Closed Joint-Stock Company
Minsk Transit Bank

Financial statements prepared in accordance with IFRS,
And Independent Auditors' Report
For the year ended 31 December 2019

Contents

KPMG

Independent Auditors' Report

To the Shareholders and Management of Closed Joint-Stock Company Minsk Transit Bank

Opinion

We have audited the financial statements of Closed Joint-Stock Company Minsk Transit Bank (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of 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 Bank as at 31 December 2019, 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Expected credit losses allowance for loans to customers

Please refer to the Note 8 *Loans to customers* and Note 26 *Risk Management* in the financial statements.

The key audit matter	How the matter was addressed in our audit
The amount of Loans to customers comprise 70% of total assets as at 31 December 2019 and are recognized net of expected credit losses allowance (hereinafter - "ECL") regularly measured, and which is sensitive to the assumptions used. The Bank applies the ECL valuation model, which requires management to apply professional judgement and to make assumptions related to the following key areas: — timely identification of significant increase in credit risk and default events related to customer loans (allocation between Stages 1, 2 and 3 in accordance with IFRS 9 *Financial Instruments* (hereinafter – "IFRS 9"); — assessment of probability of default (PD) and loss given default (LGD); — assessment of add-on adjustment to account for different scenarios and forward-looking information. Due to the significant volume of loans to customers and the related estimation uncertainty, this area is a key audit matter.	We analyzed the key aspects of the Bank's methodology and policies related to ECL estimates for compliance with the requirements of IFRS 9, including through involvement of financial risks management specialists. To analyze the adequacy of professional judgement and assumptions made by the management in relation to the ECL estimate we included in our audit procedures the following: — we tested the design and operating effectiveness of internal controls over timely allocation of loans into credit risk stages; — for a sample of loans estimated for ECL collectively, for which a potential change in ECL estimate may have a significant impact on the financial statements, we tested whether stages are correctly assigned by the Bank by analyzing financial and non-financial information, as well as assumptions and professional judgments applied by the Bank; — for loans to customers assigned to Stages 1 and 2, where ECL are assessed collectively, we tested the design and implementation of the related models, and reconciled the model input data against the primary documents on a sample basis; — we analyzed the overall adequacy of the add-on adjustment to account for different scenarios and forward-looking information by comparison with our own estimate considering current economic situation and business environment of certain categories of borrowers. We also checked, if the disclosure in the financial statements appropriately disclose the Bank's credit risk exposure.

Responsibilities of Management and Those Charged with Governance 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 the 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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 Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Irina Vereschagina
Partner
Director of KPMG LLC

15 April 2020
Minsk
Republic of Belarus

Statement of Financial Position

As at 31 December 2019

(in thousands of Belarusian Roubles)

	Note	31 December 2019	31 December 2018*
Assets			
Cash and cash equivalents	5	239 283	193 108
Amounts due from credit institutions	6	14 998	50 597
Derivative financial assets	7	87	65
Loans to customers	8	975 624	833 646
Investment securities	9	106 423	47 989
including those pledged under repurchase agreements	9	-	42
Property and equipment	10	32 065	15 449
Intangible assets	11	22 048	22 758
Other assets	13	7 820	8 629
Total assets		**1 398 348**	**1 172 241**
Liabilities			
Amounts due to credit institutions	14	55 798	41 991
Derivative financial liabilities	7	60	84
Amounts due to customers	15	842 916	760 477
Debt securities issued	16	83 460	41 278
Other borrowings	17	40 928	30 562
Current income tax liabilities		1 715	7 104
Deferred income tax liabilities	12	12 835	16 181
Subordinated debt	18	26 825	38 460
Other liabilities	13	42 891	16 388
Total liabilities		**1 107 428**	**952 525**
Equity			
Share capital	19	110 426	57 134
Fair value reserve of investment securities	9	1 377	417
Retained earnings		179 117	162 165
Total equity		**290 920**	**219 716**
Total equity and liabilities		**1 398 348**	**1 172 241**

* *The Bank initially has applied IFRS 16 at 1 January 2019, using a modified retrospective approach. Due to this approach, comparative information is not restated. Information on transition to the new standard is disclosed in Note 3.*

Signed and approved for issue on behalf of the Management Board of CJSC MTBank

D.P. Shidlovich Board Chairman

G.P. Laptiyonok Chief Accountant

09 April 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

(in thousands of Belarusian Roubles)

	Note	2019	2018 *
Interest income calculated using effective interest rate method			
Loans to customers		162 094	144 356
Investment securities		6 963	7 007
Amounts due from credit institutions		1 911	1 875
		170 968	**153 238**
Other interest income		**4 457**	**2 786**
Interest expense			
Amounts due to customers		(31 272)	(27 509)
Debt securities issued		(7 718)	(3 491)
Other borrowings		(5 740)	(3 287)
Amounts due to credit institutions		(4 576)	(2 535)
Subordinated debt		(2 000)	(2 234)
Operating lease liabilities		(542)	-
		(51 848)	**(39 056)**
Net interest income before loss allowance for financial instruments		**123 577**	**116 968**
Loss allowance for financial instruments	5, 6, 8, 9, 13	(14 849)	(5 412)
Net interest income		**108 728**	**111 556**
Fee and commission income	23	82 280	61 314
Fee and commission expense	23	(41 347)	(28 206)
Net income/(loss) on financial instruments at fair value through profit or loss		392	(98)
Net gain from foreign currency transactions	22	18 237	20 391
Net gain from initial recognition of financial instruments at fair value	8, 14	533	547
Other income	24	10 470	20 762
Non-interest income		**70 565**	**74 710**
Personnel expenses	25	(44 788)	(40 309)
Depreciation and amortization	10, 11	(19 260)	(7 594)
Other operating expenses	25	(36 305)	(40 701)
Other impairment expenses	13	(563)	(114)
Non-interest expense		**(100 916)**	**(88 718)**
Profit before income tax expense		**78 377**	**97 548**
Income tax expense	12	**(18 566)**	**(22 814)**
Profit for the year		**59 811**	**74 734**

Statement of Comprehensive Income (continued)

For the year ended 31 December 2019

(in thousands of Belarusian Roubles)

	Note	*2019*	*2018*
Profit for the year		**59 811**	**74 734**
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Realized income/(loss) on investment securities reclassified to profit or loss		(392)	98
Unrealized income/(loss) on investment securities		392	(98)
Change in loss allowance of investment securities		960	90
Other net comprehensive loss to be reclassified to profit or loss in subsequent periods		**960**	**90**
Other comprehensive income for the year		**960**	**90**
Total comprehensive income for the year		**60 771**	**74 824**

* *The Bank initially has applied IFRS 16 at 1 January 2019, using a modified retrospective approach. Due to this approach, comparative information is not restated. Information on transition to the new standard is disclosed in Note 3.*

Statement of Changes in Equity

For the year ended 31 December 2019

(in thousands of Belarusian Roubles)

	Share capital	*Fair value reserve of investment securities*	*Retained earnings*	*Total*
Balance as at 1 January 2018	**57 134**	**327**	**112 043**	**169 504**
Profit for the year	-	-	74 734	**74 734**
Changes in loss allowance for investment securities	-	90	-	**90**
Total comprehensive income for the year	-	90	74 734	**74 824**
Transactions with shareholders				
Dividends (Note 19)	-	-	(24 612)	**(24 612)**
Total transactions with shareholders	-	-	(24 612)	**(24 612)**
Balance as at 31 December 2018*	**57 134**	**417**	**162 165**	**219 716**
Profit for the year	-	-	59 811	**59 811**
Changes in loss allowance for investment securities	-	960	-	**960**
Total comprehensive income for the year	-	960	**59 811**	**60 771**
Transactions with shareholders				
Dividends (Note 19)	53 292	-	(42 859)	**10 433**
Total transactions with shareholders	53 292	-	(42 859)	**10 433**
Balance as at 31 December 2019	**110 426**	**1 377**	**179 117**	**290 920**

* *The Bank initially has applied IFRS 16 at 1 January 2019, using a modified retrospective approach. Due to this approach, comparative information is not restated. Information on transition to the new standard is disclosed in Note 3.*

Statement of Cash Flows

For the year ended 31 December 2019
(in thousands of Belarusian Roubles)

	Note	*2019*	*2018 **
Cash flows from operating activities			
Interest received		173 870	157 387
Interest paid		(46 603)	(37 423)
Fees and commissions received		81 691	61 726
Fees and commissions paid		(41 322)	(28 146)
Realized gain net of loss on foreign currency transactions		17 715	21 252
Other income received		13 406	20 107
Personnel expenses paid		(44 082)	(40 138)
Other operating expenses paid		(35 590)	(40 918)
Cash flows from operating activities before changes in operating assets and liabilities		**119 085**	**113 847**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		35 448	(23 240)
Loans to customers		(159 353)	(128 248)
Other assets		50	964
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		12 949	587
Amounts due to customers		91 284	84 459
Other liabilities		9 819	4 905
Net cash flows from operating activities before income tax		**109 282**	**53 274**
Income tax paid		(27 285)	(19 341)
Net cash inflows from operating activities		**81 997**	**33 933**
Cash flows from investing activities			
Acquisition of investment securities		(2 469 657)	(2 044 694)
Proceeds from sale and repayment of investment securities		2 411 284	2 047 422
Proceeds from sale of investment property		-	4 601
Acquisition of property and equipment and intangible assets	10, 11	(14 899)	(13 111)
Proceeds from sale of property and equipment and intangible assets		784	189
Net cash outflows from investing activities		**(72 488)**	**(5 593)**
Cash flows from financing activities			
Proceeds from issue of debt securities		531 841	177 324
Repayment of debt securities issued		(493 642)	(160 975)
Repayment of other borrowings		-	(11 309)
Proceeds from other borrowings		10 000	29 565
Dividends paid	19	-	(24 612)
Lease payments	3, 13	(8 679)	-
Net cash inflows from financing activities		**39 520**	**9 993**

Statement of Cash Flows (continued)

	Note	*2019*	*2018*
Effect of movements in exchange rates on cash and cash equivalents		(2 871)	6 974
Net increase in cash and cash equivalents		**46 158**	**45 307**
Cash and cash equivalents at the beginning of the year		193 108	147 905
Recovery/(charge) of loss allowance	5	17	(104)
Cash and cash equivalents at the end of the period	5	**239 283**	**193 108**

* *The Bank initially has applied IFRS 16 at 1 January 2019, using a modified retrospective approach. Due to this approach, comparative information is not restated. Information on transition to the new standard is disclosed in Note 3.*
The Bank classified:

- *principal lease payments in cash as financing activities;*
- *interest cash payments as operating activities, which is in line with interest payment recognition chosen by the Bank; and*
- *short-term lease payments as operating activities*.

Reconciliation of changes in liabilities to cash flows arising from financing activities are presented below:

				Non-monetary changes	**Other changes**		
	31 December 2018	**Proceeds**	**Repayment**	**Exchange rate movements**	**Interest paid**	**Interest accrued**	**31 December 2019**
Debt securities issued	41 278	531 841	(493 642)	188	(3 923)	7 718	83 460
Other borrowings	30 562	10 000	-	102	(5 476)	5 740	40 928
Subordinated debt	38 460	-	(10 433)	(1 299)	(1 903)	2 000	26 825
Total	**110 300**	**541 841**	**(504 075)**	**(1 009)**	**(11 302)**	**15 458**	**151 213**

				Non-monetary changes	**Other changes**		
	31 December 2017	**Proceeds**	**Repayment**	**Exchange rate movements**	**Interest paid**	**Interest accrued**	**31 December 2018**
Debt securities issued	24 712	177 324	(160 975)	23	(4 394)	4 588	41 278
Other borrowings	11 257	29 565	(11 309)	397	(2 057)	2 709	30 562
Subordinated debt	34 997	-	-	3 270	(1 823)	2 016	38 460
Total	**70 966**	**206 889**	**(172 284)**	**3 690**	**(8 274)**	**9 313**	**110 300**

(in thousands of Belarusian Roubles)

1. Background

Closed Joint Stock Company Minsk Transit Bank (hereinafter – "CJSC MTBank" or the "Bank") was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter − the "National Bank") on 14 March 1994 as a closed joint stock commercial bank with foreign investment. The Bank's activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on 6 May 2013. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until 29 July 2022 based on Decision No. 145 of 16 May 2012).

The Bank accepts deposits from the public, grants loans and transfers cash within the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its corporate clients and individuals.
The Bank's head office is located in Minsk.
During the reporting period, the Bank didn't change its legal address.
The legal address as at 31 December 2019 and 31 December 2018 was 10 Tolstogo Str., Minsk.

As at 31 December 2019, the Bank had the following structure: the head office, 6 banking services centers and 51 payment processing centres located in Minsk, Brest, Gomel, Grodno, Vitebsk, Mogilev, Soligorsk, Svetlogorsk, Molodechno, Zhodino, Bobruisk, Baranovichi and Lida, 54 remote workplaces, 5 portative banking services centers.

As at 31 December 2019 and 31 December 2018, the Bank had neither subsidiaries nor associates.
As at 31 December 2019 and 31 December 2018, the Bank's outstanding share capital was owned by the following shareholders:

Shareholder	***31 December 2019***	***31 December 2018***
BELNEFTEGAZ ALC	58,7937%	51,000%
MTB Investments Holdings Limited (Cyprus)	40,3395%	47,969%
Other	0,8668%	1,031%
	100,000%	**100,000%**

As at 31 December 2019 and 31 December 2018, the Bank's ultimate controlling owners were Alexei I. Oleksin and Inna V. Oleksina.

2. Basis of preparation

General information

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

The Bank is required to maintain accounting and prepare financial statements for regulatory purposes in Belarusian Roubles in accordance with Belarusian accounting and banking legislation and regulations (hereinafter - "BAS"). These financial statements are based on the Bank's BAS accounting data, as adjusted and reclassified in order to comply with IFRS. This is the first set of the Bank's annual financial statements prepared according to the requirements of IFRS 16 *Lease.* Changes in significant accounting policies are described in Note 3.

The Bank's functional currency is Belarusian Rouble.

The financial statements have been prepared on a historical cost basis except for the estimate of non-monetary items recognized before 31 December 2014, which were accounted for in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies* and items measured at fair value.

These financial statements are presented in thousands of Belarusian Roubles (hereinafter – "BYN thousand").

(in thousands of Belarusian Roubles)

Securities issued by the Bank are not included in the quotation sheets of OJSC Belarusian Currency and Stock Exchange, the Bank is not recognized as listed company and, accordingly, does not apply IAS 33 *Earnings per Share* and IFRS 8 *Operating Segments*.

Inflation accounting

Starting from 1 January 2011, the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with the criteria of IAS 29 *Financial Reporting in Hyperinflationary Economies* (hereinafter – “IAS 29”). Accordingly, adjustments and reclassifications of items for the purposes of presentation of IFRS financial statements include restatement, in accordance with IAS 29, taking into account changes in the general purchasing power of the Belarusian Rouble.

Starting from 1 January 2015, the economy of the Republic of Belarus is no longer considered as hyperinflationary. The value of non-monetary assets, liabilities and equity of the Bank, presented in measuring units as at 31 December 2014, was used to form the opening balances as at 1 January 2015.

The Bank operates in the Republic of Belarus. Consequently, the Bank is exposed to the economy and financial markets of the Republic of Belarus, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, 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 the Republic of Belarus. The methods of monetary policy regulation, adopted by the National Bank of the Republic of Belarus, made it possible to reduce both the volatility of the Belarusian Rouble and the level of inflation over the past two years. Despite this, the period of depreciation of the Belarusian Rouble and the period of high inflation that followed stabilization, still lead to some uncertainty in the conditions of economic activity in the Republic of Belarus.

The presented financial statements reflect management's assessment of the impact of the business environment in the Republic of Belarus on the operations and the financial position of the Bank. The actual impact of the future business environment may differ from management's assessment.

3. Significant accounting policies

Changes in accounting policies

IFRS 16 *Lease*

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard establishes the principles of recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most lease contracts using the single accounting model in the balance sheet.

Lessor accounting in accordance with IFRS 16 remains similar to IAS 17. Lessors will continue to classify leases using the same classification principles as in IAS 17 distinguishing two types of lease: operating and finance leases. Therefore, accounting for leases where the Bank is a lessor was not impacted by the adoption of IFRS 16.

The Bank has initially applied IFRS 16 on 1 January 2019, using a modified retrospective approach. Under the approach, the standard is adopted retrospectively with cumulative effect of its initial application being recognised at the date of initial application. When adopting the standard, the bank decided to use a practical expedient that allows to apply the standard only to agreements previously classified as lease using IAS 17 and IFRIC 4 as at the date of initial application. The Bank decided to use recognition exemption for leases with lease term not exceeding 12 months as at the lease commencement, and which do not contain a call option (short-term lease).

