receivables from reinsurance activities** | **40,314** | **33,259** |
| *State insurers* | 40,314 | 33,259 |
| **Payables from reinsurance activities** | **(2,714)** | **(2,304)** |
| *State insurers* | (2,714) | (2,304) |
| **Receivables from retrocession activities** | **92** | **191** |
| *State insurers* | 92 | 191 |
| **Other receivables** | **54** | **1** |
| *State insurers* | 54 | 1 |
| **Payables from retrocession activities** | **(1,044)** | **(1,570)** |
| *State insurers* | (1,044) | (1,570) |
| **Other payables** | **(15)** | **(25)** |
| *State insurers* | (15) | (25) |
| **RBNS** | **14,681** | **13,068** |
| *State insurers* | 14,681 | 13,068 |
| **Retrocessionaires' share in RBNS** | **7,450** | **2,615** |
| *State insurers* | 7,450 | 2,615 |

According to the Order of the President of the Republic of Belarus #530 dated 26 August 2006 (with following amendments and supplements) insurance companies with more than 50 percent of government shareholding are obliged to invest their own funds and insurance reserves in the state owned banks. Their own funds may be invested in government securities, securities of the National Bank, the local executive and administrative bodies, securities of state-owned banks and OJSC "Bank for Development of the Republic of Belarus", unless otherwise established by the President of the Republic of Belarus, real estate, and directed to the formation of statutory funds of organizations, in which the said insurance organizations are the property owners (founders, participants).

As at 31 December 2018, as at 31 December 2017, the Company had cash and cash equivalents (including deposits up to 3 months) on the accounts of state owned banks in the amount of BYN 94,530 thousand and BYN 35,476 thousand, respectively; deposits as at 31 December 2017 in the amount of BYN 50,794 thousand. The interest accrued on deposits placed with state banks amounted to BYN 1,957 thousand for 2018 and BYN 3,861 thousand for 2017, respectively.

As at 31 December 2018 and 31 December 2017 all financial investments in debt securities in the amount of BYN 73,390 thousand and BYN 50,633 thousand and financial assets available for sale in the amount of BYN 43,745 thousand and BYN 41,470 thousand were investments in related parties.

## (30) NUMBER OF EMPLOYEES

| | 2018 | 2017 |
|---|---|---|
| Average number of employees | 63 | 64 |

## (31) REMAINING MATURITIES OF INSURANCE LIABILITIES

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *In thousands BYN* | Gross liabilities | Retroces-sionaires' share | Net liabilities | Gross liabilities | Retrocess-ionaires' share | Net liabilities |
| Technical reserves for unearned premium and unexpired risks | 88,972 | (34,686) | 54,286 | 80,740 | (40,542) | 40,198 |
| Outstanding claim technical reserves | 59,728 | (13,184) | 46,544 | 45,790 | (10,172) | 35,618 |
| **Total** | **148,700** | **(47,870)** | **100,830** | **126,530** | **(50,714)** | **75,816** |
| Less than 1 year | 95,345 | (26,691) | **68,654** | 70,968 | (21,149) | **49,819** |
| From 1 to 5 years | 42,157 | (18,937) | **23,220** | 48,588 | (27,789) | **20,799** |
| More than 5 years | 11,198 | (2,242) | **8,956** | 6,974 | (1,776) | **5,198** |

## (32) RISK MANAGEMENT

### *(a) Risk and risk management*

The objective of risk management performed by the Company is to protect the interests of stakeholders, i.e. reinsured and shareholders of the Company. Risk management includes a set of measures the performance of which requires involvement of each staff member within the scope of their competency. The Company's risk management includes:

- Capital sufficiency requirements and capital management;
- Insurance risk identification and management;
- Financial risks identification and management;
- Operational risks identification and management.

### *(b) Solvency requirements and Capital management*

The Company's objectives when managing capital are to comply with minimum capital requirements stipulated by the Instruction on the criteria and evaluation of insurance organizations' solvency, approved by the Decree of Ministry of Finance of the Republic of Belarus on 10 March 2007 No.73 and with requirements to minimal share capital, established in the Decree of the President of the Republic of Belarus dated 25 August 2006 № 530 "On Insurance Operations". The Company is obliged to hold the minimum amount of capital required to run the business. The minimal required share capital according to the Decree is EUR 5,000,000. The minimum required capital is calculated based on the statutory accounting records and must be maintained at all times throughout the year and to safeguard the Company's ability to continue as a going concern. As at 31 December 2017 and as at 31 December 2016, the share capital complies with this criterion.

In order to ensure the stability of the insurer's financial activities, the insurance company should constantly have own funds at its disposal, which should be equal to or larger than a determined solvency margin, calculated on the basis of financial statements, compiled in accordance with the legislation of the Republic of Belarus.

| *In thousands BYN* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Solvency margin based on premiums received | 16,987 | 15,361 |
| Solvency margin based on claims paid | 6,409 | 3,688 |
| **Solvency margin (the largest amount)** | **16,987** | **15,361** |
| Reinsurance ratio | 0.79 | 0.7 |
| **Solvency margin adjusted by reinsurance ratio** | **13,420** | **10,753** |
| **Total capital to calculate capital adequacy (own funds)** | **179,334** | **168,781** |
| **Capital adequacy surplus** | **165,914** | **158,028** |

### *(c) Insurance risks identification and risk management*

The business of assumed reinsurance represents the transfer of risk from the reinsured to the reinsurer and management of this risk. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its assumed reinsurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur if the frequency and severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The calculation of the tariffs and prices on insurance products reflects current market conditions and covers the most probable assumptions necessary for the adjustment of future results, aiming to mitigate significantly financial risks. Those transactions requiring special authorization are subject to the special attention of the Management of Company and the Insurance Committee in particular.

### *(d) Basic products features*

The terms and conditions of assumed reinsurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from assumed reinsurance contracts are set out below. In addition, the following gives an assessment of the Company's main products and the ways in which it manages the associated risks.

The main objective of reinsurance is the provision of reinsurance protection to the insurance/reinsurance companies.

There are the following main insurance products of the Company:

- aviation reinsurance;
- property reinsurance;
- pecuniary reinsurance (including the risk of outstanding credit occurrence insurance);
- liability reinsurance in the "Green card" system;
- transport reinsurance (CASCO);
- liability reinsurance;
- marine reinsurance;
- accident reinsurance;

- medical expenses reinsurance.

The evaluation of the Company's main insurance products and means by which the risks connected with them are managed are given below.