The effect of IFRS 16 application as at 1 January 2019 (increase/(decrease)) is presented below:

(in thousands of Belarusian Roubles)

Assets	
Property and equipment	22 988
Other assets	(450)
Total assets	**22 538**
Liabilities	
Other liabilities	22 538
Total liabilities	**22 538**

(a) Effect of initially applying IFRS 16

The Bank has lease agreements for various items of property and equipment. Prior to IFRS 16 adoption, the Bank classified each lease agreement (where it acted as a lessee) as a finance lease or an operating lease at the date of lease commencement. A lease was classified as a finance lease if substantially all of the risks and rewards of ownership of the leased asset were transferred to the Bank; otherwise the lease was classified as an operating lease. Finance leases were capitalised at lease inception at fair value of leased property or, if lower, at present value of minimum lease payments. Lease payments were allocated between interest and reduction of a lease liability. In case of an operating lease, value of leased property was not capitalised and lease payments were recognised as lease expenses in profit or loss on a straight-line basis over the lease term. All prepayments made for leases and accrued lease payments were recognised as *Other assets* and *Other liabilities*, respectively.

As a result of IFRS 16 adoption, the Bank used a unified approach to recognition and measurement of all leases except for short-term leases. The Bank applied specific transitional requirements and practical expedients provided by the standard.

Leases previously classified as finance leases under IAS 17

For leases previously classified as finance leases, the Bank has not changed the initial carrying amount of recognized assets and liabilities as at the date of initial application (i.e. right-of-use assets and lease liabilities were measured in the amount equal to the value of lease assets and lease liabilities recognised under IAS 17). The requirements of IFRS 16 have been applied to such leases from 1 January 2019.

Leases previously classified as operating leases

For leases previously classified as operating leases, except for short-term leases, the Bank recognised right-of-use assets and lease liabilities. Initial cost of right-of-use assets was recognised in the amount of initial cost of lease liabilities adjusted for lease payments made as at the lease commencement date or before such date. Initial cost of lease liabilities was recognised at present value of remaining lease payments at the date of recognition discounted using the lessee's incremental borrowing rate with similar term, security and currency at the respective date.

The Bank used the following practical expedients:

- the exemption not to recognise short-term leases with less than 12 months of lease term at the date of the first application;
- the exemption not to separate non-lease components from lease components and accounting for each lease component and respective non-lease components as a single lease component.

Based on the above, as at 1 January 2019:

- right-of-use assets were recognised in the amount of BYN 22 988 thousand and presented in *Property and equipment*;
- additional lease liabilities were recognised in the amount of BYN 22 538 thousand (included in *Other liabilities*);
- advance payments in the amount of BYN 450 thousand related to the previously recognised operating lease were derecognised;
- these adjustments have no impact on retained earnings.

(in thousands of Belarusian Roubles)

The Bank tested right-of-use assets for impairment as at the date of transition to IFRS 16 and concluded that there are no indicators of impairment of right-of-use assets.

Below is reconciliation of lease liabilities as at 1 January 2019 with contractual liabilities under operating lease as at 31 December 2018:

Contractual operating lease liabilities as at 31 December 2018	22 890
Weighted average incremental borrowing rate as at 1 January 2019	2,8%
Discounted contractual operating lease liabilities as at 1 January 2019	**22 282**
Minus:	
Contractual obligations under short-term lease	(325)
Plus:	
Payments in periods stipulated by renewal options that were not recognized as at 31 December 2018	581
Lease liabilities as at 1 January 2019	**22 538**

The following are the principal accounting policies adopted by the Bank as a result of IFRS 16 application that have been applied since the date of initial application:

i. Bank as a lessee

The Bank recognises right-of-use assets and lease liabilities at the lease commencement date in respect of all operating leases, except for short-term leases. Initial cost of right-of-use assets is recognised in the amount of initial cost of lease liabilities adjusted for lease payments made as at the lease commencement date or before such date, increased by the initial direct costs incurred and the estimated costs that will arise from dismantling and relocation of the underlying asset, restoration of the underlying asset or the site on which it is located, less the lease incentives received.

Right-of-use assets

The Bank recognises right-of-use assets at the lease commencement date (from the date when the use of the underlying asset is commenced). Subsequently, right-of-use assets are recognised less accumulated amortization and accumulated impairment losses, if any. Initial cost of right-of-use assets is formed from the amount of initially measured lease liability; any initial direct costs incurred by the lessee, less the amount of lease payments at the lease commencement date. Recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the following: the date of expiration of the useful life of the right-of-use asset or the lease term expiration. The right-of-use asset is assessed for impairment.

Lease liability

The lease liability is measured at amortized cost using the effective interest method. Lease payments include fixed payments less any lease incentives receivable, variable lease payments based on an index or rate at the lease commencement date, amounts expected to be paid by the Bank under residual value guarantees. Lease payments also include the call option strike price if there is reasonable certainty that the Bank will exercise the option, and penalties for termination if the lease term reflects potential exercise by the Bank of the lease termination option. Variable lease payments, which do not depend on an index or rate, are recognised as an expense on a non-recurring basis in the period to which they relate. In determining the present value of lease payments, the Bank uses the incremental borrowing rate as at the date of the lease agreement. After the date of commencement of the lease agreement, the lease liability increases by the amount of accrued interest expenses and decreases by the amount of actually made lease payments. In addition, the amount of the lease liability is revalued if the lease contract is modified or if the lease term or the amount of substantially fixed payments is changed. Where the lease liability is revised in this way, the corresponding adjustment is made to the carrying amount of the right-of-use asset, or is charged to profit or loss if the carrying amount of the right-of-use asset was previously reduced to zero.

(in thousands of Belarusian Roubles)

Short-term leases

The Bank applies the exemption not to recognise short-term leases (for those leases where the lease term is less than 12 months from the lease commencement date, there is no option to renew the lease and purchase the underlying asset).

For short-term leases, the Bank recognises lease payments under such leases as expenses on a straight-line basis over the lease term.

Significant judgments in determining the term of leases with a renewal option

The Bank determines the lease term as the lease period during which the Bank has sufficient assurance that the lease relations will not be terminated, together with the periods in respect of which a lease renewal option is provided for if there is sufficient assurance that the Bank will exercise this option, and the periods in respect of which a lease termination option is provided for if there is sufficient assurance that the Bank will not exercise this option. The Bank considers all relevant facts and circumstances that give rise to an economic incentive to exercise or not exercise the option. Subsequent to the lease commencement date, the Bank reassesses the lease term if there is either a significant event or a significant change in circumstances that are under the control of the Bank and affect the assessment of whether there is sufficient assurance that the option will be exercised (or will not be exercised).

Amounts recognized in the statement of financial position, statement of profit or loss and cash flow statement

The carrying amount of the Bank's right-of-use assets and lease liabilities and its changes during the period are as follows:

	Right-of-use assets				
	Buildings	**Computers and office equipment**	**Furniture and other fittings**	***Total***	**Lease liabilities**
As at 1 January 2019	**21 539**	**655**	**794**	**22 988**	**22 538**
New additions	2 066	180	128	2 374	2 374
Amortization expenses	(7 759)	(259)	(288)	(8 306)	-
Disposal	-	(19)	(47)	(66)	(56)
Interest expense	-	-	-	-	542
Payments	-	-	-	-	(8 679)
Revaluation of foreign currency agreements	-	-	-	-	(289)
As at 31 December 2019	**15 846**	**557**	**587**	**16 990**	**16 430**

For the year ended 31 December 2019 the Bank recognised expenses related to short-term leases in the amount of BYN 326 thousand.

For 2019 the total cash outflow due to leases amounted to BYN 9 124 thousand. In 2019 the Bank also had an increase in the right-of-use assets and lease liabilities in the amount of BYN 1 419 thousand.

ii. Financial lease – Bank as a lessor

At the inception or modification of the agreement containing a lease, the Bank allocates the compensation stipulated in the agreement to each lease component based on the existing relative prices of a separate transaction for such components.

Where the Bank is a lessor, at the inception of lease relationships it determines whether each of the agreements is a financial lease or an operating lease.

In order to classify a lease agreement, the Bank makes an overall assessment of whether the lease agreement transfers substantially all of the risks and rewards of ownership of the underlying asset. If this is the case, then the lease is a finance lease; otherwise, the lease is an operating lease. As part of this assessment, the Bank considers certain indicators, in particular, whether the lease term constitutes a significant part of the economic life of the asset.

(in thousands of Belarusian Roubles)

The Bank recognises lease payments receivable in the amount equal to net investments in the lease from the lease commencement date. Finance income is calculated based on a pattern reflecting a constant periodic rate of return on the carrying amount of net investments. Initial direct costs are included in the initial measurement of the lease receivables.

The Bank applies the requirements of IFRS 9 in respect of derecognition and impairment to the net investment in lease. In addition, the Bank regularly reviews the estimated unguaranteed residual values used in the calculation of the gross investment in leases to determine if changes are required.

As a rule, the accounting policy applied by the Bank as a lessor in the comparative period did not differ from the requirements of IFRS 16.

Policy applicable before 1 January 2019

Leases

i. Finance lease – Bank as a lessor

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

ii. Operating lease – Bank as a lessee

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

New standards and interpretations not yet adopted

New standard and amendments are effective for annual periods beginning after 31 December 2019 with early application permitted. However, the Bank has not early adopted the new and amended standards in preparation of these financial statements.

The following new standards and amendments are not expected to have a significant impact on the Bank's financial statements:

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of a Business (amendments to IFRS 3)*
- *Definition of Material (amendments to IAS 1 and IAS 8)*
- *IFRS 17 Insurance Contracts.*

Financial assets and financial liabilities

a) *Classification of financial instruments*

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost or FVOCI or FVTPL.

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

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

(in thousands of Belarusian Roubles)

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for the following items that are recognized in profit or loss as well as financial assets measured at amortized cost:

- interest income calculated using the effective interest method;
- expected credit losses and recovered impairment losses; and
- profit or loss from changes in exchange rates.

Upon derecognition of a debt financial asset measured at FVOCI, accumulated profit or loss previously recognized as part of other comprehensive income is reclassified from equity to profit or loss.

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

For such equity instruments, profits and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest 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 realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how flows are realized.

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

Assessment of 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 at initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI. The Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing on amount of contractual cash flows such that it would not meet this condition. In making assessment, the Bank considers:

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

(in thousands of Belarusian Roubles)

- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets measured at amortized cost are initially measured at fair value including additional direct transaction costs and subsequently measured at their amortized cost using the effective interest method.

Financial assets measured at fair value are initially measured at fair value plus, if the financial assets are not measured at FVTPL, the relevant transaction costs are subsequently recognized at fair value.

In regard to financial assets measured at FVOCI gains or losses are recognized at other comprehensive income less interest income calculated using effective interest method, expected credit losses and recovery of amounts written-off on losses and exchange rates, recognized in profit or loss.

Gains and losses on financial assets measured at FVTPL are recognized in profit or loss at subsequent restatement of a financial instrument.

Financial liabilities

The Bank classifies financial liabilities, other than financial guarantee contracts and loan commitments, as measured at amortized cost or at FVTPL.

Reclassification

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

b) Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends to realize the asset and settle the liability simultaneously. The right to set-off should not be subject to an event in the future and should have legal force in all the following circumstances:

- in the ordinary course of business;
- in case of non-compliance with the obligation; and
- in the event of insolvency or bankruptcy of the entity or any of the counterparties.

These conditions are generally not met for master netting agreements, and the assets and liabilities are recognized in the statement of financial position in full.

c) Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

(in thousands of Belarusian Roubles)

Any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated by the Bank as FVOCI is not subject to reclassification to profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Modifications of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered modifications if they are a consequence of current contract terms, for example, changes in interest rates by the Bank due to changes in the refinancing rate of the National Bank of Belarus, if the corresponding loan agreement provides for the Bank to change interest rates.

The Bank conducts a quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows for the initial financial asset and cash flows on modified or replacing financial asset are significantly different. The Bank conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. If the cash flows differ significantly, it is considered that the rights to the contractual cash flows of the original financial asset have expired. In conducting this assessment, the Bank is guided by instructions regarding the derecognition of financial liabilities by analogy.

The Bank concludes that the modification is considered significant based on the following qualitative factors:

- change in the currency of a financial asset;
- change in the terms of a financial asset leading to SPPI discrepancy.

If cash flows are modified when the borrower has financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy).This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the assets and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross

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carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For loans with a fixed interest rate, the terms of which stipulate the borrower's right to early repayment at nominal value without significant fines, the change in the interest rate to the market level in response to changing market conditions is taken into account by the Bank in the same way as for accounting instruments with a floating interest rate, i.e. the effective interest rate is revised prospectively.

<u>Modification of financial liabilities</u>

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

The Bank conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. The bank concludes that the modification is considered significant, based on the following qualitative factors:

- change in the currency of the financial liability;
- change in the type of collateral or other means of improving the quality of the asset;
- conversion condition;
- a change in the subordination of a financial liability.

For the purpose of quantification, conditions are considered to be significantly different if the present value of cash flows in accordance with new conditions, including payments of commissions less commissions received, discounted at the initial effective interest rate, differs by at least 10% of the discounted present value remaining cash flows from the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or toss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

e) Impairment

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- net investments in finance leases;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank recognizes loss allowances in an amount equal to the lifetime expected credit losses, excluding financial instruments for which credit risk has not increased significantly since their initial recognition.

The Bank does not apply exemptions associated with low credit risk.

12-month expected credit losses (12-month ECL) are the portion of ECL that result from default events on a financial instrument, possible within 12 months after the reporting date. Financial instruments and associated with them 12-month ECL are classified as “Stage 1” financial instruments.

Lifetime expected credit losses (lifetime ECL) are defined as ECL as a result of all possible events of default of the financial instrument throughout its expected duration. Financial instruments that are not purchased or originated credit-impaired assets and associated with them lifetime ECL are classified as “Stage 2” financial

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instruments (if the credit risk has increased significantly since its initial recognition, but is not credit-impaired) and "Stage 3" (in case if the financial instrument is credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash insufficient receipts (i.e. the difference between the contractual cash flows due to the Bank and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If under the parties` mutual agreement the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost, debt financial assets measured at FVOCI and financial guarantees, loan commitments, as well as net investments in finance leases are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The list of impairment events used by the Bank when analyzing borrowers is given in Note 26.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Purchased or originated credit-impaired financial assets (POCI-assets)

POCI-assets are assets that are credit-impaired at initial recognition.

POCI-assets include the following assets of the Bank:

- new financial assets issued by the Bank in the framework of restructuring a credit-impaired asset (replacement of a credit-impaired asset by another asset with a similar level of credit risk)

- an asset that arose when the financial asset was derecognized as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impaired financial assets;

- acquired credit-impaired financial assets.

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on purchased or originated credit-impaired financial assets, the expected cash flows are used, taking into account the initial assessment of the ECL for the entire period.

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The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity. The effective interest rate is adjusted for credit risk.

Upon initial recognition of POCI-assets (usually originated assets), the fair value of such loans is determined based on the expected cash flows as a result of cash flows and/or forced sale of collateral.

Subsequent estimation of ECL on POCI-assets is always made in the amount equal to lifetime ECL. ECL of such assets is the amount of changes in lifetime ECL from the day of the initial recognition of the asset.

The amount reflecting positive changes in the amount of lifetime ECL is recognized as an impairment gain, even if the amount of these changes is greater than the amount previously recognized in profit or loss as an impairment loss.

Interest on POCI-assets is accrued at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance for ECL is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance for ECL is disclosed and is recognized in the fair value reserve.

Write-offs

Loans and debt securities are written-off (either partially or in full) when there is no realistic prospect of recovery.

Reimbursement of previously written-off amounts is recognized in the “other income” item in the statement of comprehensive income.

In regard to written-off financial assets, the Bank may continue to carry out debt collection activities in accordance with its internal policies.

f) Measurement of fair value of financial instruments

The Bank measures such financial instruments as investment securities and derivatives at fair value at each reporting date. The information about the fair value of financial instruments measured at amortized cost is disclosed in Note 27.

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

- in the principal market for the asset or liability; or
- in the absence of the principal market, in the most advantageous market for the asset or liability

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

(in thousands of Belarusian Roubles)

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from the National Bank, excluding mandatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual obligations.

Repurchase and reverse repurchase agreements and securities lending

Repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and reclassified as securities pledged under sale and repurchase agreements, in case if the counterparty has the right to sell or repledge them under the contract terms. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank uses various derivative financial instruments (including foreign exchange forwards and swaps). These financial instruments are held for trading and are initially recorded at fair value. Fair value is determined on the basis of market quotations or valuation models based on the current market and contractual value of the underlying instruments and other factors.

Derivative financial instruments with positive fair values are recorded as assets, and with negative fair value as liabilities. Gains and losses arising from transactions with these instruments are recorded in the statement of comprehensive income in net income/(expense) on foreign currency transactions.

Taxation

The current income tax expense is calculated in accordance with the legislation of the Republic of Belarus.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred

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income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Besides, there are various operating taxes applying to the Bank's activities in the Republic of Belarus. These taxes are recognized in other operating expenses.

Property and equipment

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

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

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

	Years
Buildings	20-100
Computers and office equipment	1-14
Vehicles	6-9
Furniture and fixtures	2-50

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each reporting year-end. Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include software and licenses for software and activities that should be licensed.