*Aviation reinsurance*

Aviation reinsurance is a common name for the complex of property, personal and liability reinsurance, which results from the usage of aviation transport and protects the valuable interest of individuals and legal entities in case of the occurrence of events, set by the insurance contract or legislation.

Order and conditions of aviation insurance are specific and require the detailed description. This is stipulated by the following factors:

- aviation insurance deals with unique risks differing from other types of property;
- significant part of the insured amounts provides for the coordination of activities between insurers and reinsurers;
- aviation risks may lead to enormous and cumulative losses;
- aviation insurance is strongly connected with a global insurance market;
- aviation insurance is regulated both by national and international law;
- the special developed infrastructure is required for conduction of aviation insurance operations;
- aviation risks require a high demand for the professional training of specialists in charge of the insurance process.

The goal of civil aviation insurance is the protection of interests of aircraft operators, passengers and third parties. It includes:

- liability insurance of air carrier against damage caused to passengers, baggage, mail, cargo;
- liability insurance of aircraft operators against damage caused to third parties;
- insurance of aircraft crew and other aviation personnel;
- aircraft insurance;
- insurance of aerial work requester's employees, personnel, connected with the provision of technological process during the aerial works.

Reinsurance of aviation risks may be provided in case of an extensive retrocession system. From the insured amount point of view aviation risks are the largest ones from all lines of business (dozens and thousands of millions of dollars), therefore, large retrocession contracts with international insurance brokers are concluded.

*Property reinsurance*

This reinsurance covers losses incurred as a result of damage to the property of individuals and legal entities. Assumed reinsurance portfolio of the Company for this line of business includes the following types of reinsurance:

- catastrophic risks reinsurance;
- building and construction risks reinsurance;
- citizens' homestead reinsurance;
- citizens' buildings reinsurance;

- companies' property reinsurance;
- reinsurance of animals belonging to legal entities;
- cash counter reinsurance;
- reinsurance of space risks;
- reinsurance of energy risks and etc.

According to the limit policy of the Company there are limits of some types of provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings. When assuming the contracts in reinsurance the risks are thoroughly appraised and there is an analysis of:

- the information on the object of reinsurance (its characteristics, period of reinsurance, location);
- the information on the amount of cover (specification of risks);
- economic indicators (insurance amount, premiums, deductibles, priority of the reinsured, order of reinsurance premium payment);
- historical information on loss development;
- the existence of the cumulation risk;
- other available data related to the risks' estimation.

*Pecuniary reinsurance (including the risk of outstanding debt repayment)*

Pecuniary (financial) risk is a risk of losses arising from the breach of obligations by the counterparty of the policyholder connected with the entrepreneurial activities of the policyholder.

This insurance covers losses incurred as a result of the neglect (not proper fulfillment) of obligations by the policyholder's counterparty for the following types of transactions:

- non-delivery, incomplete delivery of goods, non-transfer of property (goods), non-fulfillment of works, services by the time set in contract;
- repayment of debt issued by insured;
- rent, including leasing;
- payment of cash (transfer of a dwelling premise) in terms and in amounts (within the nominal value) provided for by the terms of the bond issue;
- storage keeping;
- pledging of bank security (guarantee).

In order to minimise the losses, connected with insurance (reinsurance) of pecuniary risks, qualitative and thorough analysis of customer's, debtor's, issuer's financial performance is performed, using the data from the financial statements, then the decision whether it's possible to assume these risks in reinsurance is made by the Insurance Committee.

The majority of pecuniary risks are assumed in reinsurance from the following insurance companies: BRUCEII "Beleximgarant", BRUIC "Belgosstrakh" and CJSIC "Promtransinvest".

*Liability reinsurance in the "Green card" system*

Since 1 June 2007 the Republic of Belarus is a full member of the International "Green Card" insurance system. The Company has been ceding Belarusian "Green Card" certificates since 2008. Ceding broker is LLC "Insurance broker Malakut".

The Company assumes in reinsurance on the first and second levels of the obligatory reinsurance contract on Belarusian "Green Card" certificates.

*Liability reinsurance*

Liability insurance (reinsurance) covers losses associated with the emergence of the policyholder liabilities for damages to third parties on account of any act or omission by the insured. The Company assumes in reinsurance the following types of liability reinsurance:

Civil liability:

- liability insurance of legal entities;
- liability insurance of minor ships' owners;
- liability insurance against non-fulfillment of public contract's obligations;
- liability insurance of reactor operator;
- liability insurance against nuclear damage;
- liability insurance against harm caused due to professional activity;
- liability custom authorities insurance;
- liability insurance of customs warehouses' owners;
- liability insurance of commodity producer;
- liability insurance of carrier and forwarder;
- liability insurance of high-threat organizations;
- liability insurance of employer;
- liability insurance against harm caused to third parties;
- liability insurance of local carriers;
- liability insurance against forced business interruption;
- cancellation of mass, cultural, sports and other entertainment activities insurance.

According to the limit policy of the Company there are limits of the provided reinsurance protection stated and quarterly reviewed at the Company's Insurance Committee meetings.

*Transport reinsurance (CASCO)*

Transport insurance means the reinsurance of risks connected with compensation of losses which arise from damage to, destruction or loss of vehicle. This line of business is represented by assuming in reinsurance the following types of insurance:

- individuals' vehicle insurance;
- legal entities' vehicle insurance;
- insurance of agricultural machines;
- insurance of ships;
- rail transport insurance.

*Marine reinsurance*

Marine insurance is a common name for a complex of insurance types where insurance objects are property interests related to river and sea-going vessels. The Company assumes in reinsurance the following groups of marine insurance agreements:

- contractual – it supposes the contract of marine insurance is concluded with insurer, which for the certain fee (premium) undertakes the responsibility to reimburse losses resulting from a claim accident to the insured or insurance beneficiary;
- mutual – it takes part at mutual insurance clubs. The main feature of mutual insurance is the reimbursement of possible losses of the member of the mutual insurance club from the mutual fund composed from the club members' fees.

The Company assumes in reinsurance the following types of marine insurance agreements:

- marine (river) CASCO – the insurance of ship's hull and equipment. The main risks covered include:
  - collision of ships;
  - damage of freight due to bad weather conditions;
  - running aground;
  - fire, explosion, lightning stroke;
  - general accident;
  - other risks;
- freight insurance. Freight gross value is insured, including ship owner's profit and costs of insurance.

Ship owner's liability insurance is usually maintained through insurance clubs on these clubs' conditions.