Intangible assets acquired separately are initially measured at cost adjusted for hyperinflation. Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets have finite useful lives and are amortized over the periods of 1 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment property

The Bank classifies investment property as real estate held by the owner or lessee under a finance lease agreement, including property under construction or reconstruction for future use as investment property, to earn rentals or for capital appreciation or for both, rather than for use in supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. Investment property also includes assets with undefined use at the date of recognition or at reporting date.

Investment property is initially recognized at cost, including transaction costs, and subsequently remeasured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

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Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Net gains/(losses) resulting from changes in the fair value of investment property are recorded in the statement comprehensive income as gains/(losses) from change in fair value of investment property. Earned rental income is recognized in the statement of comprehensive income in other income.

The investment property is derecognized at its disposal or final withdrawal from operation when after the disposal of the investment property item it is not expected to receive economic benefits.

Amounts due to credit institutions, customers, debt securities issued and subordinated debt

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value less relevant transaction costs and subsequently at their amortized cost using the effective interest method.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position, and information about them is disclosed in the financial statements, apart from cases where the disposal of resources due to their redemption is unlikely. Contingent assets are not recognized in the statement of financial position, and information about them is disclosed in the financial statements in cases where it is probable that the economic benefits associated with them will be received.

Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance.

Financial liabilities recognized in relation to financial guarantees and loan commitments are included in other liabilities.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and that can be estimated reliably.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is recognized in the reporting period, within which the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

Share capital

Share capital

(in thousands of Belarusian Roubles)

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are recognized as a decrease in the amount received from the issue.

Non-monetary contributions are included in the share capital at fair value of the contributed assets as of the contribution date.

Dividends

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

Interest and similar income and expense

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate on financial assets except for those measured at FVTPL includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(in thousands of Belarusian Roubles)

Presentation

Interest income calculated using the effective interest method presented in the statement of comprehensive income includes:

- interest income on financial assets measured at amortized cost;
- interest income on debt instruments measured at FVOCI.

Other interest income presented in the statement of comprehensive income includes interest income on net finance leases.

Interest expense presented in the statement of comprehensive income includes financial liabilities measured at amortized cost.

Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income - including account servicing fees, investment management fees, sales commission, placement fees and syndication fees - is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net income from transactions with financial instruments measured at FVTPL

Net income from transactions with financial instruments measured at FVTPL includes gains less losses related to assets and liabilities available for trading, and all fair values changes and foreign exchange differences.

Foreign currency translation

The financial statements are presented in Belarusian Roubles, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially translated to the functional currency at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate as at the reporting date. Gains and losses resulting from foreign currency transactions are recognized in the statement of comprehensive income as net gains from foreign currency transactions. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate of the National Bank at the date of the transaction are included in gains less losses from transactions in foreign currencies.

The official exchange rate applied in the preparation of the financial statements as of 31 December 2019 and 2018 is as follows:

	31 December 2019	***31 December 2018***
USD/BYN	2,1036	2,1598

(in thousands of Belarusian Roubles)

EUR/BYN	2,3524	2,4734
RUB/BYN	0,034043	0,031128

Prior years errors correction

In reconciliation of changes in liabilities and cash flows from financing activities, an incorrect amount of other changes in debt securities issued was corrected as follows

Other changes	Recognised as at 31 December 2018	Change	31 December 2018
Interest paid	(10 458)	6 064	(4 394)
Interest accrued	10 652	(6 064)	4 588

4. Significant judgements and estimates

In preparing these financial statements, the management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized in the reporting period in which the respective estimates were revised and in any subsequent periods that they affect.

Judgements
Information about assumptions used in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is disclosed in the following notes:

- Classification of financial assets: business-model valuation, within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding – Note 3.

- Establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 26.

- For the purpose of determining the levels of the fair value hierarchy, the Bank applies judgment in regard to the active market definition. Description of the valuation methods and key inputs on financial instruments measured at fair value is given in Note 27.

- Operating lease: The Bank cannot determine easily the interest rate stipulated in the lease agreement, which is why it uses the incremental borrowing rate to measure lease commitments. The lessee's incremental borrowing rate is the rate of interest that the Bank would have to pay at the inception of a lease to borrow over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Bank determines incremental borrowing rate using observable inputs (such as market interest rates), if any, and uses specific estimates. With respect to the lease term, the Bank determines whether there is reasonable certainty that the Bank will exercise options to extend and terminate the lease. For detailed information, see Note 3.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended 31 December 2018 is disclosed in the following notes:

- ECL assessment for financial instruments: determining inputs into the ECL measurement model, including incorporation of forecast information – Note 26.
- impairment of financial instruments – Notes 5, 6, 8, 9, 13.
- fair value measurement of financial assets and financial liabilities – Note 27.

(in thousands of Belarusian Roubles)

5. Cash and cash equivalents

Cash and cash equivalents include:

	31 December 2019	*31 December 2018*
Cash on hand	68 688	62 286
Current accounts with the National Bank of the Republic of Belarus	93 285	63 297
Current accounts with other credit institutions	47 372	44 421
Term deposits with credit institutions up to 90 days	30 025	23 208
Total cash and cash equivalents	**239 370**	**193 212**
Net of loss allowance	(87)	(104)
Cash and cash equivalents	**239 283**	**193 108**

As at 31 December 2019, current accounts with credit institutions include BYN 23 150 thousand (2018: BYN 18 365 thousand) placed with 5 banks (2018: 5 banks) in the member countries of the Organization for Economic Co-operation and Development (hereinafter − "OECD").

All balances of cash equivalents are recognized as Stage 1 for ECL calculation. Movements in the loss allowance for funds placed in current accounts with credit institutions and short-term deposits are presented in the table below.

	Stage 1	*Total 2019*
Loss allowance as at 1 January	**104**	**104**
Newly originated or purchased financial assets	87	**87**
Financial assets repaid	(104)	**(104)**
Balance as at 31 December 2019	**87**	**87**

Analysis of ECL movements for the year ended 31 December 2018 is provided below:

	Stage 1	*Total 2018*
Loss allowance as at 1 January	**-**	**-**
Newly originated or purchased financial assets	104	**104**
Balance as at 31 December 2018	**104**	**104**

Movement in loss allowance is associated with the changes in amount of funds placed on current accounts in credit institutions and short-term deposits:

	Stage 1	*Total 2019*
Debt as at 1 January	**130 926**	**130 926**
Newly originated or purchased financial assets	85 072	85 072
Repayment	(44 857)	(44 857)
Changes in foreign exchange rates and other changes	(459)	(459)
Debt as at 31 December	**170 682**	**170 682**

Analysis of changes in gross carrying amount for the year ended 31 December 2018:

(in thousands of Belarusian Roubles)

	Stage 1	***Total 2018***
Debt as at 1 January	**103 181**	**103 181**
Newly originated or purchased financial assets	52 716	**52 716**
Repayment	(26 752)	**(26 752)**
Changes in foreign exchange rates and other changes	1 781	**1 781**
Debt as at 31 December	**130 926**	**130 926**

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2019	*31 December 2018*
Term deposits placed for more than 90 days	7 205	43 194
Obligatory reserves with the National Bank of the Republic of Belarus	7 912	7 638
Total amounts due from credit institutions	**15 117**	**50 832**
Net of loss allowance	(119)	(235)
Amounts due from credit institutions	**14 998**	**50 597**

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

As at 31 December 2019, 52% (2018: 49%) of the term deposits placed for a period exceeding 90 days were placed in one Belarusian bank.

As at 31 December 2019, the amounts due from credit institutions included BYN 1 288 thousand placed as collateral for obligations under settlements using payment cards and international payment systems (as at 31 December 2018: BYN 9 627 thousand).

Analysis of ECL movements for the year ended 31 December 2019:

	Stage 1	*Stage 2*	*Total 2019*
Loss allowance as at 1 January	**235**	**-**	**235**
Transfer to Stage 2	(20)	20	-
Net change in loss allowance	8	16	24
New financial assets originated or purchased	17	-	17
Financial assets repaid	(138)	(20)	(158)
Changes in foreign exchange rates and other changes	1	-	1
Balance as at 31 December	**103**	**16**	**119**

Analysis of ECL movements for the year ended 31 December 2018 is presented below:

	Stage 1	*Stage 3*	*Total 2018*
Loss allowance as at 1 January	**192**	**34**	**226**
Net change in loss allowance	(127)	-	**(127)**
New financial assets originated or purchased	165	-	**165**
Write-offs	-	(36)	**(36)**
Changes in foreign exchange rates and other changes	5	2	**7**
Balance as at 31 December	**235**	**-**	**235**

Analysis of changes in gross carrying amount for the year ended 31 December 2019:

(in thousands of Belarusian Roubles)

	Stage 1	*Stage 2*	*Total 2019*
Debt as at 1 January	**50 832**	**-**	**50 832**
Transfer to Stage 2	(4 953)	4 953	-
Newly originated or purchased financial assets	3 291	-	3 291
Repayment	(34 112)	(4 775)	(38 887)
Changes in foreign exchange rates and other changes	(114)	(5)	(119)
Debt as at 31 December	**14 944**	**173**	**15 117**

Analysis of changes in gross carrying amount for the year ended 31 December 2018:

	Stage 1	*Stage 3*	*Total 2018*
Debt as at 1 January	**26 929**	**34**	**26 963**
Newly originated or purchased financial assets	39 702	**-**	**39 702**
Repayment	(16 287)	**-**	**(16 287)**
Write-offs	-	**(36)**	**(36)**
Changes in foreign exchange rates and other changes	488	**2**	**490**
Debt as at 31 December	**50 832**	**-**	**50 832**

7. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recognized as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2019			*31 December 2018*		
	Notional amount, equivalent	*Fair value*		*Notional amount, equivalent*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Currency contracts						
Forwards - foreign contracts	28 835	36	(6)	35 114	30	(1)
Forwards - domestic contracts	70 573	51	(54)	64 348	35	(83)
Total derivative assets/(liabilities)	**99 408**	**87**	**(60)**	**99 462**	**65**	**(84)**

Foreign contracts are contracts concluded with non-residents of the Republic of Belarus, whereas domestic contracts are contracts concluded with residents of the Republic of Belarus represented in the table above.

As at 31 December 2019 and 31 December 2018, the Bank has positions in the following types of derivatives:

Forwards

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts traded in the over-the-counter market.

8. Loans to customers

Loans to customers comprise:

	31 December 2019	*31 December 2018*
Loans to legal entities	489 306	416 063
Loans to individuals	449 212	391 640
Financial leases	51 298	34 689
Total loans to customers	**989 816**	**842 392**
Net of loss allowance	(14 192)	(8 746)
Loans to customers	**975 624**	**833 646**

(in thousands of Belarusian Roubles)

Analysis of changes in loss allowance for loans to legal entities and individuals for the year ended 31 December 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*2019*
Loss allowance of loans to individuals as at 1 January				
Balance as at 1 January	2 196	699	2 254	**5 149**
Transfer to Stage 1	146	(138)	(8)	**-**
Transfer to Stage 2	(302)	304	(2)	**-**
Transfer to Stage 3	-	(247)	247	**-**
Net change in loss allowance	(346)	(102)	4 781	**4 333**
Newly originated or purchased financial assets	1 326	158	378	**1 862**
Unwinding of discount	-	-	73	**73**
Write-offs	-	-	(5 569)	**(5 569)**
Loss allowance of loans to individuals as at 31 December	**3 020**	**674**	**2 154**	**5 848**

	Stage 1	*Stage 2*	*Stage 3*	*2019*
Loss allowance of loans to individuals as at 1 January				
Balance as at 1 January	1 789	428	1 039	**3 256**
Transfer to Stage 1	382	(308)	(74)	**-**
Transfer to Stage 2	(18)	52	(34)	**-**
Transfer to Stage 3	-	(113)	113	**-**
Net change in loss allowance	(107)	(27)	2 397	**2 263**
Newly originated or purchased financial assets	3 905	16	730	**4 651**
Write-offs	-	-	(2 558)	**(2 558)**
Unwinding of discount	-	-	53	**53**
Changes in foreign exchange rates and other changes	(26)	-	-	**(26)**
Loss allowance of loans to individuals as at 31 December	**5 925**	**48**	**1 666**	**7 639**

Analysis of changes in loss allowance for loans to legal entities and individuals for the year ended 31 December 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*2018*
Loss allowance of loans to individuals as at 1 January				
Balance as at 1 January	2 294	774	2 757	**5 825**
Transfer to Stage 1	538	(487)	(51)	**-**
Transfer to Stage 2	(124)	328	(204)	**-**
Transfer to Stage 3	-	(401)	401	**-**
Net change in loss allowance	(683)	271	5 765	**5 353**
Newly originated or purchased financial assets	171	214	371	**756**
Unwinding of discount	-	-	75	**75**
Write-offs	-	-	(6 860)	**(6 860)**
Loss allowance of loans to individuals as at 31 December	**2 196**	**699**	**2 254**	**5 149**

	Stage 1	*Stage 2*	*Stage 3*	*2018*
Loss allowance of loans to individuals as at 1 January				
Balance as at 1 January	4 560	949	2 245	**7 754**
Transfer to Stage 1	580	(471)	(109)	**-**
Transfer to Stage 2	(239)	372	(133)	**-**
Transfer to Stage 3	-	(229)	229	**-**
Net change in loss allowance	(4 443)	(539)	1 986	**(2 996)**
Newly originated or purchased financial assets	1 244	346	174	**1 764**
Write-offs	-	-	(3 490)	**(3 490)**
Unwinding of discount	-	-	137	**137**
Changes in foreign exchange rates and other changes	87	-	-	**87**
Loss allowance of loans to individuals as at 31 December	**1 789**	**428**	**1 039**	**3 256**

(in thousands of Belarusian Roubles)

Movement in loss allowance is associated with the changes in gross carrying amount of loans to individuals:

	Stage 1	*Stage 2*	*Stage 3*	*2019*
Loans to individuals as at 1 January				
Balance as at 1 January	383 502	3 625	4 511	**391 638**
Transfer to Stage 1	704	(689)	(15)	**-**
Transfer to Stage 2	(9 957)	9 960	(3)	**-**
Transfer to Stage 3	-	(8 483)	8 483	**-**
Newly originated or purchased financial assets	220 353	1 266	1 153	**222 772**
Repayment	(153 729)	(1 900)	(4 072)	**(159 701)**
Write-offs	-	-	(5 569)	**(5 569)**
Unwinding of discount	-	-	72	**72**
Loans to individuals as at 31 December	**440 873**	**3 779**	**4 560**	**449 212**

The amount of loans to individuals written-off during the years ended 31 December 2018 and 31 December 2019, for which debt collection continues.

Movement in loss allowance is associated with the changes in gross carrying amount of loans to legal entities:

	Stage 1	*Stage 2*	*Stage 3*	*2019*
Loans to legal entities as at 1 January				
Balance as at 1 January	402 397	10 362	3 304	**416 063**
Transfer to Stage 1	7 932	(7 660)	(272)	**-**
Transfer to Stage 2	(3 348)	3 471	(123)	**-**
Transfer to Stage 3	-	(3 546)	3 546	**-**
Newly originated or purchased financial assets	303 244	236	1 837	**305 317**
Repayment	(225 310)	(2 462)	(1 694)	**(229 466)**
Unwinding of discount	-	-	53	**53**
Write-offs	-	-	(2 558)	**(2 558)**
Changes in foreign exchange rates and other changes	(103)			**(103)**
Loans to legal entities as at 31 December	**484 812**	**401**	**4 093**	**489 306**

The amount of loans to legal entities written-off during the years ended 31 December 2018 and 31 December 2019, for which debt collection continues.

Analysis of changes in loans to legal entities and individuals for the year ended 31 December 2018:

	Stage 1	*Stage 2*	*Stage 3*	*2018*
Loans to individuals as at 1 January				
Balance as at 1 January	350 353	4 434	5 200	**359 987**
Transfer to Stage 1	3 009	(2 899)	(110)	**-**
Transfer to Stage 2	(13 726)	13 734	(8)	**-**
Transfer to Stage 3	-	(11 367)	11 367	**-**
Newly originated or purchased financial assets	192 305	1 273	1 011	**194 589**
Repayment	(148 437)	(1 550)	(6 164)	**(156 151)**
Unwinding of discount	-	-	75	**75**
Write-offs	-	-	(6 860)	**(6 860)**
Loans to individuals as at 31 December	**383 504**	**3 625**	**4 511**	**391 640**

	Stage 1	*Stage 2*	*Stage 3*	*2018*
Loans to legal entities as at 1 January				
Balance as at 1 January	319 554	11 728	4 415	**335 697**
Transfer to Stage 1	6 077	(5 830)	(247)	**-**
Transfer to Stage 2	(10 342)	10 579	(237)	**-**
Transfer to Stage 3	-	(9 832)	9 832	**-**
Newly originated or purchased financial assets	303 091	8 948	591	**312 630**
Repayment	(215 983)	(5 231)	(7 697)	**(228 911)**
Unwinding of discount	-	-	137	**137**
Write-offs	-	-	(3 490)	**(3 490)**
Loans to legal entities as at 31 December	**402 397**	**10 362**	**3 304**	**416 063**

(in thousands of Belarusian Roubles)

The allowance for impairment in the tables above includes expected credit losses on certain loan commitments to customers, such as credit cards, overdrafts, since the Bank can't determine the expected credit losses on the uncalled component of loan commitments separately from those related to loans already issued within the loan commitments.

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

The main types of collateral obtained are as follows:

- for securities lending and reverse repurchase transactions – cash or securities;
- for commercial lending – pledge of real estate, inventory and accounts receivable;
- for car lending – pledge of car.

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

The information in regard to loans to customers as at 31 December in the context of collateral types is presented below. Information is based on the loans carrying amount, rather than the fair value of the collateral.

	31 December 2019	*31 December 2018*
Real estate	192 098	163 564
Fixed assets	106 233	56 163
Goods for sale	79 746	87 369
Cash	25 549	30 990
Other	81 335	69 091
Unsecured	504 855	435 215
Loans to customers	**989 816**	**842 392**

The table above excludes the cost of overcollateralization.

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

Since the Bank focuses on the creditworthiness of borrowers, the Bank, as a rule, does not revise the estimated value of collateral, unless the credit risk on a loan has increased significantly and the loan is monitored closely. Accordingly, the Bank does not regularly revise the estimated value of collateral accepted for all loans to customers. For loans for which an evidence of impairment has been identified, the Bank typically revises the estimated value of collateral. As at 31 December 2019, the fair value of collateral for credit-impaired debt to legal entities amounted to BYN 4 299 thousand (as at 31 December 2018: BYN 9 598 thousand).

As at 31 December 2019, 99,16% of the loan portfolio of individuals, or BYN 448 537 thousand (as at 31 December 2018: 99,88%, or BYN 391 168 thousand) is represented by unsecured loans.

As at 31 December 2019, loans secured by guarantee deposits amounted to BYN 25 549 thousand (31 December 2018: BYN 30,990 thousand).

Concentration of loans to customers

As at 31 December 2019, the concentration of loans issued by the Bank to ten largest independent borrowers amounted to BYN 203 780 thousand, or 21% of gross loan portfolio. A loss allowance was created for the loans in the amount of BYN 1 703 thousand. As at 31 December 2018, the concentration of loans issued by the Bank to ten largest independent borrowers made up BYN 190 913 thousand, or 23% of gross loan portfolio. An impairment allowance was created for the loans in the amount of BYN 689 thousand. The amount due from one of the largest borrowers made up BYN 17 704 thousand (as at 31 December 2018: BYN 31 067 thousand) and is fully covered by the guarantee deposit (as at 31 December 2018: BYN 29 387 thousand) (Notes 15, 29).

(in thousands of Belarusian Roubles)

Structure of loan portfolio by the types of customers is as follows:

	31 December 2019	*31 December 2018*
Private companies	501 728	444 228
Individuals	449 212	391 640
State organizations	38 876	6 524
Loans to customers	**989 816**	**842 392**

Loans are primarily issued to customers located within the Republic of Belarus, operating in the following industry sectors:

	31 December 2019	*31 December 2018*
Individuals	449 212	391 640
Wholesale and retail trade	267 927	237 414
Manufacturing	73 110	48 505
Transport	59 221	42 106
Real estate	63 716	56 645
Construction	38 866	33 184
Food industry	4 415	3 221
Other	33 349	29 677
Loans to customers	**989 816**	**842 392**

In 2019, the Bank financed start-up companies within a program with OJSC Development Bank of the Republic of Belarus. The interest rate on loans issued under this program as at 31 December 2019 amounted from 7% to 8%. Due to market rates on loans in 2019, losses on initial recognition of financial instruments at fair value for 2019 were not recognized (2018: BYN 549 thousand). Balances under these loan agreements amounted to BYN 6 080 thousand as at 31 December 2019, BYN 7 258 thousand as at 31 December 2018.

Finance lease receivables

The Bank is a lessor under finance lease agreements. The subject of the lease are motor vehicles, industrial equipment and real estate items. The term of the lease agreement is from 12 months to 48 months for motor vehicles and up to 60 months under other lease agreements.

Subject to agreement with the Bank, the lessee is entitled to early fulfill its obligations under the lease agreement in full in advance provided that at least one year has passed from the date of actual transfer of lease item to the lessee. Upon written consent of the Bank, the lease item may be leased, subleased or transferred gratuitously provided that the legislation requirements are met. In case of early termination of the lease agreement and withdrawal by the Bank (return by the lessee) of the lease item, the lessee must apply to the relevant registration authority for introduction of amendments to information on state registration of the lease item as required.

The analysis of finance lease receivables as at 31 December 2019 is as follows:

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2019*
Gross investments in finance leases	37 111	22 903	**60 014**
Unearned future finance income on finance leases	(3 456)	(5 260)	**(8 716)**
Net investments in finance leases	**33 655**	**17 643**	**51 298**

The analysis of finance lease receivables as at 31 December 2018 is as follows:

(in thousands of Belarusian Roubles)

	Less than 1 year	*From 1 to 5 years*	*Total 31 December 2018*
Gross investments in finance leases	27 254	11 997	**39 251**
Unearned future finance income on finance leases	(3 276)	(1 286)	**(4 562)**
Net investments in finance leases	**23 978**	**10 711**	**34 689**

Information on created loss allowance related to finance lease receivables for the year ended 31 December 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2019*
Balance as at 1 January	162	32	147	**341**
Transfer to Stage 1	17	(4)	(13)	-
Transfer to Stage 2	(70)	70	-	-
Transfer to Stage 3	-	(48)	48	-
Net change in loss allowance	(77)	27	(113)	(163)
Newly originated or purchased financial assets	527	-	-	527
Balance as at 31 December	**559**	**77**	**69**	**705**

Analysis of changes in ECL for the year ended 31 December 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Balance as at 1 January	280	74	267	**621**
Transfer to Stage 1	55	(55)	-	**-**
Transfer to Stage 2	(35)	50	(15)	**-**
Transfer to Stage 3	-	(19)	19	**-**
Net change in loss allowance	(303)	(18)	(124)	**(445)**
Newly originated or purchased financial assets	165	-	-	**165**
Write-offs	-	-	-	**-**
Balance as at 31 December	**162**	**32**	**147**	**341**

Analysis of changes in finance lease receivables for the year ended 31 December 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2019*
Finance leases as at 1 January				
Balance as at 1 January	33 598	559	532	**34 689**
Transfer to Stage 1	159	(112)	(47)	**-**
Transfer to Stage 2	(654)	654	-	**-**
Transfer to Stage 3	-	(189)	189	**-**
New financial assets originated or purchased	41 842	-	-	**41 842**
Repayment	(24 132)	(562)	(539)	**(25 233)**
Finance leases as at 31 December	**50 813**	**350**	**135**	**51 298**

Analysis of changes in finance lease receivables for the year ended 31 December 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Finance leases as at 1 January				
Balance as at 1 January	16 522	1 104	596	**18 222**
Transfer to Stage 1	754	(754)	-	**-**
Transfer to Stage 2	(972)	1 006	(34)	**-**
Transfer to Stage 3	-	(337)	337	**-**
New financial assets originated or purchased	29 166	-	-	**29 166**
Repayment	(11 872)	(460)	(367)	**(12 699)**
Finance leases as at 31 December	**33 598**	**559**	**532**	**34 689**

(in thousands of Belarusian Roubles)

9. Investment securities

Investment securities measured at FVOCI are presented as follows:

	31 December 2019	*31 December 2018*
Securities measured at FVOCI	95 335	36 288
Securities measured at FVOCI pledged under repurchase agreements	-	42
Securities measured at FVOCI pledged under other agreements	10 517	11 088
Equity investments	571	571
Total investment securities	**106 423**	**47 989**

The Bank on its own classified certain investments set in the table below as equity securities measured at FVOCI. According to the Bank's expectations, these investments will be held in the long-term perspective in order to achieve the objectives set, that's why the Bank reclassified them into securities measured at FVOCI.

As at 31 December 2019, the following financial assets were transferred as collateral for funds borrowed from banks (Note 14): government long-term bonds of the Ministry of Finance of the Republic of Belarus of 260 issue in quantity of 5 000 items amounting to BYN 10 517 thousand. As at 31 December 2018, the following financial assets were transferred as collateral for funds borrowed from banks (Note 14): government long-term bonds of the Ministry of Finance of the Republic of Belarus of 233 issue in quantity of 5 000 items amounting to BYN 11 088 thousand and government long-term bonds of the Ministry of Finance of the Republic of Belarus of 250 issue in quantity of 20 items amounting to BYN 42 thousand.

Equity securities held by the Bank are as follows:

	Fair value as at 31 December 2019	**Fair value as at 31 December 2018**
OJSC Non-bank financial institution Single Settlement and Information Space (SSIS)	483	483
SWIFT	87	87
Other	1	1
Total investments in equity securities measured at FVOCI	**571**	**571**

Investment securities measured at FVOCI but not pledged are presented by the following instruments:

	31 December 2019	*31 December 2018*
Bonds issued by the National Bank	32 634	26 967
Bonds issued by republican authorities	50 050	2 285
Bonds issued by local banks	12 651	7 036
Total investment securities measured at FVOCI	**95 335**	**36 288**
Loss allowance	(1 201)	(257)
Carrying amount is a fair value of securities measured at FVOCI	**95 335**	**36 288**

Securities measured at FVOCI pledged under repurchase and other agreements are represented by the following instruments (Note 14):

	31 December 2019	*31 December 2018*
Bonds issued by republican authorities	10 517	11 130
Total securities measured at FVOCI pledged under repurchase agreements and other agreements	**10 517**	**11 130**
Loss allowance	(176)	(160)
Securities measured at FVOCI pledged under repurchase and other agreements	**10 517**	**11 130**

Movement in loss allowance of securities measured at FVOCI is presented below:

(in thousands of Belarusian Roubles)

	Stage 1	Total 2019
Investment securities		
Balance as at 1 January	417	**417**
Newly originated or purchased financial assets	1 375	**1 375**
Financial assets paid	(415)	**(415)**
Changes in foreign exchange rates and other changes	-	**-**
Balance as at 31 December	**1 377**	**1 377**

Analysis of changes in ECL for the year ended 31 December 2018 is presented below:

	Stage 1	Total 2018
Investment securities		
Balance as at 1 January	327	**327**
Newly originated or purchased financial assets	257	**257**
Financial assets repaid	(181)	**(181)**
Changes in foreign exchange rates and other changes	14	**14**
Balance as at 31 December	**417**	**417**

Change in loss allowance for securities measured at FVOCI is associated with a change in the debt for which the allowance is formed:

	Stage 1	Total 2019
Securities measured at FVOCI as at 1 January		
Balance as at 1 January	**47 418**	**47 418**
Newly originated or purchased financial assets	105 724	**105 724**
Repayment	(47 285)	**(47 285)**
Changes in foreign exchange rates and other changes	(5)	**(5)**
Securities measured at FVOCI as at 31 December	**105 852**	**105 852**

The abovementioned movement has been complied for the purpose of justifying a change in the value of expected credit losses during the year and does not reflect movements if the acquisition and sale of investment securities occurred within one year.

Analysis of changes in investment securities measured at FVOCI for the year ended 31 December 2018 is presented below:

	Stage 1	Total 2018
Securities measured at FVOCI as at 1 January		
Balance as at 1 January	45 563	**45 563**
Newly originated or purchased financial assets	36 331	**36 331**
Repayment	(35 436)	**(35 436)**
Changes in foreign exchange rates and other changes	960	**960**
Securities measured at FVOCI as at 31 December	**47 418**	**47 418**

(in thousands of Belarusian Roubles)

10. Property and equipment

Movements in property and equipment are as follows:

	Buildings	*Computers and office equipment*	*Motor vehicles*	*Furniture and fixtures*	*Constructi-on in progress*	*Right-of-use assets (Note 3)*	*Total*
Cost							
As at 31 December 2018	4 803	16 142	680	8 851	654	-	**31 130**
Effect of IFRS 16 application (Note 3)	-	-	-	-	-	22 988	**22 988**
As at 1 January 2019	4 803	16 142	680	8 851	654	22 988	**54 118**
Additions	111	2 102	121	1 221	490	1 419	**5 464**
Disposals	(398)	(821)	(124)	(424)	-	(93)	**(1 860)**
As at 31 December 2019	**4 516**	**17 423**	**677**	**9 648**	**1 144**	**24 314**	**57 722**
Accumulated depreciation							
As at 1 January 2019	(1 196)	(9 455)	(464)	(4 566)	-	-	**(15 681)**
Depreciation	(82)	(2 385)	(83)	(1 467)	-	(8 308)	**(12 325)**
Disposals	134	805	40	387	-	983	**2 349**
As at 31 December 2019	**(1 144)**	**(11 035)**	**(507)**	**(5 646)**	**-**	**(7 325)**	**(25 657)**
Carrying amount							
As at 31 December 2018	**3 607**	**6 687**	**216**	**4 285**	**654**	**-**	**15 449**
Effect of IFRS 16 application (Note 3)	-	-	-	-	-	22 988	**22 988**
As at 1 January 2019	**3 607**	**6 687**	**216**	**4 285**	**654**	**22 988**	**38 437**
As at 31 December 2019	**3 372**	**6 388**	**170**	**4 002**	**1 144**	**16 989**	**32 065**
Carrying amount							
As at 1 January 2018	**4 878**	**15 048**	**752**	**8 136**	**162**		**28 976**
Additions	-	2 427	89	1 121	492		**4 129**
Disposals	(75)	(1 333)	(161)	(406)	-		**(1 975)**
As at 31 December 2018	**4 803**	**16 142**	**680**	**8 851**	**654**		**31 130**
Accumulated depreciation							
As at 1 January 2018	**(1 145)**	**(8 715)**	**(486)**	**(4 009)**	**-**		**(14 355)**
Depreciation	(115)	(1 947)	(101)	(864)	-		**(3 027)**
Disposals	64	1 207	123	307	-		**1 701**
As at 31 December 2018	**(1 196)**	**(9 455)**	**(464)**	**(4 566)**	**-**		**(15 681)**
Carrying amount							
As at 1 January 2018	**3 733**	**6 333**	**266**	**4 127**	**162**		**14 621**
As at 31 December 2018	**3 607**	**6 687**	**216**	**4 285**	**654**		**15 449**

As at 31 December 2019 and 31 December 2018, the cost of fully depreciated property and equipment made up BYN 8 002 thousand and BYN 7 394 thousand, respectively. As at 31 December 2019 and 31 December 2018, the Bank had no impairment indicators of property and equipment.

(in thousands of Belarusian Roubles)

11. Intangible assets

Movements in intangible assets are as follows:

	31 December 2019	*31 December 2018*
Cost		
As at 1 January	38 473	30 506
Additions	9 540	8 284
Disposals	(12 237)	(317)
As at 31 December	**35 776**	**38 473**
Accumulated amortization		
As at 1 January	(15 715)	(11 153)
Amortization	(6 935)	(4 567)
Disposals	8 922	5
As at 31 December	**(13 728)**	**(15 715)**
Carrying amount		
As at 1 January	**22 758**	**19 353**
As at 31 December	**22 048**	**22 758**

As at 31 December 2019 and 31 December 2018, the cost of fully amortized intangible assets amounted to BYN 2 931 thousand and BYN 4 733 thousand, respectively.

The Bank's intangible assets are primary represented by software used in banking (accounting systems, software for processing systems and business lines) and licensing agreements for its use.

In 2019, the Bank implemented a new automated banking system (ABS), the software of Colvir, an international company. The introduction of the new automated banking system was the final stage of the Bank's global project of IT infrastructure modernization. After new ABS introduction, the Bank withdrew the Forpost information banking system implemented in 2009.

12. Taxation

Income tax expense comprises:

	2019	*2018*
Current income tax expense	21 912	23 853
Deferred tax expense − origination and reversal of temporary differences	(3 346)	(1 039)
Income tax expense	**18 566**	**22 814**

Belarusian legal entities are obliged to calculate and pay taxes by themselves. The income tax rate for banks is set at 25% from 1 January 2015, excluding income from transactions with securities that are not taken into account when determining gross profit in accordance with the Tax Code of the Republic of Belarus.

The Bank calculates deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018 using 25% tax rate.