Reinsurance of marine risks in mentioned above amounts is possible when there is an extensive reinsurance system, involving reinsurance capacity of the worldwide insurance market. This is impossible without retrocession contracts with worldwide insurance brokers. Ceding of risks is performed on the facultative quota share basis. Ceding brokers on the foreign markets are Filhet Allard Maritime (France), Direct Insurance Group plc (Lloyd's Broker).

The Company assumes for reinsurance three main options:

- all risks;
- including responsibility for particular accident;
- excluding responsibility for particular accident.

_Accident reinsurance_

According to the rules of accident insurance, the insurance company provides compensation to the insured in the event of death or injury of the insured as a result of an accident. Accident insurance also allows to compensate costs of treatment and losses due to disablement.

The Company offers reinsurance cover on the following types of risk:

- accident and disease insurance during the trip abroad;
- accident insurance at the expense of legal entities;
- accident insurance of individuals, etc.

In order to minimise the risks connected with assuming the above mentioned risks in reinsurance the Company thoroughly appraises them, analyzes the historical information on losses, the information about the object of insurance, the existence of cumulation on risk, other available data related to the level of risk's estimation.

It is worth mentioning that the Company strictly limits the reinsurance of risks connected with accident and disease insurance during a trip abroad due to a high possibility of cumulation of these risks.

*Medical expenses reinsurance*

Since 2016 the Company carries out risk reinsurance under voluntary medical insurance contracts. Voluntary insurance of medical expenses is based on the insurance contract concluded between the insured and the insurance organization, according to which, in exchange for the insurance premium paid by the insured, the insurance organization assumes the obligations of organization and payment for rendering medical services to the insured person in accordance with the conditions of the medical insurance program prescribed in the insurance contract and made according to the preferences of the insured.

Risks under voluntary medical expenses insurance contracts accepted for reinsurance from the following insurance organizations of the Republic of Belarus: BRUCEII "Beleximgarant" and BRUSP "Belgosstrakh", CJSIC "Belneftestrakh".

*(e) Insurance risk concentration*

Within the assumed reinsurance process, concentrations of risk may arise where a particular event or series of events could affect heavily the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

The Company's management is aware that there is an insurance concentration risk. Insurance risk concentration may occur as a result of different coincidences and regularities. Most often risk concentration is observed in a specific type of insurance in which private persons are insured; e.g. with personal accident insurance this occurs when a Company of persons suffers from a personal accident and all of these persons have been insured in the Company. In property insurance, risk concentration might occur if one densely populated area experiences any of the exposures (e.g. fire), which may easily transfer from one property to another one and this action cannot be avoided.

In addition, the management is aware that the possible risk concentration can be in one company or an economic and geographic area in total, for which several risks are assumed in reinsurance by the Company. When assuming in reinsurance such risks, an obligatory precondition is the assessment of the company's financial position and capacity, as well as identifying how large financial liabilities can arise, how large the liabilities are that are already held by the Company and what it can afford. The Company develops an action plan to be used in case of occurrence of the insured event. When evaluating financial risks, the tendencies of economic growth and the risks that might affect this area are studied.

The Company's key methods in managing these risks are two-fold. Firstly, the underwriting department monitors losses on reinsurance portfolio on the lines of activities. Secondly, the risk is managed through the use of retrocession. The Company purchases retrocessional coverage for various classes of its liabilities and business.

The Company assesses the costs and benefits associated with the reinsurance program on an ongoing basis. In addition, the Company uses the diversification between different types of reinsurance.

***(f) Catastrophes***

The Company's management is aware that catastrophe risks are possible. The Company assumes risks from different geographical areas and these risks are mostly connected with meteorological phenomena: storms, floods, nature disasters (hail, snow, icing, etc.). Large fires and earthquakes are unlikely, but they may occur. In order to minimise the impact of catastrophe risk on the Company, retrocession is used. In addition, facultative reinsurance (retrocession) is purchased for large risks.

***(g) Insurance risk management***

In order to restrict insurance risk, the Company has developed different control and management mechanisms. The Company has the Insurance Committee which has responsibility for monitoring the risks underwritten by the Company and the retrocessional coverage of the Company. Key performance indicators that are important to the achievement of financial objectives are identified and monitored to identify any unusual or unexpected trends or relationships.

In order to minimise insurance risks, the Company has developed and uses the quality management system, which describes all processes and reserves that are carried out in the Company during the insurance administration process and the claims regulation procedures. It has been identified when and in what circumstances certain types of procedures should be observed.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, the Company sets provisions for irrecoverable claims based upon current perceptions of risk, employing a substantial degree of experience and judgment. The level of such provisions has been set on the basis of information which is currently available. Whilst the Company considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability may vary as a result of subsequent information and events. This may result in significant adjustments to the amounts provided. These estimates and methods of estimation are reviewed at least annually and, if adjustments prove necessary, they will be reflected in future financial statements.

***(h) Sensitivity analysis for insurance liabilities***

The process used to undertake sensitivity analysis on the assumptions used is intended to assess the likely scenarios of changes in estimates. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out annually. The assumptions are checked to ensure that they are consistent with observable market prices or other published information.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate case by case basis, with due regard to the claim circumstances, information available to loss adjusters and the historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on the information currently available. However, the ultimate liabilities may vary as a result of subsequent developments or if catastrophic events occur. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by class of business due to differences in the underlying reinsurance contracts, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

Given the current situation on the market, the Company believes that the most volatile assumption is the change in foreign currencies exchange rates. Breakdown of insurance reserves by currencies is represented in disclosures 11 and 13.

**Sensitivity analysis for insurance reserves, net**

| *In thousands BYN* | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | USD/BYN | USD/BYN | USD/BYN | USD/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before tax | (353) | 353 | (1,534) | 1,534 |
| Effect on equity | (265) | 265 | (1,151) | 1,151 |

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | EUR/BYN | EUR/BYN | EUR/BYN | EUR/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before tax | (279) | 279 | (875) | 875 |
| Effect on equity | (209) | 209 | (656) | 656 |

| | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | RUB/BYN | RUB/BYN | RUB/BYN | RUB/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before tax | (215) | 215 | (950) | 950 |
| Effect on equity | (161) | 161 | (713) | 713 |

### *(i) Claims development*

Information on the claims development has been provided in order to illustrate the insurance risk to which the Company is subject. The claim tables disclose a comparison of cumulative payments to date and the development of technical reserves made for these insurance claims by accident year.