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

	2019	*2018*
Profit before tax	**78 377**	**97 548**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**19 594**	**24 387**
Income tax benefit on securities	(1 902)	(1 892)
Income tax benefit on capital investments	(298)	(125)
Non-deductible expenditures	1 172	444
Income tax expense	**18 566**	**22 814**

(in thousands of Belarusian Roubles)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years are presented in the table below:

	31 December 2017	*Effect of IFRS 9 adoption as at 1 January 2018*	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2018*	*Origination and reversal of temporary differences in the statement of profit or loss*	*31 December 2019*
Tax effect of deductible temporary differences						
Cash and cash equivalents	-	-	26	26	(4)	22
Derivative financial assets	1	-	11	12	(12)	-
Derivative financial liabilities	-	-	-	-	15	15
Investment property	216	-	(216)	-	-	-
Property and equipment	-	-	17	17	2 178	2 195
Intangible assets	-	-	-	-	121	121
Assets held for sale				-	2	2
Debt securities issued	41	-	(41)	-	-	-
Amounts due to customers	343	-	(343)	-	-	-
Other assets	416	298	1 159	1 873	37	1 910
Other liabilities	186	-	1 290	1 476	(184)	1 292
Tax effect of taxable temporary differences						
Amounts due from credit institutions	(265)	48	179	(38)	(9)	(47)
Derivative financial assets	-	-	(4)	(4)	(18)	(22)
Loans to customers	(16 253)	1 031	(2 719)	(17 941)	3 306	(14 635)
Investment securities	(16)	-	5	(11)	(54)	(65)
Property and equipment	(37)	-	37	-	-	-
Intangible assets	(48)	-	18	(30)	30	-
Amounts due to credit institutions	(263)	-	(97)	(360)	98	(262)
Amounts due to customers	-	-	(15)	(15)	15	-
Derivative financial liabilities	(3)	-	(1)	(4)	4	-
Debt securities issued	-	-	(40)	(40)	(18)	(58)
Other borrowings	(16)	-	(10)	(26)	(11)	(37)
Other liabilities	(2 941)	189	1 746	(1 006)	(2 165)	(3 171)
Subordinated debt	(147)	-	37	(110)	15	(95)
Deferred tax liabilities, net	**(18 786)**	**1 566**	**1 039**	**(16 181)**	**3 346**	**(12 835)**

(in thousands of Belarusian Roubles)

13. Other assets and liabilities

Other assets include the following items:

	31 December 2019	31 December 2018
Accrued fee and commission income	582	925
Banking operations receivable	472	880
Accounts receivable	460	682
Total financial assets	**1 514**	**2 487**
Prepaid taxes, other than income tax	2 141	2 207
Prepayment and other debtors	2 070	2 174
Deferred expenses	1 542	1 295
Inventories	426	794
Assets held for sale	401	-
Total non-financial assets	**6 580**	**6 470**
Net of loss allowance for other financial assets	(274)	(328)
Other assets	**7 820**	**8 629**

As at 31 December 2019, the Bank recognized assets held for sale, which are measured by the Bank at fair value through profit or loss, and represented mostly by real estate (non-residential premises). Loss from revaluation of assets held for sale in 2019 amounted to BYN 264 thousand.

As at 31 December 2019, prepayments and other debtors include prepayment for property and equipment in the amount of BYN 1 558 thousand (2018: BYN 1 341 thousand). In 2019, an inventory impairment in the amount of BYN 299 thousand was recognized (2018: BYN 114 thousand).

Other liabilities include the following items:

	31 December 2019	31 December 2018
Operating lease liabilities	16 430	-
Banking operations payable	13 216	2 369
Accrued liabilities on loyalty programs	1 040	631
Trade accounts payable	837	945
Allowance for expected credit losses on contingent liabilities (Note 21)	279	676
Payables on property and equipment and intangible assets	182	1 357
Accrued fee and commission expenses	69	42
Other	210	211
Total financial liabilities	**32 263**	**6 231**
Personnel commitments	3 345	3 079
Deferred revenue on annual card service commission	2 911	3 666
Taxes payable, other than income tax	2 750	2 338
Payables to Deposit Insurance Agency	592	577
Deferred income	28	20
Other expenses	1 002	477
Total non-financial liabilities	**10 628**	**10 157**
Other liabilities	**42 891**	**16 388**

Significant increase in other banking operations payable is caused by debt for settlements with foreign currency in the amount of BYN 12 236 thousand.

(in thousands of Belarusian Roubles)

Movement in loss allowance of other financial assets for 2019 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*2019*
Loss allowance of other assets as at 1 January	**-**	**-**	**328**	**328**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(155)	155	-	**-**
Transfer to Stage 3	-	(155)	155	**-**
Net change in loss allowance	-	-	828	**828**
Newly originated or purchased financial assets	155	-	-	**155**
Financial assets repaid	-	-	(36)	**(36)**
Write-offs	-	-	(1 001)	**(1 001)**
Loss allowance of other assets as at 31 December	**-**	**-**	**274**	**274**

Movement in loss allowance of other financial assets for 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Loss allowance of other assets as at 1 January	**-**	**-**	**4 175**	**4 175**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(194)	194	-	**-**
Transfer to Stage 3	-	(194)	194	**-**
Net change in loss allowance	-	-	481	**481**
Newly originated or purchased financial assets	194	-	-	**194**
Write-offs	-	-	(4 522)	**(4 522)**
Loss allowance of other assets as at 31 December	**-**	**-**	**328**	**328**

The change in loss allowance for other financial assets is caused by change in the debt for which the allowance is formed:

	Stage 1	*Stage 3*	*Total 2019*
Other financial assets debt as at 1 January			
Balance as at 1 January	1 874	613	**2 487**
Transfer to Stage 3	(976)	976	**-**
Newly originated or purchased financial assets	1 462	-	**1 462**
Repayment	(1 403)	(31)	**(1 434)**
Write-offs	-	(1 001)	**(1 001)**
Other financial assets debt as at 31 December	**957**	**557**	**1 514**

Movement in debt for 2018 is presented below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Other financial assets debt as at 1 January				
Balance as at 1 January	**4 005**	**-**	**4 883**	**8 888**
Transfer to Stage 2	(363)	363	-	
Transfer to Stage 3	-	(363)	363	**-**
Newly originated or purchased financial assets	363	-	-	**363**
Repayment	(2 131)	-	(111)	**(2 242)**
Write-offs	-	-	(4 522)	**(4 522)**
Other financial assets debt as at 31 December	**1 874**	**-**	**613**	**2 487**

The Bank has initially applied IFRS 16 on 1 January 2019, using a modified retrospective approach. Under the approach, the standard is adopted retrospectively with cumulative effect of its initial application being recognised at the date of initial application. As a result of transition to the new standard on lease accounting, the Bank recognised lease assets and liabilities, other than short-term operating lease and respective income and expenses.

Effect from IFRS 16 adoption and further accounting for right-of-use assets and operating lease liabilities are disclosed in Note 3 and Note 10.

(in thousands of Belarusian Roubles)

Expenses on short-term operating lease are disclosed in Note 26.

Operating lease liabilities as at 31 December 2019 are presented as follows:

	Less than 1 year	*From 1 to 5 years*	*Total*
Minimum lease payments	8 929	7 989	**16 918**
Financial deferred expenses	(354)	(134)	**(488)**
Net operating lease liabilities	**8 575**	**7 855**	**16 430**

14. Amounts due to credit institutions

Amounts due to credit institutions are presented in the table below:

	31 December 2019	*31 December 2018*
Term deposits and loans from local banks	36 718	16 976
Term deposits and loans from foreign banks	18 589	24 528
Current accounts	491	487
Amounts due to credit institutions	**55 798**	**41 991**

As at 31 December 2019, amounts due to credit institutions of BYN 18 589 thousand (33%) were due to three banks.

As at 31 December 2018 amounts due to credit institutions of BYN 24 528 thousand (58%) were due to seven banks.

As at 31 December 2019, there were no funds raised under REPO agreements for which the Bank's securities were pledged as collateral (31 December 2018: BYN 42 thousand) (Note 9).

Gain on initial recognition of loans

In 2019, the Bank financed start-up companies as part of a joint program with OJSC Development Bank of the Republic of Belarus (Note 8). As at 31 December 2019, the amount of funds attracted under this program was BYN 15 480 thousand (2018: BYN 12 190 thousand). Gain on initial recognition of financial instruments at fair value for 2019 was BYN 533 thousand (2018: BYN 1 096 thousand).

15. Amounts due to customers

Amounts due to customers comprise:

	31 December 2019	*31 December 2018*
Term deposits	467 871	389 484
Current customer accounts	375 045	370 993
Amounts due to customers	**842 916**	**760 477**
Including cash held as security under the letters of credit	**5 590**	**10 883**

Term deposits include deposits held by the Bank as security under irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

As at 31 December 2019, amounts due to customers in the amount of BYN 126 697 thousand (15%) were represented by amounts due to ten largest customers (2018: BYN 120 627 thousand (16%)). As at 31 December 2019, the amount of debt on guarantee deposit of the largest of the above mentioned clients (group of related clients) was BYN 34 888 thousand (31 December 2018: BYN 29 387 thousand) and represented a loan collateral and guarantees (Note 8).

Term deposits include deposits of individuals in the amount of BYN 216 384 thousand (2018: BYN 206 712 thousand).

(in thousands of Belarusian Roubles)

The following categories of clients are presented in the table below:

	31 December 2019	*31 December 2018*
Private companies	433 185	367 002
Individuals	396 751	386 683
State organizations	12 980	6 792
Amounts due to customers	**842 916**	**760 477**

Breakdown of customer accounts by economic sectors is as follows:

	31 December 2019	*31 December 2018*
Individuals	396 751	386 683
Trade	137 700	122 748
Manufacturing	73 075	10 830
Transport	38 576	67 909
Construction	33 239	47 947
Real estate	25 988	-
Software development and information technologies	25 694	4 202
Individual entrepreneurs	23 923	22 417
Entertainment services	9 721	15 865
Financial services	8 350	1 688
Publishing activities	1 717	1 485
Telecommunications	1 652	-
Education	1 215	5 790
Insurance	1 104	30 504
Government bodies	-	114
Non-profit organizations	-	44
Other	64 211	42 251
Amount due to customers	**842 916**	**760 477**

16. Debt securities issued

Debt securities issued are primarily placed through non-public sales and comprised the following:

	31 December 2019	*Maturity*	*Effective interest rate*	*31 December 2018*	*Maturity*	*Effective interest rate*
Interest-bearing bonds in BYN	77 409	2020-2022	8,51-13,08%	41 278	2019 г.	9,5-24%
Interest-bearing bonds in USD	6 051	2020	1,01-1,81%	-		
Debt securities issued	**83 460**			**41 278**		

Interest bonds in Belarusian Roubles include securities issues for 2014-2019.

As at 31 December 2019 and 31 December 2018, the Bank fully fulfilled obligations on securities issued in a timely manner.

17. Other borrowings

Other borrowings are presented as follows:

	Currency	*Type of interest rate*	*Attraction year*	*Maturity year*	*31 December 2019*	*31 December 2018*
Creditor 1	BYN	Fixed	2018-2019	2020-2021	40 928	30 562
Other borrowings					**40 928**	**30 562**

The Bank raised borrowings from an International financial institution. As at 31 December 2019 and 2018, the Bank complied with the financial terms and conditions specified in the agreement.

(in thousands of Belarusian Roubles)

18. Subordinated debt

Subordinated debt comprises the following:

	Attraction date	*Maturity date*	*Interest rate*	*31 December 2019*	*31 December 2018*
Subordinated loan 1 in USD	2010	2028	6%	9 677	9 935
Subordinated loan 2 in USD	2010	2028	6%	10 045	10 313
Subordinated loan 3 in BYN	2014	2023	5%	241	217
Subordinated loan 4 in BYN	2014	2023	5%	551	500
Subordinated loan 5 in USD	2015	2025	6%	4 207	4 320
Subordinated loan 6 in USD	2015	2025	6%	2 104	2 160
Subordinated loan 7 in USD	2016	2026	5%	-	11 015
Subordinated debt				**26 825**	**38 460**

As at 31 December 2019 and 2018, the Bank timely and fully fulfilled its obligations on subordinated debt.

19. Equity

During 2019, share capital increased: par value of shares increased from BYN 87 to BYN 390 due to the Bank's equity (retained earnings), and 26 752 additional shares were issued, for payment of which funds from the long-term subordinated loan of ALC Belneftegaz were used. The Bank did not repurchase its own shares. Therefore, as at 31 December 2019, the authorized, issued and paid-in share capital of the Bank was 168 200 ordinary shares with a par value of BYN 390,00 each (31 December 2018 - 141 448 ordinary shares with a par value of BYN 87,00 each). All shares have the same par value and carry one vote.

In 2019 and 2018, there were no movements in authorized, issued and fully paid-in shares, the capital structure is presented below:

	Number of ordinary shares	*Par value of ordinary shares*	*Inflation adjustment*	*Total*
As at 31 December 2019	168 200	65 598	44 828	**110 426**
As at 31 December 2018	141 448	12 306	44 828	**57 134**

In 2019, accumulated earnings were not distributed as dividends. At the shareholders' meeting held on 20 April 2019, the Bank declared dividends totaling to BYN 11 761 thousand for ordinary shares (BYN 83,1 per share). At the shareholders' meeting held on 25 July 2018, the Bank declared dividends totaling to BYN 12 851 thousand for ordinary shares (BYN 90,9 per share). Thus, the total amount of dividends declared in 2018 amounted to BYN 24 612 thousand.

In accordance with Belarusian legislation, only accumulated retained and unreserved earnings may be distributed between the Bank's shareholders as dividends according to the Bank's financial statements prepared in accordance with the legislation of the Republic of Belarus. The Bank had retained and unreserved earnings amounted to BYN 67 123 thousand as at 31 December 2019 in accordance with the legislation of the Republic of Belarus (2018: BYN 85 539 thousand) (unaudited).

20. Commitments and contingencies

Legal issues

In the ordinary course of business, the Bank is subject to legal actions and claims. Management believes that contingent liabilities, if any, arising from such actions or complaints will not have a material adverse impact on the financial position or the results of the Bank's future operations.

(in thousands of Belarusian Roubles)

Taxation

The taxation system in the Republic of Belarus is characterized 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. In addition, there is no extensive court practice in the Republic of Belarus on tax issues.

Taxes are subject to review and investigation by a number of regulatory authorities, which are entitled to impose severe fines and penalties. A tax year remains open for review by tax authorities during five subsequent calendar years. In some cases, this period can be unlimited.

Belarusian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation regarding the Bank transactions and operations may be challenged by the relevant authorities.

The management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs issues will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Currently public liability insurance is not available in the Republic of Belarus. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Bank's operations and financial position.

(in thousands of Belarusian Roubles)

21. Credit related contingencies

As at 31 December 2019 and 31 December 2018, the Bank's commitments and contingencies comprised the following:

	31 December 2019	*31 December 2018*
Credit related contingencies		
Loan commitments	798 849	713 212
Guaranties	43 191	62 574
Letters of credit	19 109	16 946
	861 149	**792 732**
Cash held as security under letters of credit (Note 16)	(5 590)	(10 883)
Loss allowance	(279)	(676)
Commitments and contingencies	**855 559**	**781 849**

In accordance with the Bank's adopted accounting policies (Note 3), loss allowance on certain loan commitments, such as credit cards, overdrafts, are included in the loss allowance on loans to customers (Note 8), since the Bank can't determine the expected credit losses on an uncalled component of loan commitments separately from those related to loans already issued within the loan commitments. According to the loan agreements, the Bank retains the right to unilaterally withdraw from its loan commitments.

The movement of loss allowance on financial guarantees and unsecured letters of credit is set in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2019*
Loss allowance as at 1 January	**662**	**10**	**4**	**676**
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	3	(3)	-
Transfer to Stage 3	-	-	-	-
Net change in loss allowance	59	(3)	1	57
Newly originated or purchased financial assets	59	-	-	59
Derecognition	(503)	(10)	-	(513)
Loss allowance as at 31 December	**277**	**-**	**2**	**279**

The movement of loss allowance on financial guarantees and unsecured letters of credit for 2018 is set in the table below:

	Stage 1	*Stage 2*	*Stage 3*	*Total 2018*
Loss allowance as at 1 January	**494**	**255**	**4**	**753**
Transfer to Stage 1	145	(145)	-	**-**
Net change in loss allowance	(427)	(100)	-	**(527)**
Newly originated or purchased financial assets	450	-	-	**450**
Loss allowance as at 31 December	**662**	**10**	**4**	**676**

(in thousands of Belarusian Roubles)

22. Net gain from foreign currency transactions

	2019	2018
Trading transactions	17 850	20 948
Revaluation of currency accounts	476	(816)
Income (expenses) on derivative financial instruments transactions	(89)	259
Net gain from foreign currency transactions	**18 237**	**20 391**

23. Net fee and commission income

	2019	2018
Commissions on transactions with payment cards	60 770	41 456
Cash desk services	17 468	16 023
Documentary transactions	1 305	1 453
Securities	168	195
Foreign exchange transactions	-	120
Other	2 569	2 067
Fee and commission income	**82 280**	**61 314**
Commissions on transactions with payment cards	(34 507)	(21 845)
Transactions with banks	(4 961)	(4 913)
Foreign exchange transactions	(328)	(267)
Documentary transactions	(297)	(322)
Securities	(163)	(205)
Other	(1 091)	(654)
Fee and commission expense	**(41 347)**	**(28 206)**
Net fee and commission income	**40 933**	**33 108**

The aforementioned fee and commission income represents revenue from contracts with customers in the scope of IFRS 15, broken down by main types of fee and commission income.

Commission income includes income in the amount of BYN 62 273 thousand (2018: BYN 43 104 thousand) and expenses in the amount of BYN 34 967 thousand (2018: BYN 22 317 thousand) related to financial assets and financial liabilities not measured at fair value through profit or loss. These amounts exclude amounts taken into account when determining the effective interest rate on such financial assets and financial liabilities.

Contractual assets and liabilities

The following table shows information on receivables and liabilities on contracts with customers.

	31 December 2019	31 December 2018
Contract assets included in “other assets”	2 070	2 174
Receivables included in “other assets”	1 514	2 487
Contract liabilities, which are included in the "other liabilities"	(2 911)	(3 666)

Contract obligations mainly relate to non-refundable amounts of prepaid fees received from customers for annual card services (Note 13). Revenue recognition is carried out throughout the year during which the customer is expected to continue to use plastic cards.

Performance obligations and revenue recognition policy

Commission incomes on contracts with customers are estimated based on the compensation specified in the agreement. The Bank recognizes revenue when it transfers control over the service to the customer.

The following table contains information on the nature and timing of the obligations to be fulfilled under contracts with customers, including significant payment terms and the relevant accounting policies for revenue recognition.

(in thousands of Belarusian Roubles)

Services	The nature and timing of the performance of duties to the execution, including the essential terms of payment	Revenue recognition in accordance with IFRS 15
Retail and Corporate Banking Services	The Bank provides banking services to retail and corporate clients, including services for the maintenance of accounts, the provision of overdrafts, foreign currency transactions, the processing and issuance of credit cards and the maintenance of accounts. The commission for servicing accounts is charged by debiting the corresponding amounts from the client's account on a monthly basis. The Bank sets tariffs separately for retail and corporate banking customers on an annual basis. The commission for currency exchange operations, foreign currency transactions and the provision of overdrafts is charged by debiting the corresponding amounts from the client's account during the transaction. The commission for current maintenance is charged monthly based on fixed rates, which are annually reviewed by the Bank.	The commission for servicing accounts is recognized over time as the services are rendered. Remuneration for the operation is recognized at the time of the transaction.
Investment Banking	The Bank provides services related to the implementation of client operations with currency and the underwriting of securities. Remuneration for transactions and underwriting of securities is charged at the time of the transaction.	Amounts due to customers as at 31 December are recognized as trade receivables. Remuneration for transactions is recognized at the time of the relevant transactions.

(in thousands of Belarusian Roubles)

24. Other income

	2019	*2018*
Proceeds from debts previously written off	11 445	15 183
Fines and penalties received	1 138	1 135
Net expense /(income) from sale of property and equipment, intangible assets and investment property	(2 935)	617
Royalty	-	3 388
Lease income	-	11
Other	822	428
Total other income	**10 470**	**20 762**

25. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2019	*2018*
Salaries and bonuses	(32 628)	(29 253)
Social security contributions	(10 623)	(9 460)
Remuneration to the members of Supervisory Board	(554)	(1 035)
Other personnel expenses	(983)	(561)
Personnel expenses	**(44 788)**	**(40 309)**
Expenses on maintenance of banking software	(8 926)	(4 175)
Marketing and advertising	(8 738)	(11 178)
Communication services	(3 481)	(3 531)
Payments to the Deposit Insurance Agency	(2 297)	(2 147)
Utilities	(2 281)	(2 276)
Postal and courier services	(1 492)	(1 359)
Taxes, other than income tax	(1 038)	(593)
Expenses on Bank plastic cards	(862)	(624)
Professional services	(797)	(710)
Repair and maintenance of vehicles and fuel expenses	(732)	(656)
Security expenses	(682)	(673)
Stationery and other office expenses	(575)	(559)
Repair and maintenance of property and equipment	(491)	(426)
Entertainment expenses	(490)	(617)
Lease	(326)	(8 641)
Other expenses	(3 097)	(2 536)
Other operating expenses	**(36 305)**	**(40 701)**

The Bank has initially applied IFRS 16, which regulates recognition and accounting treatment for finance and operating lease agreements, from 1 January 2019. The Bank also decided to use the exemption for leases which have a maximum lease term of 12 months at the inception of the lease and which do not contain a call option (short-term lease). Under this approach, the Bank has not restated comparative information. In 2018, other operating expenses included expenses under all operating leases; in 2019, only expenses under short-term operating leases were included in other operating expenses.

26. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, assessment and monitoring and setting risk limits and other internal controls. This risk management process is critical to the Bank's continuing profitability and each Bank employee is responsible for the risk exposures related to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter in its turn is divided into trading and non-trading risks. The Bank is also exposed to operating risk. The independent risk control process is not included in business risks such as changes in the environment, technology or industry. Such risks are monitored within the Bank's strategic planning process.

(in thousands of Belarusian Roubles)

Risk management structure

The risk management system has a four level organizational structure, which includes:
1. Level 1 – the Bank's collegial management bodies;
2. Level 2 – risk management officer;
3. Level 3 – the Bank's risk management and analytical divisions;
4. Level 4 – other Bank's divisions (except for the analytical ones).

Supervisory Board

The Supervisory Board of the Bank ensures the organization of the risk management system, excludes conflicts of interest and conditions of its occurrence in the process of risk management, approves local regulatory legal acts defining the risk management strategy of the Bank, as well as determines the tolerance to the Bank's inherent risks.

Risk Committee

The Risk Committee's functions include internal monitoring of the implementation of the Supervisory Board strategy and decisions on the risk profile and risk tolerance of the Bank; decision-making regarding risks within the authority defined by the Supervisory Board; risk management system effectiveness assessment; regular reporting and submission of recommendations to the Supervisory Board for decision-making on issues within the competence of the Committee.

Audit Committee

The Audit Committee's functions include general management and ensuring internal control system organization, establishment of the Internal Audit Department; assessment of the internal control system effectiveness; selection of and ensuring communication with external auditors; submission for consideration of the Supervisory Board of reports and recommendations on internal control and internal audit issues on a regular basis.

Management Board

Develops and ensures effective risk management system operating in the Bank in accordance with the regulation of the National Bank on organization of the risk management system in banks and the risk management strategy of the Bank approved by the Supervisory Board.

Financial Committee

The main functions are:
- decision-making on issues related to management of the Bank's liquidity risk, bank portfolio interest risk, market risks, country risk, risk of financial sustainability, credit risk and concentration risk (regarding transactions with banks, other financial institutions, insurance companies);
- maximization of the Bank's profitability taking into account risks;
- development of relevant assumptions and initiating issues to be considered by the Management Board.

Credit Committee

The Credit Committee is responsible for making optimal decisions related to the Bank's active transactions under its authority.

Risk management (RM)

The main responsibilities of RM are:
- developing and ensuring effective risk management system operation, increasing the effectiveness of the Bank's operations;
- maintaining the risks inherent to the Bank on the appropriate level;
- assistance in ensuring and improving the Bank's financial reliability reputation

(in thousands of Belarusian Roubles)

Credit risk management (CRM)

The main responsibilities of CRM are:
- monitoring and managing the quality of the corporate and retail loan portfolio in order to maintain safe and acceptable level of credit risk, ensuring maximum profitability for the Bank;
- providing the Bank's management and shareholders with the necessary analytical and statistical data on the risk profile of the corporate and retail loan portfolio of the Bank;
- implementing the methodological support of the system for assessing the creditworthiness of legal entities, individual entrepreneurs and individuals

Financial and economic department (FED)

FED is responsible for:
- analyzing and planning the Bank's activities;
- organization of the process of strategic planning and budgeting at the Bank;
- ensuring compliance with the regulatory requirements of the National Bank of the Republic of Belarus (prudential standards).

Internal Audit Department

- evaluates an effectiveness of the risk management system, including checking the completeness of the application and correctness of the methodology for assessing banking risks and bank risk management procedures;
- makes its proposals to improve the efficiency of the Bank, including risk management.

Other business units

- participate in the planning and maintain the planned and controlled indicators (indicators of volume, price, structure, risk limits);
- make management decisions within the framework of the authorities granted

Risk assessment and risk communication system

The Bank's risk management is based on requirements of the National Bank of the Republic of Belarus and the Basel Committee on Banking Supervision.

CJSC MTBank developed a hierarchical system of local regulations, including high-level documents – Risk Management Strategy and Risk Management Policies, as well as local regulations in regard to managing certain types of risks and those managing the organizational structure and distribution of the employees' authorities by risk management. The abovementioned local regulations define risk management goals, objectives, principles, identify key risk indicators, the Bank's tolerance to inherent risks, risks identification, monitoring, controlling and limiting, the functions of business units, the authorities of the Bank's employees to manage the risks inherent to the Bank.

The Bank identifies the following risks as significant at this development stage and within the current economic environment:
- strategic risk;
- credit risk (including country risk within the framework of interbank transactions with non-resident banks);
- liquidity risk;
- operational risk;
- reputational risk;
- currency risk;
- commodity risk;
- interest rate risk;
- concentration risk;
- financial sustainability risk.

These types of risks have a permanent nature, significant share in the Bank's risk profile and represent a real threat to the implementation of the profit plan. The Bank's risk management policy is presented below.

(in thousands of Belarusian Roubles)

Strategic risk - the Bank's risk of losses, loss of planned revenues due to errors (weaknesses) made when making decisions that define the strategy of activities and development of the Bank (strategic management) and which coming to neglect or insufficient accounting of possible dangers that may threaten the Bank activities, incorrect or insufficiently reasonable definition of perspective directions of activities in which the Bank may achieve competitive advantages, absence or incomplete provision of the required resources (financial, material and technical, human) and organizational measures (management decisions), which should ensure the achievement of the objectives of the Bank.

The main rules of risk management are as follows:
- monitoring of implementation of main parameters and objectives specified by the Bank's development Strategy,
- factor analysis of the strategic plan,
- analysis of macroeconomic conditions of the Bank's activities,
- adjustment of the strategic plan, if necessary, or even change in the Bank strategic development goals and directions.

The Bank takes the following measures to manage this risk:
- expanding and increasing the raising of long-term foreign resources;
- limitation or full refusal to develop non-strategic lines of business;
- development of competitive types of products, creation of new conditions and improvement of service for existing products;
- improvement of the Bank's reputational characteristics and brand recognition;
- implementation of HR policy aimed at providing the Bank's activities with a sufficient number of high-class personnel.

Measures to recover from losses may include correction of the Bank's activities based on the results of the analysis of macroeconomic conditions of the Bank, factor analysis of the strategic plan.

Financial sustainability risk – the risk of a lack of adequacy of regulatory capital to cover the main types of risks assumed by the Bank.

The main and only rule for managing this type of risk is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals.

In order to manage this type of risk, the Bank sets credit and market risk limits.

Measures to correct the adequacy of regulatory capital are determined based on the results of retrospective factor analysis (forecast, stress-testing) of changes in its level. These measures may include changes in the size and/or structure of the loan portfolio, market risk exposure, changes in the Banks' share capital.

Credit risk – the risk of the Bank's losses, non-receipt of planned income due to non-performance, delayed or incomplete performance of the debtor's financial and other property obligations to the Bank in accordance with the terms of the contract or the legislation.

In order to manage this risk, the Bank performs the following measures:
- in case of secured lending, the financial reliability of the client is assessed by the degree of its creditworthiness;
- in case of unsecured lending, the financial reliability of the client is assessed by the degree of its solvency;
- the larger the loan, the stricter the requirements for the financial reliability of the borrower;
- the reliability of investment in large loan transactions is evaluated on an individual basis according to the conclusion of underwriter on the financial reliability of the client, massive and small types of loan transactions are assessed based on the results of scoring of the creditworthiness of the borrower or in accordance with a fully formalized rules of borrower's creditworthiness analysis and making decisions on financing (product delivery) within the certain private banking products;
- the project on issue of foreign currency loan to a corporate client in is obligatory subject to stress testing of currency risk;

Risk preventive measures are the following:

(in thousands of Belarusian Roubles)

- risk limits management;
- definition of standard requirements to the borrowers' financial reliability and, if necessary, tightening them;
- price management;
- testing of new loan products in small volumes;

determination of credit policies based on ratings of financial reliability and efficiency of borrowers.

Potential measures to recover losses, including:

- debt restructuring;
- definition of standard requirements to fulfilment of obligations on loan transactions and, if necessary,
- tightening them;
- pre-trial and judicial debt repayment;
- sale of claims to debtors.

Changes in the financial position of all counterparty banks regarding resources' placement in the form of loans and deposits on the interbank market are analyzed and monitored. The limits for current transactions of the Bank with counterparty banks are calculated and approved on a monthly basis by the Financial Committee and the Management Board of the Bank.

Liquidity risk – the probability of loss of the Bank's ability to fund the growth of assets without incurring losses and/or timely fulfill its obligations to depositors and creditors.

In order to manage the risk, the Bank takes the following measures:

- performance of liquidity accumulation strategy
- division of liquid assets into liquid assets of the first and the second stages. Determining the necessary sufficiency of liquid assets at the Bank's operation routinely (liquidity of the first stage) and emergently (liquidity of the first and the second stage);
- division of the Bank's liquidity management into operational and strategic. Operational management is a combination of rules and regulations that ensure sufficient liquidity within the Bank's operating day. Strategic management is a combination of rules and regulations that ensure sufficient liquidity in the long term;
- organizational separation of operational and strategic liquidity management;
- implementation of a system of limits aimed at ensuring strategic liquidity, which determine the "point of no return", when in violation of these limits, the Bank's liquidity recovery on its own is likely to be impossible.

Preventative measures include:

- accumulation and maintenance of liquid assets at the required level;
- management of the risk of loss of business reputation (formation of the Bank image with high financial
- reliability, capable of providing quality services, generate exclusive and marketable products);
- ensuring an adequate structure and diversification of funding sources.

Measures to recover the necessary liquidity sufficiency in case of its loss are determined in accordance with the effective action plan established by the regulations to recover liquidity and exit from the crisis.

Interest rate risk – the probability of the Bank's losses, non-receipt of planned income from changes in the balance and off-balance sheet positions, due to changes in market interest rates.

The main rule of risk management is to optimize the ratio of assets and liabilities by term and amount. The consequence of this rule is the possibility of increasing the interest rate risk in order to reduce the liquidity risk and vice versa, reducing the excess liquidity (increasing the liquidity risk) in order to reduce the interest rate risk.

Preventative measures include:

- management of interest gap-positions;
- stimulation of desired changes in the asset portfolio, resource base through the transfer pricing system;
- formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk to counterparties and clients;
- forecasting changes in interest rates on the market and that allow the Bank to adapt with the least loss to changing conditions of its activities.

(in thousands of Belarusian Roubles)

Control measures (recovering measures) of the risk at an acceptable level is the correction of the limit policy for its management, correction of price policy, improvement of analysis models.

Operational risk – the risk of losses and (or) additional costs incurred by the Bank as a result of noncompliance of the Bank's established procedures and procedures for banking transactions and other transactions with the legislation or violation by the Bank's employees, incompetence or mistakes of the Bank's employees, non-compliance or failure of the systems used by the Bank, including informational systems, as well as a result of external factors.

The main rules of risk management are ensuring the effective operation of the system of identification and recognition of operational incidents.

In order to manage this risk, the Bank performs the following measures:
- the sufficiency of financing to update the software, purchase of information and technical equipment,
- employment of highly qualified specialists;
- time sufficiency for testing of the systems during the introduction of new products of the Bank;
- creation of backup communication lines;
- sufficient provision of self-contained power supply sources;
- implementation of adequate personnel policies (recruitment, adaptation and training of personnel,
- motivation for effective work, formation of personnel reserve, retention of key personnel);
- improvement of the fraud-scoring system.
- ensuring the effectiveness of the risk management system, taking into account the characteristics of risk sources.
- determination of priority information technologies and their introduction into the strategic supervision process;
- formalisation of methods for selecting and controlling the introduction of IT tools and their systems into the Bank's business process;
- developing measures to improve the competencies and skills of personnel taking into account the ongoing changes and control over the implementation of such measures by the management;
- regulation of operating processes related to information resources taking into account the risks

Measures to recover losses from realization of operational risks are determined individually in each case depending on features of sources and objects of operational risk.

Reputational risk – the risk of the Bank's losses, non-receipt of planned income as a result of narrowing the customer base, reducing of other development indicators due to the formation of a negative image in the company of the financial reliability of the Bank, the quality of services provided or the nature of activities in general.

Key risk management rules are to ensure the financial reliability of the Bank, the quality of services at a level not less than the main competitors' level, systematic work to improve it.

Preventative measures include:
- absolute ensuring the financial reliability of the Bank;
- ensuring the proper quality of services provided;
- ensuring transparency of the Bank's activities;
- ensuring information security of the Bank;
- countering of money laundering from crime to Finance terrorist activities;
- advertising, charitable, social actions, campaigns, programs;
- positive content in the media about the Bank's activities.

Measures to recover losses are actions aimed at recovering of the Bank's financial sustainability and reliability, correction of errors and deficiencies in customer service, publication of retractions in cases of "black" PR and appeal to the court.

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

(in thousands of Belarusian Roubles)

The basic rule of risk management is the constant maintenance of a currency position in accordance with indicators of tolerance.