Excesses or deficits indicated in each column should be evaluated separately by ignoring other columns because such adjustments made in the prior years may be included as part of the adjustments made during the last year.

The recalculated technical reserves and the cumulative deficit or excess, which is indicated in the enclosed table, may subsequently vary due to changes in different factors.

Although the information provided in the table reflects the estimates of historical unpaid claims made in the prior years, the users of these financial statements should avoid extrapolation of past remains or deficits in respect to the balance of unpaid losses of this period. Management considers evaluation of unpaid claims as at 31 December 2018 as adequate.

Financial statements for the year ended 31 December 2010 were the Company's first financial statements prepared in accordance with IFRSs and the following table represents claim development analysis for the nine-year period IFRSs have been applied to.

**Claim development analysis as at 31 December 2018, *thousand BYN***

| | Year of insurance event occurrence | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
| Estimate of cumulative claims at end of accident year | 7,997 | 5,219 | 5,051 | 5,715 | 11,084 | 34,163 | 14,654 | 30,253 | 24,734 | 33,892 | **33,892** |
| - one year later | 7,243 | 4,928 | 5,561 | 2,905 | 7,949 | 8,911 | 16,368 | 25,099 | 28,382 | - | **28,382** |
| - two years later | 7,239 | 5,382 | 7,270 | 2,701 | 13,710 | 9,422 | 15,299 | 19,917 | - | - | **19,917** |
| - three years later | 7,133 | 4,601 | 7,526 | 4,310 | 9,924 | 8,245 | 11,532 | - | - | - | **11,532** |
| - four years later | 7,698 | 4,264 | 8,523 | 3,311 | 9,631 | 7,916 | - | - | - | - | **7,916** |
| - five years later | 7,790 | 4,206 | 8,196 | 3,948 | 9,515 | - | - | - | - | - | **9,515** |
| - six years later | 7,893 | 4,200 | 8,224 | 3,996 | - | - | - | - | - | - | **3,996** |
| - seven years later | 7,873 | 4,200 | 8,229 | - | - | - | - | - | - | - | **8,229** |
| - eight years later | 7,955 | 4,199 | - | - | - | - | - | - | - | - | **4,199** |
| - nine years later | 7,996 | - | - | - | - | - | - | - | - | - | **7,966** |
| **Cumulative payments to date** | **7,996** | **4,199** | **8,163** | **3,253** | **7,142** | **6,338** | **8,492** | **16,761** | **11,006** | **2,496** | **75,846** |
| **Outstanding claims technical reserves at 31 December 2018** | **-** | **-** | **66** | **743** | **2,373** | **1,578** | **3,040** | **3,156** | **17,376** | **31,396** | **59,728** |

**Claim development analysis as at 31 December 2017, *thousand BYN***

| | Year of insurance event occurrence | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | Total |
| Estimate of cumulative claims at end of accident year | 7,997 | 5,219 | 5,051 | 5,715 | 11,084 | 34,163 | 14,654 | 30,253 | 24,734 | 24,734 |
| - one year later | 7,243 | 4,928 | 5,561 | 2,905 | 7,949 | 8,911 | 16,368 | 25,099 | - | 25,099 |
| - two years later | 7,239 | 5,382 | 7,270 | 2,701 | 13,710 | 9,422 | 15,299 | - | - | 15,299 |
| - three years later | 7,133 | 4,601 | 7,526 | 4,310 | 9,924 | 8,245 | - | - | - | 8,245 |
| - four years later | 7,698 | 4,264 | 8,523 | 3,311 | 9,631 | - | - | - | - | 9,631 |
| - five years later | 7,790 | 4,206 | 8,196 | 3,948 | - | - | - | - | - | 3,948 |
| - six years later | 7,893 | 4,200 | 8,224 | - | - | - | - | - | - | 8,224 |
| - seven years later | 7,873 | 4,200 | - | - | - | - | - | - | - | 4,200 |
| - eight years later | 7,955 | - | - | - | - | - | - | - | - | 7,955 |
| **Cumulative payments to date** | 7,955 | 4,199 | 8,163 | 3,244 | 7,140 | 6,184 | 8,198 | 14,556 | 1,906 | 61,545 |
| **Outstanding claims technical reserves at 31 December 2017** | - | 1 | 61 | 704 | 2,491 | 2,061 | 7,101 | 10,543 | 22,828 | 45,790 |

### *(j) Financial risks and risk management*

The Company is exposed to financial risks due to operations with financial instruments. Financial risks include market risk, which includes price, interest rate and currency risks, credit risk and liquidity risk. Below there is a description of each of these financial risks and a summary of the methods used by the Company to manage these risks. Exposure to those risks arises in the normal course of the Company's business. The Company's financial assets and liabilities, including investments, insurance receivables and reinsurance assets, are exposed to financial risk as follows:

- *Market risk:* changes to the market situation may adversely affect the insurer's assets and/or liabilities, investments may be impaired, and return on assets decreased. Market risk includes interest rate risk, equity price risk and currency risk;
- *Credit risk:* failure to fulfill contractual obligations may cause financial losses to the Company,
- *Liquidity risk:* under certain adverse conditions for the insurer, the insurer may be forced to sell assets at a lower price than their fair value in order to be able to settle liabilities.

*Market risk*

Market risk arises from open positions in interest rate, currency and prices for equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices. The objective of market risk management is to manage and control market risk exposures of the Company within acceptable parameters (set out and regularly reviewed by the management of the Company), while optimizing the income.

*Interest rate risk*

Interest rate risk is the risk that movements in interest rates will affect the Company's income or the value of its portfolios of financial instruments.