In order to manage this risk, the Bank performs the following measures:
- managing the open position size;
- taking into account the possibilities of risks fair distribution when completing loan and deposit agreements;
- mandatory stress-testing of the financial reliability of customers considered for purposes or conducting operations with the Bank related to credit risk in foreign currency.

Measures to regulate (recover) the risk at an acceptable level are adjustment of risk limit policy, the improvement of analysis models.

Commodity risk – the probability of the Bank's losses incurring due to non-receipt of the planned income from changes in cost of goods.

Key risk management rules are:
- avoiding risk as much as possible;
- monitoring and forecasting of market conditions in the context of commodity items in the Bank's portfolio.

In order to manage this risk, the Bank performs the following measures:
- virtual modeling and role-playing of situations;
- risk limits management;
- requirements toughening to the financial reliability of the borrowers, the quality of the security of loan transaction.

Control measures (recovering measures) are determined in accordance with the strategy of immediate sale or retention until the realization of a certain event adopted in relation to particular commodity item.

Concentration risk – the risk losses incurring due to non-receipt of the planned income as a result of concentration of certain types of risks

The main and only rule of this type of risk management is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals.

In order to manage this risk, the Bank performs the following measures:
- counterparties and transactions diversification;
- risk limits management;
- formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk
- to counterparties and clients;
- requirements toughening for the financial reliability of borrowers, the degree of security of the credit
- transaction, requirements toughening for deposit contracts of large depositors;
- improvement of system to prevent fraudulent transactions.

Control measures (remediation measures) are as follows:
- debt restructuring;
- implementation of security on loan transactions;
- pre-judicial and judicial debt repayment.

Adoption of IFRS 9: Credit risk. ECL model and the main principles of provisioning

The Bank applies the model of expected credit losses for the purpose of financial instruments provisioning, the key principle of which is the timely reflection of deterioration or enhancement of the credit quality of financial instruments, taking into account current and forward-looking information. The amount of expected credit losses recognized as an estimated allowance for impairment depends on the degree of deterioration of credit quality since the initial recognition of a financial instrument.

Depending on the change in credit quality since initial recognition, the Bank classifies financial instruments to one of the following stages:
• “12-month ECL” (Stage 1) - financial instruments for which no significant increase in credit risk was observed, and for which 12-month expected credit losses are calculated.

(in thousands of Belarusian Roubles)

• “Lifetime ECL – not credit-impaired assets” (Stage 2) –financial instruments with a significant increase in credit risk, but not credit-impaired, for which expected credit losses are calculated over the entire lifetime of the financial instrument.
• “Lifetime ECL – credit-impaired assets” (Stage 3) – credit-impaired financial instruments.

For purchased or issued impaired financial assets, the allowance for impairment is formed in the amount of accumulated changes in the value of expected credit losses over the entire life of the instrument from the moment of purchase or provision.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria to determine whether there is a significant increase in credit risk:

- for legal entities:

- financial assets for which there is a deterioration in more than 1 grade from the moment of initial recognition in accordance with the internal gradation of credit quality;
- financial assets with overdue debts from 31 to 90 days.

- for individuals:

- financial assets with arrears from 31 to 90 days.

- for financial institutions, government bodies:

- debt on counterparties, which international credit rating has decreased by 2 grades in comparison with the grade on the initial recognition (except when after decrease the debt is classified in Ca and lower grade by Moody’s International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- debt with a duration of more than 7 days overdue.

Credit risk grades

The Bank allocates 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 judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data

The following quality grades are determined:

- loans to corporate borrowers

The Bank estimates the expected credit losses for corporate clients' debts by group valuation based on the quality categories of credit debts.

Group valuation based on the quality categories of credit debt is based on an analysis of the quality of servicing the credit debt of debtors, as well as credit history and other information about the business of debtors, which is available without undue cost and effort.

The annual probability of default is determined on the basis of the debtor quality grades migration matrices using historical information for a period of at least 1 year and assumes:

(in thousands of Belarusian Roubles)

- distribution of debtors to five quality categories: standard, on watch, sub-standard, non-performing, loss (based on financial and non-financial information on financial position, the borrower's solvency, and quality of debt service);

- quarterly construction of matrices of the number of transitions in quality categories for 1 year to calculate the annual probability of default;

- calculation of the annual probability of default by the ratio (division) of the actual number of transitions in this quality category to the total amount of this quality category.

For the purpose of calculating the multi-year profiles of the probability of default, mathematical extrapolation methods are used.

- financial institutions and government bodies

For banks that have an international rating, the classification is carried out according to this rating. Ratings set using Moody's, S&P and Fitch methodology are taken into account. For counterparties for which no international rating has been established, the Bank conducts an internal gradation in terms of quality based on factors, taken into account by international; rating agencies when determining ratings. Quality grades on financial institutions and government bodies are determined as follows:

- "Standard" group – international ratings from AAA to B+ or comparable internal ones.

- "Sub-standard" group – international ratings from B to CCC or comparable internal ones.

For government agencies, quality categories are determined based on the sovereign rating set by international rating agencies.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the type of borrower. What is considered significant differs for different types of lending, in particular between corporate and individual.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for securities and amounts due from banks, more than 7 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

(in thousands of Belarusian Roubles)

- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1 and lifetime PD (Stage 2).

Definition of default

The financial asset is classified by the Bank to financial assets for which an event of default had occurred, in the following cases:

- for corporate borrowers:

- the borrower is classified as “loss” in the credit quality grade based on internal assessment of qualitative and quantitative parameters;
- alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions;
- a legal insolvency (bankruptcy) case is open against a legal entity;
- there is an administrative intervention of the state, which significantly complicates further activities: depriving or not extending the license for certain types of activities and other interventions in regard to a legal entity;
- individual entrepreneur’s debt, for which the debtor was arrested, died or disappeared without a trace;
- debtor’s debt, due to force majeure that caused material damage, but did not cause the termination of its activities;
- the debtor’s debt in respect of which the interim manager was introduced (if there is a high probability (“yes rather than no”) of the discovery of the liquidation proceedings against the debtor).

- for individuals:

- debt on loans with a duration of more than 90 days overdue, as well as involving objective reasons indicating that the loan cannot be repaid, for example, the borrower’s death;
- alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions.

- for financial institutions, government bodies:

- debt is classified in Ca and lower grade by Moody’s International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- debt with a duration of more than 30 days overdue.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information both to the assessment for a significant increase in credit risk since the initial recognition of the financial instrument and to the assessment of expected credit losses. The Bank uses three economic scenarios: the baseline scenario, the probability of which is 90%, and two less likely scenarios – the optimistic and worst-case scenarios, the probability of each of the scenarios is 5%. The baseline scenario is based on information used by the Bank in strategic planning and budgeting. External

(in thousands of Belarusian Roubles)

information taken into account include economic data and forecasts published by government bodies and monetary authorities in countries in which the Bank operates, such as the National Bank of the Republic of Belarus, the National Statistical Committee, as well as other individual and scientific forecasts.

The Bank has identified and documented a list of the main factors affecting the assessment of credit risk and credit losses for each portfolio of financial instruments and, using historical data analysis, assessed the correlation between macroeconomic variables, credit risk and credit losses.

The key factors are an average salary level and oil prices.

The projected ratios between the key indicator and default and the levels of losses for various portfolios of financial assets were developed based on the analysis of historical data for the last 1-3 years.

The credit risk grade is subject to continuous monitoring in order to ensure compliance with the loan limits and creditworthiness in accordance with the Bank’s risk management policy.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition. The determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as “forbearance activities”) to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD, ECL for exposures in Stage 2 – by multiplying marginal PD by LGD and EAD, stated for the first and each next period.

(in thousands of Belarusian Roubles)

As for Stage 3, the Bank estimates expected cash flows in order to determine the recoverable amount of the financial assets.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and based on external information – in regard to financial institutions and government bodies.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of the loan or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- quality category (for legal entities);
- product.

The Groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Credit risk exposure as at 31 December 2019	**PD**	**LGD**
Amounts due from banks	15 117	Moody’s default study	S&P recovery studies
Securities	105 852	Moody’s default study	S&P recovery studies

Credit quality analysis

The following table provides information about the credit quality of financial assets measured at amortized cost, debt instruments measured at FVOCI as at 31 December 2019 and debt assets available-for-sale as at 31 December 2019. Unless otherwise indicated, the amounts in the table recognize gross carrying amount of financial assets. According to loan commitments and financial guarantee contracts, the amounts in the table recognize the amounts of commitments made and guarantees issued, respectively.

	31 December 2019	
	Stage 1	**Total**
Cash and cash equivalents		
BBB	30 086	**30 086**
from BB- to BB+	7 437	**7 437**
From below CCC to B+	15 436	**15 436**
Without international rating:		
Standard	106 162	**106 162**
Sub-standard	11 561	**11 561**
	170 682	**170 682**

(in thousands of Belarusian Roubles)

31 December 2019

	Stage 1	Total
Loss allowance	(87)	**(87)**
Carrying amount	**170 595**	**170 595**

31 December 2018

	Stage 1	Total
Cash and cash equivalents		
from A- to A+	767	**767**
BBB	8 727	**8 727**
from BB- to BB+	5 142	**5 142**
from B to B+	18 171	**18 171**
Without international rating:		
Standard	71 170	**71 170**
Sub-standard	26 949	**26 949**
	130 926	**130 926**
Loss allowance	**(104)**	**(104)**
Carrying amount	**130 822**	**130 822**

31 December 2019

	Stage 1	Stage 2	Total
Amounts due from credit institutions			
from CCC to B+	3 627	-	**3 627**
Without international rating:			
Standard	8 456	-	**8 456**
Sub-standard	2 860	174	**3 034**
	14 943	**174**	**15 117**
Loss allowance	(102)	(17)	**(119)**
Carrying amount	**14 841**	**157**	**14 998**

31 December 2018

	Stage 1	Total
Amounts due from credit institutions		
from A- to A+	5 822	**5 822**
Without international rating:		
Standard	14 534	**14 534**
Sub-standard	30 476	**30 476**
	50 832	**50 832**
Loss allowance	(235)	**(235)**
Carrying amount	**50 597**	**50 597**

31 December 2019

	Stage 1	Total
Investment debt securities		
from CCC to B+	96 785	**96 785**
Without international rating:		
Sub-standard	9 067	**9 067**
Carrying amount	**105 852**	**105 852**

(in thousands of Belarusian Roubles)

31 December 2018	Stage 1	Total
Investment debt securities		
B	40 382	**40 382**
Without international rating:		
Sub-standard	7 036	**7 036**
Carrying amount	**47 418**	**47 418**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Without international rating:				
Standard	367 753	-	-	**367 753**
Watch	115 391	-	-	**115 391**
Sub-standard	1 620	260	-	**1 880**
Non-performing	48	141	1 362	**1 551**
Loss	-	-	2 731	**2 731**
	484 812	**401**	**4 093**	**489 306**
Loss allowance	(5 924)	(48)	(1 667)	**(7 639)**
Carrying amount	**478 888**	**353**	**2 426**	**481 667**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Without international rating:				
Standard	239 783	-	-	**239 783**
Watch	133 611	-	-	**133 611**
Sub-standard	28 290	9 418	-	**37 708**
Non-performing	713	944	-	**1 657**
Loss	-	-	3 304	**3 304**
	402 397	**10 362**	**3 304**	**416 063**
Loss allowance	(1 789)	(428)	(1 039)	**(3 256)**
Carrying amount	**400 608**	**9 934**	**2 265**	**412 807**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Net investments in finance leases				
Without international rating:				
Standard	48 584	-	-	**48 584**
Watch	2 215	-	-	**2 215**
Sub-standard	14	63	-	**77**
Non-performing	-	287	-	**287**
Loss	-	-	135	**135**
	50 813	**350**	**135**	**51 298**
Loss allowance	(559)	(78)	(68)	**(705)**
Carrying amount	**50 254**	**272**	**67**	**50 593**

(in thousands of Belarusian Roubles)

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Net investments in finance leases				
Without international rating:				
Standard	32 351	-	-	**32 351**
Watch	1 071	-	-	**1 071**
Sub-standard	179	307	-	**486**
Non-performing	-	249	-	**249**
Loss	-	-	532	**532**
	33 601	**556**	**532**	**34 689**
Loss allowance	(162)	(32)	(147)	**(341)**
Carrying amount	**33 439**	**524**	**385**	**34 348**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Financial guarantees				
Only with internal credit risk grades:				
Standard	54 255	-	-	**54 255**
Watch	8 028	-	-	**8 028**
Sub-standard	-	6	-	**6**
Non-performing	-	11	-	**11**
	62 283	**17**	**-**	**62 300**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Financial guarantees				
Only with internal credit risk grades:				
Standard	29 282	-	-	**29 282**
Watch	27 211	-	-	**27 211**
Sub-standard	22 845	171	11	**23 027**
	79 338	**171**	**11**	**79 520**

The following table provides information about the overdue loans to customers, in terms of credit quality stages.

(in thousands of Belarusian Roubles)

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Undue	484 672	275	2 133	**487 080**
from 1 to 30 days	140	124	142	**406**
from 31-60 days	-	2	115	**117**
from 61-90 days	-	-	1 040	**1 040**
over 90 days	-	-	663	**663**
Gross carrying amount	**484 812**	**401**	**4 093**	**489 306**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Undue	401 846	9 412	366	411 624
from 1 to 30 days	510	68	267	845
from 31-60 days	24	148	19	191
from 61-90 days	17	734	27	778
over 90 days	-	-	2 625	2 625
Gross carrying amount	**402 397**	**10 362**	**3 304**	**416 063**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Net investments in finance leases				
Undue	50 547	199	8	50 754
from 1 to 30 days	270	148	-	418
from 31-60 days	-	-	-	-
from 61-90 days	-	-	-	-
over 90 days	-	-	126	126
Gross carrying amount	**50 817**	**347**	**134**	**51 298**

31 December 2018	Stage 1	Stage 2	Stage 3	Total
Net investments in finance leases				
Undue	33 575	302	503	**34 380**
from 1 to 30 days	23	180	-	**203**
from 31-60 days	-	77	-	**77**
from 61-90 days	-	-	-	**-**
over 90 days	-	-	29	**29**
Gross carrying amount	**33 598**	**559**	**532**	**34 689**

31 December 2019	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Undue	431 980	-	-	**431 980**
from 1 to 30 days	8 893	-	-	**8 893**
from 31-60 days	-	2 306	-	**2 306**
from 61-90 days	-	1 473	-	**1 473**
over 90 days	-	-	4 560	**4 560**
Gross carrying amount	**440 873**	**3 779**	**4 560**	**449 212**

(in thousands of Belarusian Roubles)

	31 December 2018 Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Undue	375 445	-	-	**375 445**
from 1 to 30 days	8 056	-	5	**8 061**
from 31-60 days	-	2 285	-	**2 285**
from 61-90 days	-	1 340	-	**1 340**
over 90 days	-	-	4 507	**4 507**
Gross carrying amount	**383 501**	**3 625**	**4 512**	**391 638**

	31 December 2019 Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Undue	957	-	-	**957**
Over 90 days	-	-	557	**557**
Gross carrying amount	**957**	**-**	**557**	**1 514**

	31 December 2018 Stage 1	Stage 2	Stage 3	Total
Other financial assets				
Undue	1 874	-	-	**1 874**
Over 90 days	-	-	613	**613**
Gross carrying amount	**1 874**	**-**	**613**	**2 487**

Offsetting of financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to a legally enforceable general netting agreement or similar agreements that relate to the same financial instruments, whatever they are offset or not in the balance sheet.

Similar financial instruments include repurchase transactions, agreements on securities lending and borrowing, loans to clients and amounts due to customers.

The tables below present the financial liabilities that are the subject to legally enforceable general netting agreements and similar agreements as at 31 December 2019 and 31 December 2018.