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

The following interest rate repricing analysis tables presents the Company's financial assets and liabilities analysis according to repricing periods determined as the earlier of remaining contractual maturity and contractual repricing:

**Analysis of financial assets and liabilities subject to rate repricing as at 31 December 2018**

| *In thousands BYN* | Interest rate | Non- interest bearing | Fixed interest rate | Floating interest rate | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets available-for sale | 3.5-5.7% | 39,115 | 4,630 | - | **43,745** |
| Financial investments in debt securities in FCC | 4.5%-6.88% | - | 18,597 | - | **18,597** |
| Financial investments in debt securities in BYN | 37.4% | - | 54,793 | - | **54,793** |
| Receivables from reinsurance activities | | 46,614 | - | - | **46,614** |
| Receivables from retrocession activities | | 847 | - | - | **847** |
| Cash and cash equivalents | 0.01%-4.3% | - | 10,153 | 84,377 | **94,530** |
| Other receivables | | 34 | - | - | **34** |
| Retrocessionaires' share in unearned premium technical reserve | | 34,686 | - | - | **34,686** |
| Retrocessionaires' share in outstanding claim technical reserve | | 13,184 | - | - | **13,184** |
| **Total financial assets** | | 134,480 | 88,173 | 84,377 | 307,030 |

| | | | | |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Payables from reinsurance activities | (3,585) | - | - | **(3,585)** |
| Payables from retrocession activities | (7,829) | - | - | **(7,829)** |
| Part of other payables | (80) | - | - | **(80)** |
| Technical reserves of unearned premiums and unexpired risks | (88,972) | - | - | **(88,972)** |
| Outstanding claim technical reserves | (59,728) | - | - | **(59,728)** |
| **Total financial liabilities** | **(160,194)** | **-** | **-** | **(160,194)** |

**Analysis of financial assets and liabilities subject to rate repricing as at 31 December 2017**

| *In thousands BYN* | Interest rate | Non- interest bearing | Fixed interest rate | Floating interest rate | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets available-for sale | 6.35% | 39,115 | 2,355 | - | **41,470** |
| Financial investments in debt securities in FCC | 4.5%-6.88% | - | 10,748 | - | **10,653** |
| Financial investments in debt securities in BYN | 37.4% | - | 39,885 | - | **39,885** |
| Deposits with banks | 2.5%-7.5% | 2,321 | 35,980 | 12,493 | **50,794** |
| Receivables from reinsurance activities | | 37,642 | - | - | **37,642** |
| Receivables from retrocession activities | | 1,405 | - | - | **1,405** |
| Cash and cash equivalents | 0.01%-4.8% | - | 407 | 35,069 | **35,476** |
| Other receivables | | 155 | - | - | **250** |
| Retrocessionaires' share in unearned premium technical reserve | | 40,542 | - | - | **40,542** |
| Retrocessionaires' share in outstanding claim technical reserve | | 10,172 | - | - | **10,172** |
| **Total financial assets** | | **131,352** | **89,375** | **47,562** | **268,289** |
| **Financial liabilities** | | | | | |
| Payables from reinsurance activities | | (2,803) | - | - | **(2,803)** |
| Payables from retrocession activities | | (12,085) | - | - | **(12,085)** |
| Part of other payables | | (115) | - | - | **(115)** |
| Unearned premiums and unexpired risks technical reserves | | (80,740) | - | - | **(80,740)** |
| Outstanding claim technical reserves | | (45,790) | - | - | **(45,790)** |
| **Total financial liabilities** | | **(141,533)** | **-** | **-** | **(141,533)** |

The Company is subject to interest risk mainly on cash and cash equivalents. Interest rates for assets are mostly fixed and the Company does not have interest bearing liabilities as at 31 December 2018 and as at 31 December 2017.

The table below represents impact on income and equity of change in floating interest rates as at the reporting date with assumption that all other terms are unchangeable:

| *In thousands BYN* | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | Interest rate 1% | Interest rate -1% | Interest rate 5% | Interest rate -5% |
| Effect on profit before income tax | 844 | (844) | 2,378 | (2,378) |
| Effect on equity | 633 | (633) | 1,784 | (1,784) |

*Currency risk*

The Company has assets and liabilities denominated in several foreign currencies. Currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

According to the approved policy of the Company insurance premium currency matches the currency of the undertaken reinsurance obligations.

An analysis of the sensitivity of the Company's net income for the year and its equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2018 and 31 December 2017 and a simplified scenario of a change in EUR, USD and RUB to BYN exchange rates is as follows (in thousands BYN):

| *In thousands BYN* | **31 December 2018** | | **31 December 2017** | |
|---|---|---|---|---|
| | USD/BYN | USD/BYN | USD/BYN | USD/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before income tax | 420 | (420) | 1,600 | (1,600) |
| Effect on equity | 315 | (315) | 1,200 | (1,200) |
| *In thousands BYN* | **31 December 2018** | | **31 December 2017** | |
| | EUR/BYN | EUR/BYN | EUR/BYN | EUR/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before income tax | 261 | (261) | 1,130 | (1,130) |
| Effect on equity | 196 | (196) | 848 | (848) |
| *In thousands BYN* | **31 December 2018** | | **31 December 2017** | |
| | RUB/BYN | RUB/BYN | RUB/BYN | RUB/BYN |
| | 1% | -1% | 5% | -5% |
| Effect on profit before income tax | (85) | 85 | (226) | 226 |
| Effect on equity | (64) | 64 | (170) | 170 |

The following table provides the analysis of the Company's financial assets and liabilities by currency profile:

**Company's financial assets and liabilities currency profile as at 31 December 2018**

| _In thousands BYN_ | BYN | USD | EUR | RUB | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets available-for-sale | 39,115 | 2,166 | 2,464 | - | - | **43,745** |
| Financial investments in debt securities | 54,794 | 16,122 | 2,474 | - | - | **73,390** |
| Receivables from reinsurance activities | 7,099 | 16,211 | 15,796 | 6,448 | 1,060 | **46,614** |
| Receivables from retrocession activities | 169 | 318 | 94 | 266 | - | **847** |
| Cash and cash equivalents | 2,310 | 48,000 | 35,304 | 8,916 | - | **94,530** |
| Other receivables | 13 | - | 2 | 19 | - | **34** |
| Retrocessionaires' share in unearned premium technical reserve | 1,968 | 22,845 | 7,281 | 2,592 | - | **34,686** |
| Retrocessionaires' share in outstanding claim technical reserve | 4,053 | 6,640 | 1,241 | 1,250 | - | **13,184** |
| **Total financial assets** | **109,521** | **112,302** | **64,656** | **19,491** | **1,060** | **307,030** |
| **Financial liabilities** | | | | | | |
| Payables from reinsurance activities | (728) | (1,439) | (1,050) | (300) | (68) | **(3,585)** |
| Payables from retrocession activities | (401) | (4,107) | (1,047) | (2,274) | - | **(7,829)** |
| Part of other payables | (80) | - | - | - | - | **(80)** |
| Technical reserves of unearned premiums and unexpired risks | (8,980) | (41,266) | (29,478) | (9,248) | - | **(88,972)** |
| Outstanding claim technical reserves | (13,137) | (23,479) | (6,971) | (16,141) | - | **(59,728)** |
| **Total financial liabilities** | **(23,326)** | **(70,291)** | **(38,546)** | **(27,963)** | **(68)** | **(160,194)** |
| **Open currency position** | **86,195** | **42,011** | **26,110** | **(8,472)** | **992** | **146,836** |

**Company's financial assets and liabilities currency profile as at 31 December 2017**

| *In thousands BYN* | BYN | USD | EUR | RUB | Other | Total |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Financial assets available-for-sale | 39,115 | - | 2,355 | - | - | **41,470** |
| Financial investments in debt securities | 39,885 | 8,392 | 2,356 | - | - | **50,633** |
| Deposits with banks | - | 12,487 | 25,814 | 12,493 | - | **50,794** |
| Receivables from reinsurance activities | 5,610 | 20,314 | 6,706 | 3,903 | 1,109 | **37,642** |
| Receivables from retrocession activities | 42 | 480 | 245 | 632 | 6 | **1,405** |
| Cash and cash equivalents | 350 | 30,336 | 4,697 | 93 | - | **35,476** |
| Other receivables | 98 | - | 17 | 40 | - | **155** |
| Retrocessionaires' share in unearned premium technical reserve | 1,634 | 30,787 | 5,905 | 2,216 | - | **40,542** |
| Retrocessionaires' share in outstanding claim technical reserve | 3,327 | 3,680 | 1,451 | 1,714 | - | **10,172** |
| **Total financial assets** | **90,061** | **106,476** | **49,546** | **21,091** | **1,115** | **268,289** |
| **Financial liabilities** | | | | | | |
| Payables from reinsurance activities | (527) | (1,490) | (568) | (153) | (65) | **(2,803)** |
| Payables from retrocession activities | (155) | (7,836) | (1,527) | (2,511) | (56) | **(12,085)** |
| Part of other payables | (107) | - | (8) | - | - | **(115)** |
| Unearned premiums and unexpired risks technical reserves | (7,632) | (50,723) | (17,103) | (5,282) | - | **(80,740)** |
| Outstanding claim technical reserves | (5,966) | (14,423) | (7,744) | (17,657) | - | **(45,790)** |
| **Total financial liabilities** | **(14,387)** | **(74,472)** | **(26,950)** | **(25,603)** | **(121)** | **(141,533)** |
| **Open currency position** | **75,674** | **32,004** | **22,596** | **(4,512)** | **994** | **126,756** |

### *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Company takes a long or short position in a financial instrument.

The Company's investment portfolio is not sensitive to financial instruments market price risk as at 31 December 2018 and 31 December 2017, as there are no financial instruments with quoted market price in the investment portfolio, except for Eurobonds of the Republic of Belarus.

### *Credit risk*

Credit risk is the risk incurred by failure of contractual parties to meet their liabilities or changes in credit worthiness of the contractual parties.

*Maximum credit risk*

Exposure to maximum credit risk is managed through the regular analysis of the ability of to meet interest and capital repayment obligations and by changing these exposures where appropriate.

| *In thousands BYN* | 31 December 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| **Maximum credit risk** | **Gross** | **Net** | **Gross** | **Net** |
| Financial assets available-for-sale | 4,630 | 4,360 | 2,355 | 2,355 |
| Financial investments in debt securities | 73,390 | 73,390 | 50,633 | 50,633 |
| Deposits with banks | - | - | 50,794 | 50,794 |
| Receivables from reinsurance activities | 46,614 | 46,614 | 37,642 | 37,642 |
| Receivables from retrocession activities | 1,380 | 847 | 1,405 | 1,405 |
| Cash and cash equivalents | 94,530 | 94,530 | 35,476 | 35,476 |
| Other receivables | 231 | 34 | 250 | 250 |
| Retrocessionaires' share in unearned premium technical reserve | 34,686 | 34,686 | 40,542 | 40,542 |
| Retrocessionaires' share in outstanding claim technical reserve | 13,184 | 13,184 | 10,172 | 10,172 |
| **Total** | **268,645** | **267,915** | **229,269** | **229,269** |

The Company had no overdue receivables as at 31 December 2017, allowance for bad debt was not created. As at 31 December 2018 allowance for bad debt amounts to BYN 730 thousand, including by other receivables – BYN 197 thousand, by receivables from retrocession activities – BYN 533 thousand.

**Investment analysis by ratings as at 31 December 2017, in thousands BYN:**

| **Fitch rating** | **Deposits with banks** | **Financial assets available-for-sale** | **Financial investments in debt securities** | **Cash and cash equivalents** | **Total** |
|---|---|---|---|---|---|
| Fitch **B-** | 44,387 | - | 48,182 | 398 | **92,967** |
| Standart & Poor's **B-** | 6,407 | 2,355 | 2,356 | 35,078 | **46,196** |
| | **50,794** | **2,355** | **50,538** | **35,476** | **139,163** |

*Receivables from reinsurance activities*

Reinsurance amounts receivable are monitored by management on a periodic basis and contracts are cancelled if appropriate notification has been provided to the insured and the amounts due are not paid.

*Retrocessions*

The Company cedes retrocession in the normal course of business for the purpose of limiting its potential net loss through the diversification of its risks. Assets and liabilities, income and expenses arising from ceded retrocession contracts are presented separately from the related assets, liabilities, income and expenses from the related reinsurance contracts because the retrocession arrangements do not relieve the Company from its direct obligations to its reinsured.

Only rights under contracts that give rise to significant transfer of insurance risk are accounted for as retrocessional assets. Rights under contracts that do not transfer significant insurance risk are accounted as for financial instruments.

Retrocessional premiums for ceded retrocession are recognised as expenses on a basis that is consistent with the recognition basis for the premiums on the related assumed reinsurance contracts. For general insurance business, retrocessional premiums are recognised as expenses over the period that the retrocessional coverage is provided to the Company based on the expected pattern of the reinsured risks.

Retrocessional assets include recoveries due from retrocessionaires in respect of claims paid. These are classified as receivables and are included within reinsurance and other receivables in the statement of financial position.

Retrocessional assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the retrocessionaire.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company buys both facultative and obligatory proportional and non-proportional retrocession.

Retrocession contains credit risk, and such retrocessional recoverables are reported after deductions for known insolvencies and uncollectible items. The Company monitors the financial condition of retrocessionaires on an ongoing basis and reviews its retrocessional arrangements periodically.

### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The Company manages its asset and liability structure in order to meet its obligations as and when they fall due. The potential liquidity risk is limited by investing a certain amount of funds in short term deposits and other funds with a high degree of liquidity.

The tables below show the allocation of the Company's financial assets and liabilities to maturity groups based on the time remaining from the reporting date to the contractual maturity dates as at 31 December 2018 and 31 December 2017:

### Maturity dates of the Company's financial assets and liabilities as at 31 December 2018

*In thousands BYN*

| | Up to 12 months | From 1 to 5 years | More than 5 years | No fixed term | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets available-for-sale | 4,630 | - | - | 39,115 | **43,745** |
| Financial investments in debt securities | 25,778 | 47,612 | - | - | **73,390** |
| Receivables from reinsurance activities | 25,976 | 14,915 | 5,723 | - | **46,614** |
| Receivables from retrocession activities | 726 | 98 | 23 | - | **847** |
| Cash and cash equivalents | 94,530 | - | - | - | **94,530** |
| Other receivables | 34 | - | - | - | **34** |
| Retrocessionaires' share in unearned premium technical reserve | 13,507 | 18,937 | 2,242 | - | **34,686** |
| Retrocessionaires' share in outstanding claim technical reserve | 13,184 | - | - | - | **13,184** |
| **Total financial assets** | **178,365** | **81,562** | **7,988** | **39,115** | **307,030** |
| Payables from reinsurance activities | (2,194) | (995) | (396) | - | **(3,585)** |
| Payables from retrocession activities | (6,618) | (980) | (231) | - | **(7,829)** |
| Part of other payables | (80) | - | - | - | **(80)** |
| Technical reserves of unearned premiums and unexpired risks | (35,617) | (42,157) | (11,198) | - | **(88,972)** |
| Outstanding claim technical reserves | (59,728) | - | - | - | **(59,728)** |
| **Total financial liabilities** | **(104,237)** | **(44,132)** | **(11,825)** | **-** | **(160,194)** |
| **Financial assets and liabilities maturities gap** | **74,128** | **37,430** | **(3,837)** | **39,115** | **146,836** |

**Maturity dates of the Company's financial assets and liabilities as at 31 December 2017**

| *In thousands BYN* | Up to 12 months | From 1 to 5 years | More than 5 years | No fixed term | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Financial assets available-for-sale | 2,355 | - | - | 39,115 | **41,470** |
| Financial investments in debt securities | 95 | 44,216 | 6,322 | - | **50,633** |
| Deposits with banks | 18,899 | 31,895 | - | - | **50,794** |
| Receivables from reinsurance activities | 20,332 | 13,268 | 4,042 | - | **37,642** |
| Receivables from retrocession activities | 1,216 | 163 | 26 | - | **1,405** |
| Cash and cash equivalents | 35,476 | - | - | - | **35,476** |
| Other receivables | 155 | - | - | - | **155** |
| Retrocessionaires' share in unearned premium technical reserve | 10,977 | 27,789 | 1,776 | - | **40,542** |
| Retrocessionaires' share in outstanding claim technical reserve | 10,172 | - | - | - | **10,172** |
| **Total financial assets** | **99,677** | **117,331** | **12,166** | **39,115** | **268,289** |
| Payables from reinsurance activities | (1,626) | (802) | (375) | - | **(2,803)** |
| Payables from retrocession activities | (8,125) | (3,702) | (258) | - | **(12,085)** |
| Part of other payables | (115) | - | - | - | **(115)** |
| Unearned premiums and unexpired risks technical reserves | (25,178) | (48,588) | (6,974) | - | **(80,740)** |
| Outstanding claim technical reserves | (45,790) | - | - | - | **(45,790)** |
| **Financial liabilities** | **(80,834)** | **(53,092)** | **(7,607)** | **-** | **(141,533)** |
| **Financial assets and liabilities maturities gap** | **18,843** | **64,239** | **4,559** | **39,115** | **126,756** |

Liquidity risk management specific to insurance and reinsurance companies is connected with the monitoring of insurance liabilities.

*Operating risks and risk management*

Operational risks arise from deficiencies and errors in processes which may occur due to staff error or under the influence of external factors. These risks are managed by internal control, internal processes and procedures and monitoring of performance.

## (33) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments measured in accordance with IFRS (IFRS) 7 "Financial Instruments: Disclosures" is presented in the table below. 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 (i.e. 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 Company could receive at the actual implementation of its existing holdings of a particular instrument.

Carrying amount and fair value of financial assets and liabilities not measured at fair value and levels of the fair value hierarchy are presented below:

**As at 31 December 2018**

| *In thousands BYN* | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets, not measured at fair value** | **Assets available-for-sale** | **Assets held to maturity** | **Loans and receivables** | **Other financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets available for sale (equity) | 39,115 | - | - | - | - | - | - | - |
| Financial investments in debt securities | - | - | 73,390 | - | 11,905 | 72,783 | - | **84,688** |
| Receivables from reinsurance activities | - | - | 46,614 | - | - | - | - | - |
| Receivables from retrocession activities | - | - | 847 | - | - | - | - | - |
| Other receivables | - | - | 34 | - | - | - | - | - |
| Retrocessionaires' share in unearned premium technical reserve | - | - | 34,686 | - | - | - | - | - |
| Retrocessionaires' share in outstanding claim technical reserve | - | - | 13,184 | - | - | - | - | - |
| Cash and cash equivalents | - | - | 94,530 | - | - | - | - | - |
| | **39,115** | **-** | **263,285** | **-** | **11,905** | **72,783** | **-** | **84,688** |
| Payables from reinsurance activities | - | - | - | (3,585) | - | - | - | - |
| Payables from retrocession activities | - | - | - | (7,829) | - | - | - | - |
| Part of other payables | - | - | - | (80) | - | - | - | - |
| Technical reserves for unearned premium and unexpired risks | - | - | - | (88,972) | - | - | - | - |
| Outstanding claim technical reserves | - | - | - | (59,728) | - | - | - | - |
| | **-** | **-** | **-** | **(160,194)** | **-** | **-** | **-** | **-** |

**As at 31 December 2017**

| *In thousands BYN* | Carrying amount | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets, not measured at fair value** | **Assets available-for-sale** | **Assets held to maturity** | **Loans and receivables** | **Other financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets available for sale (equity) | 39,115 | - | - | - | - | - | - | - |
| Financial investments in debt securities | - | - | 50,633 | - | 4,347 | 64,800 | - | **69,147** |
| Deposits with banks | - | - | 50,794 | - | - | - | - | - |
| Receivables from reinsurance activities | - | - | 37,642 | - | - | - | - | - |
| Receivables from retrocession activities | - | - | 1,405 | - | - | - | - | - |
| Other receivables | - | - | 250 | - | - | - | - | - |
| Retrocessionaires' share in unearned premium technical reserve | - | - | 40,542 | - | - | - | - | - |
| Retrocessionaires' share in outstanding claim technical reserve | - | - | 10,172 | - | - | - | - | - |
| Cash and cash equivalents | - | - | 35,476 | - | - | - | - | - |
| | **39,115** | **-** | **226,914** | **-** | **4,347** | **64,800** | **-** | **69,147** |
| Payables from reinsurance activities | - | - | - | (2,803) | - | - | - | - |
| Payables from retrocession activities | - | - | - | (12,085) | - | - | - | - |
| Part of other payables | - | - | - | (115) | - | - | - | - |
| Technical reserves for unearned premium and unexpired risks | - | - | - | (80,740) | - | - | - | - |
| Outstanding claim technical reserves | - | - | - | (45,790) | - | - | - | - |
| | **-** | **-** | **-** | **(141,533)** | **-** | **-** | **-** | **-** |

Carrying amount and fair value of financial assets and liabilities measured at fair value and levels of the fair value hierarchy are presented below:

**As at 31 December 2018**

| *In thousands BYN* | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | **Assets available-for-sale** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets available for sale (debt) | 4,630 | - | 4,630 | - | 4,630 |

**As at 31 December 2017**

| *In thousands BYN* | Carrying amount | Fair value | | | |
|---|---|---|---|---|---|
| **Financial assets measured at fair value** | **Assets available-for-sale** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets available for sale (debt) | 2,355 | - | 2,355 | - | 2,355 |

The following table shows the valuation techniques used in measuring Level 2 of the fair value hierarchy, as well as the significant unobservable inputs used.

**Financial instruments not measured at fair value**

| Type | Valuation technique | Significant unobservable inputs |
|---|---|---|
| Financial investments in debt securities | Discounted cash flows. The rates used are rates of financial instruments with a similar risk level denominated in the respective currency and having the respective maturity. | No applicable |

**Financial instruments measured at fair value**

| Type | Valuation technique | Significant unobservable inputs |
|---|---|---|
| Financial assets available for sale | Discounted cash flows. The rates used are rates of financial instruments with a similar risk level denominated in the respective currency and having the respective maturity. | No applicable |

There were no transfers between fair value hierarchy levels in 2018 and 2017.

The company did not disclose information on the fair value of cash and cash equivalents, deposits with banks, payables and receivables, as their carrying amount is approximately equal to their fair value.

When assessing the fair value of bonds of the Ministry of Finance of the Republic of Belarus in BYN (level 2), the average market rate published at the web-site of the National Bank of the Republic of Belarus was used at 10.5% as at 31 December 2018 and 11% as at 31 December 2017.

## (34) ADJUSTMENT OF PRIOR YEAR DATA

In 2018 the Company changed its approach to evaluation of recoverable amount of investments in shares of OJSC "Belagroprombank" for the purpose of impairment loss calculation – the Company began to consider the par value of shares of OJSC "Belagroprombank" as the recoverable amount, since the par value represents the cost of flows that the Company expects to be recovered when selling this financial asset. Adjustments were made by means of recalculation of each affected item of financial statements for prior periods. The table below contains information about the effect of this change on the Company's financial statements.

There were the following changes as at 1 January 2017 in the statement of financial position:

| Item | 1 January 2017 in the prior year statement | Effect of prior year adjustments | 1 January 2017 (restated) |
|---|---|---|---|
| Financial assets available for sale | 65,823 | (26,708) | 39,115 |
| Deferred tax asset | - | 209 | 209 |
| Other | 187,759 | - | 187,759 |
| **Total assets** | **253,582** | **(26,499)** | **227,083** |
| Deferred tax liability | (6,468) | 6,468 | - |
| Other | (113,066) | - | (113,066) |
| **Total liabilities** | **(119,534)** | **6,468** | **(113,066)** |
| Accumulated loss | 194,867 | 20,031 | 214,898 |
| Authorised fund | (328,915) | - | (328,915) |
| **Total equity** | **(134,048)** | **20,031** | **(114,017)** |

There were the following changes as at 31 December 2017 in the statement of financial position:

| Item | 31 December 2017 in the prior year statement | Effect of prior year adjustments | 31 December 2017 (restated) |
|---|---|---|---|
| Financial assets available for sale | 68,178 | (26,708) | 41,470 |
| Other | 235,095 | - | 235,095 |
| **Total assets** | **303,273** | **(26,708)** | **276,565** |
| Deferred tax liability | (6,953) | 6,677 | (276) |
| Other | (142,159) | - | (142,159) |
| **Total liabilities** | **(149,112)** | **6,677** | **(142,435)** |
| Accumulated loss | (179,565) | 20,031 | 199,596 |
| Authorised fund | (333,726) | - | (333,726) |
| **Total equity** | **(154,161)** | **20,031** | **(134,130)** |

## (35) UNCERTAINTIES

*Conditions of doing business in the Republic of Belarus*

The Company's operations are located in Belarus. Consequently, the Company is exposed to the economic and financial markets of Belarus, which display emerging market characteristics. The legal, tax and regulatory frameworks continue to develop, but are subject to varying interpretations and frequent changes, which, together with other legal and fiscal impediments, contribute to the challenges faced by entities operating in Belarus. The monetary policy regulations, adopted by the National Bank of the Republic of Belarus and effective over the past two years, have resulted in reduced inflation and a less-volatile Belarusian Rouble. However, the fairly recent devaluation of the Belarusian Rouble, and the subsequent period of high inflation, still leads to a certain level of uncertainty in the business environment.

The financial statements reflect management's assessment of how the Belarusian business environment has impacted the operations and financial position of the Company. The business environment in the future may differ from management's assessment.

**Taxation contingencies in Belarus**

The taxation system in Belarus is characterised by complexity and frequent changes in legislation, official pronouncements and authorities' decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. However, there is no extensive court practice in Belarus on tax issues.

Correctness of tax calculation in the reporting year can be reviewed by tax authorities within the five subsequent calendar years.

## (36) SUBSEQUENT EVENTS

No subsequent events were identified to be disclosed in the financial statements. In 2019 the Company's license was amended such that since 28 February 2019 the Company can conclude voluntary civil liability insurance contracts for nuclear damage from atomic energy use.