	31 December 2019				**31 December 2018**			
		Amounts that have not been offset in the statement of financial position				**Amounts that have not been offset in the statement of financial position**		
Types of financial assets/financial liabilities	**The full amounts of recognized financial of assets/ (liabilities)**	**Financial instruments**	**Cash collateral received**	**Net income**	**The full amounts of recognized financial of assets/ (liabilities)**	**Financial instruments**	**Cash collateral received**	**Net income**
Repurchase transactions, agreements on securities lending	-	-	-	-	(42)	42	-	-
Loans to customers	28 881	-	(25 549)	3 332	31 174	-	(30 990)	184
Amounts due to customers	(56 826)	25 549	-	(31 277)	(37 789)	30 990	-	(6 799)

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

(in thousands of Belarusian Roubles)

	2019				*2018*			
	Belarus	***OECD***	***CIS and other countries***	***Total***	***Belarus***	***OECD***	***CIS and other countries***	***Total***
Assets								
Cash and cash equivalents	188 670	47 068	3 545	**239 283**	167 941	18 364	6 803	**193 108**
Amounts due from credit institutions	11 197	3 801	-	**14 998**	38 342	12 255	-	**50 597**
Derivative financial assets	51	9	27	**87**	35	2	28	**65**
Loans to customers	975 624	-	-	**975 624**	833 646			**833 646**
Investment securities	106 423	-	-	**106 423**	47 989	–	–	**47 989**
Other financial assets	1 240	-	-	**1 240**	2 159	–	–	**2 159**
	1 283 205	**50 878**	**3 572**	**1 337 655**	**1 090 112**	**30 621**	**6 831**	**1 127 564**
Liabilities								
Amounts due to credit institutions	(19 001)	(22 731)	(14 066)	**(55 798)**	(24 985)	(12 760)	(4 246)	**(41 991)**
Derivative financial liabilities	(54)	(6)	-	**(60)**	(84)	-	-	**(84)**
Amounts due to customers	(840 223)	(232)	(2 461)	**(842 916)**	(737 892)	(4 236)	(18 349)	**(760 477)**
Debt securities issued	(83 460)	-	-	**(83 460)**	(41 278)	-	-	**(41 278)**
Other borrowings	-	(40 928)	-	**(40 928)**	-	(30 562)	-	**(30 562)**
Allowances for ECLs in respect of loan commitments and financial guarantee agreements	(279)	-	-	**(279)**	(676)	-	-	**(676)**
Other financial liabilities	(31 984)	-	-	**(31 984)**	(5 555)	-	-	**(5 555)**
Subordinated debt	(2 104)	-	(24 721)	**(26 825)**	(13 892)	-	(24 568)	**(38 460)**
	(977 105)	**(63 897)**	**(41 248)**	**(1 082 250)**	**(824 362)**	**(47 558)**	**(47 163)**	**(919 083)**
Net assets/(liabilities)	**306 100**	**(13 019)**	**(37 676)**	**255 405**	**265 750**	**(16 937)**	**(40 332)**	**208 481**

The Bank's liquidity management strategy provides for classifying liquid assets as assets of first and second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, may be quickly transformed to cash to ensure additional Bank liquidity. Effectively, they are allowance for liquid assets.

The Bank owns investment securities which may be easily sold for cash in the event of an unforeseen interruption of cash flow. The Bank also has open credit lines funds of which may be used to meet cash requirements. In addition, the Bank placed an obligatory deposit in the National Bank the amount of which depends on the level of customer funds attracted.

The Bank's liquidity position is also assessed in terms of fulfilment of liquidity ratios established by the National Bank of the Republic of Belarus (unaudited).

Liquidity ratio	***Ratio***	***31 December 2019***
Liquidity ratio	100%	117,7%
Net standing funding ratio	100%	131,2%

(in thousands of Belarusian Roubles)

Liquidity ratios as at 31 December 2018:

Liquidity ratio	100%	129,6%
Net standing funding ratio	100%	127,4%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2019 based on contractual undiscounted repayment obligations, except for derivative financial instruments repaid by delivery of a basic asset, which are presented by contractual maturity. Repayments, which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank is obliged to make appropriate payment, and consequently, the table does not present the expected cash flows calculated by the Bank based on historical information on deposit redemption.

Financial liabilities	***Less than 3 months***	***3 to 12 months***	***1 to 5 year***	***More than 5 years***	***Total***
As at 31 December 2019					
Amounts due to credit institutions	20 527	21 066	18 565	-	**60 158**
Amounts due to customers	518 537	237 358	82 238	23 536	**861 669**
Debt securities issued	41 682	41 474	3 613	-	**86 769**
Other borrowings	22 222	11 268	10 541	-	**44 031**
Other liabilities	20 765	6 629	7 989	-	**35 383**
Subordinated debt	260	1 171	6 248	30 418	**38 097**
Total undiscounted financial liabilities	**623 993**	**318 966**	**129 194**	**53 954**	**1 126 107**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	99 408	-	-	-	**99 408**
- Amounts receivable under agreements	(99 390)	-	-	-	**(99 390)**
Total cash flows from derivative financial liabilities	**18**	**-**	**-**	**-**	**18**
As at 31 December 2018					
Amounts due to credit institutions	969	2 563	43 868	-	**47 400**
Amounts due to customers	469 098	207 669	92 648	6 958	**776 373**
Debt securities issued	-	46 375	-	-	**46 375**
Other borrowings	1 935	2 122	32 234	-	**36 291**
Other liabilities	6 231	-	-	-	**6 231**
Subordinated debt	560	1 616	8 618	45 106	**55 900**
Total undiscounted financial liabilities	**478 793**	**260 345**	**177 368**	**52 064**	**968 570**
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	99 462	-	-	-	**99 462**
- Amounts receivable under agreements	(99 457)	-	-	-	**(99 457)**
Total cash flows from derivative financial liabilities	**5**	**-**	**-**	**-**	**5**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 year***	***More than 5 years***	***Total***
As at 31 December 2019	861 149	-	-	-	**861 149**
As at 31 December 2018	792 732	-	-	-	**792 732**

(in thousands of Belarusian Roubles)

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

The Bank's ability to fulfil its liabilities depends on its ability to realize an equivalent amount of assets within the same period of time.

The analysis of differences in maturity does not reflect the historical stability of current accounts. Their demand by the clients has been historically performed during a longer period than indicated in the tables above. These balances are included in amounts payable during less than "three months" in the tables above. Customer accounts include term deposits of individuals.

Interest rate risk

The sensitivity of net interest income is an effect of the assumed changes in interest rates on the net interest income for one year, calculated based on financial assets and financial liabilities with a floating rate held as at 31 December. The sensitivity of equity to acceptable changes in interest rates as at 31 December is calculated based on income tax.

Currency	***Increase in basis points 2019***	***Sensitivity of net interest income 2019***	***Sensitivity of equity 2019***
BYN	1 500	5 512	4 134
EUR	25	(32)	(24)
USD	50	(1 204)	(903)

Currency	***Increase in basis points 2018***	***Sensitivity of net interest income 2018***	***Sensitivity of equity 2018***
BYN	1 500	3 370	2 528
EUR	25	1	1
USD	50	12	9

Currency	***Decrease in basis points 2019***	***Sensitivity of net interest income 2019***	***Sensitivity of equity 2019***
BYN	500	(1 837)	(1 378)
EUR	25	32	24
USD	12	(1 238)	(929)

Currency	***Decrease in basis points 2018***	***Sensitivity of net interest income 2018***	***Sensitivity of equity 2018***
BYN	500	(1 123)	(842)
EUR	25	(1)	(1)
USD	12	(3)	(2)

The following table presents a sensitivity analysis of the risk of changes in fair value carried out on the basis of changes which were reasonably possible in respect of investment securities with fixed interest rate. The extent of these changes is determined by management. The sensitivity analysis represents the effect of a 5% increase, a 5% decrease in interest rates effective at the reporting date, on the Bank's capital, assuming that the changes occur at the beginning of the financial year, after which the rates remain unchanged throughout the reporting period, all other factors being considered unchanged.

(in thousands of Belarusian Roubles)

	31 December 2019 Interest rate +5%	Interest rate -5%	31 December 2018 Interest rate +5%	Interest rate -5%
Investment securities	(1 206)	1 206	(1 778)	1 778
Net effect on equity	**(1 206)**	**1 206**	**(1 778)**	**1 778**

Currency risk

The Management Board has set limits on foreign currency items based on the regulations of the National Bank of the Republic of Belarus. Items are monitored on a daily basis.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	BYN	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Financial assets as at 31 December 2019						
Cash and cash equivalents	139 106	40 120	37 290	22 283	484	**239 283**
Amounts due from credit institutions	7 933	3 646	3 419	-	-	**14 998**
Loans to customers	707 531	136 393	112 420	19 280	-	**975 624**
Investment securities	60 649	45 689	85	-	-	**106 423**
Other financial assets	484	189	567	-	-	**1 240**
Total financial assets	**915 703**	**226 037**	**153 781**	**41 563**	**484**	**1 337 568**
Financial liabilities as at 31 December 2019						
Amounts due to credit institutions	(15 881)	(373)	(30 150)	(9 394)	-	**(55 798)**
Amounts due to customers	(496 814)	(238 833)	(94 028)	(13 028)	(213)	**(842 916)**
Debt securities issued	(77 409)	(6 051)	-	-	-	**(83 460)**
Other borrowings	(40 928)	-	-	-	-	**(40 928)**
Other financial liabilities	(6 229)	(11 715)	(17 198)	(32)	-	**(35 174)**
Subordinated debt	(793)	(26 032)	-	-	-	**(26 825)**
Total financial liabilities	**(638 054)**	**(283 004)**	**(141 376)**	**(22 454)**	**(213)**	**(1 085 101)**
Claims on derivative financial instruments and currency trading	2 268	77 537	6 290	13 148	165	**99 408**
Obligations on derivative financial instruments and currency trading	(13 762)	(17 095)	(37 495)	(31 038)	-	**(99 390)**
Total currency position as at 31 December 2019	**266 155**	**3 475**	**(18 800)**	**1 219**	**436**	**252 485**

(in thousands of Belarusian Roubles)

	BYN	*USD*	*EUR*	*RUB*	*Other currencies*	*Total*
Financial assets as at 31 December 2018						
Cash and cash equivalents	84 105	59 808	38 625	9 780	790	**193 108**
Amounts due from credit institutions	7 699	13 172	29 726	-	-	**50 597**
Loans to customers	626 311	108 935	83 139	15 261	-	**833 646**
Investment securities	7 574	39 681	734	-	-	**47 989**
Other financial assets	900	307	946	6	-	**2 159**
Total financial assets	**726 589**	**221 903**	**153 170**	**25 047**	**790**	**1 127 499**
Financial liabilities as at 31 December 2018						
Amounts due to credit institutions	(24 755)	(213)	(12 611)	(4 412)	-	**(41 991)**
Amounts due to customers	(420 029)	(236 608)	(89 569)	(13 784)	(487)	**(760 477)**
Debt securities issued	(41 278)	-	-	-	-	**(41 278)**
Other borrowings	(30 562)	-	-	-	-	**(30 562)**
Other financial liabilities	(4 547)	(344)	(1 294)	(44)	(2)	**(6 231)**
Subordinated debt	(717)	(37 743)	-	-	-	**(38 460)**
Total financial liabilities	**(521 888)**	**(274 908)**	**(103 474)**	**(18 240)**	**(489)**	**(918 999)**
Claims on derivative financial instruments	1 080	77 906	1 969	18 507	-	**99 462**
Obligations on derivative financial instruments	(2 169)	(18 556)	(53 376)	(25 356)	-	**(99 457)**
Total currency position as at 31 December 2018	**203 612**	**6 345**	**(1 711)**	**(42)**	**301**	**208 505**

The following tables present the currencies of which the Bank had significant exposure as at 31 December on its financial assets and financial liabilities and its forecast cash flows. The analysis performed includes calculation of the effect of a reasonably possible change in currency rates against the Belarusian rouble before tax (due to the fair value of currency sensitive financial monetary assets and liabilities). All other values are constant. The effect on equity does not differ from the effect on profit before tax. Negative amounts in the table present a potential net reduction in the statement of comprehensive income or equity, while positive amounts present a net potential increase.

Currency	***Reasonable higher threshold of change in currency rate 2019***	***Effect on profit before tax 2019***	***Effect on equity after tax 2019***
USD	+40%	1 390	1 043
EUR	+40%	(7 520)	(5 640)
RUB	+40%	488	366

Currency	***Reasonable lower threshold of change in currency rate 2019***	***Effect on profit before tax 2019***	***Effect on equity after tax 2019***
USD	-20%	(695)	(521)
EUR	-20%	3 760	2 820
RUB	-20%	(244)	(183)

Currency	***Reasonable higher threshold of change in currency rate 2018***	***Effect on profit before tax 2018***	***Effect on equity after tax 2018***
USD	+40%	2 538	1 904
EUR	+40%	(684)	(513)
RUB	+40%	(17)	(13)

(in thousands of Belarusian Roubles)

Currency	***Reasonable lower threshold of change in currency rate 2018***	***Effect on profit before tax 2018***	***Effect on equity after tax 2018***
USD	-20%	(1 269)	(952)
EUR	-20%	342	257
RUB	-20%	8	6

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, for example, fixed rate loans in case of decrease in interest rates.

The Bank assesses prepayment risk to be insignificant as at 31 December 2019 and 31 December 2018 and does not project significant fall in interest rates in the following 12 months.

27. Fair value determination

Fair value measurement procedures

The Bank's Management determines the policies and procedures for both periodic fair value measurement of unquoted debt securities and unquoted derivative financial instruments, investment property and for non-recurring measurement, such as assets held-for-sale.

At each reporting date, the Management analyzes the movements in the values of assets which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management reviews the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, together with the Bank's external appraisers, also compares each change in the fair value of each asset with relevant external sources to determine whether the change is reasonable. On a periodic basis, the Management and the Bank's external appraisers present the results to the Audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in appraisal.

Fair value hierarchy

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

	Fair value measurement using			
As at 31 December 2019	***Quoted prices in active markets Level 1***	***Significant observable inputs Level 2***	***Significant unobservable inputs Level 3***	***Total***
Assets measured at fair value	-	-	-	**-**
Derivative financial assets	-	-	87	**87**
Investment securities	-	106 423	-	**106 423**
Assets which fair value is disclosed	-			
Amounts due from credit institutions	-	14 998	-	**14 998**
Loans to customers	-	-	978 345	**978 345**
Liabilities measured at fair value	-			
Derivative financial instruments	-	-	60	**60**
Liabilities which fair value is disclosed	-			
Amounts due to credit institutions	-	55 798	-	**55 798**
Amounts due from customers	-	375 045	470 415	**845 460**
Debt securities issued	-	84 181	-	**84 181**
Other borrowings	-	-	40 928	**40 928**
Subordinated debt	-	-	28 527	**28 527**

(in thousands of Belarusian Roubles)

	Fair value measurement using			
	Quoted prices in active markets	***Significant observable inputs***	***Significant unobservable inputs***	
As at 31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Assets measured at fair value	-	-	-	**-**
Derivative financial assets	-	-	65	**65**
Investment securities	-	47 989	-	**47 989**
Investment property				
Assets which fair value is disclosed	-	50 597		**50 597**
Amounts due from credit institutions	-	-	837 412	**837 412**
Loans to customers				
	-	-	-	**-**
Liabilities measured at fair value				
Derivative financial instruments	-	-	84	**84**
Liabilities which fair value is disclosed				
Amounts due to credit institutions	-	41 991	-	**41 991**
Amounts due from customers	-	370 993	391 767	**762 760**
Debt securities issued	-	43 421	-	**43 421**
Other borrowings	-	-	30 562	**30 562**
Subordinated debt	-	-	40 448	**40 448**

(in thousands of Belarusian Roubles)

Movements in Level 3 financial instruments measured at fair value

The following table presents a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are measured at fair value as at the end of 2019:

	As at 1 January 2019	*Gains recognized in the statement of profit or loss*	*Repayments*	*As at 31 December 2019*
Financial assets				
Derivative financial instruments	65	46	(24)	87
Financial liabilities				
Derivative financial instruments	84	(43)	19	60
Total Level 3 financial assets/liabilities, net	**(19)**	**89**	**(43)**	**27**

Gains on Level 3 financial instruments included in the statement of comprehensive income are recognized in Net gains from foreign currency transactions. Gains and losses on derivative financial instruments for the reporting periods are disclosed in Note 22.

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

The table below presents carrying amount and fair value comparison by the Bank's financial instruments classes that are not measured at fair value in the statement of financial position. The table does not include the fair value of non-financial assets and non-financial liabilities.

	Carrying amount 2019	*Fair value 2019*	*Carrying amount 2018*	*Fair value 2018*
Financial assets				
Cash and cash equivalents	239 283	239 283	193 108	193 108
Amounts due from credit institutions	14 998	14 998	50 597	50 597
Loans to customers	975 624	978 345	833 646	837 412
Other financial assets	1 240	1 240	2 159	2 159
Financial liabilities				
Amounts due to credit institutions	55 798	55 798	41 991	41 991
Amounts due to customers	842 916	845 460	760 477	762 760
Debt securities issued	83 460	84 181	41 278	43 421
Other borrowings	40 928	40 928	30 562	30 562
Other financial liabilities	32 263	32 263	6 231	6 231
Subordinated debt	26 825	28 527	38 460	40 448

(in thousands of Belarusian Roubles)

Measurement techniques and assumptions

The techniques and assumptions used to determine fair values of those financial instruments, which are not recognized at fair value in the financial statements, are described below.

Assets whose fair value is approximately equal to their carrying amount

For liquid financial assets and financial liabilities and those having a short-term maturity (less than three months) it is assumed that their fair value is approximately equal to their carrying amount. This assumption is also applicable to demand deposits and deposit accounts without a specific maturity.

Financial instruments with fixed and floating rates

The fair value of unquoted debt instruments is measured by discounting future cash flows using current interest rates taking into account the remaining maturities for debt instruments with similar terms and credit risk.

28. Maturity analysis of assets and liabilities

The table below presents an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2019			***2018***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	239 283	-	**239 283**	193 108	-	**193 108**
Amounts due from credit institutions	2 857	12 141	**14 998**	30 475	20 122	**50 597**
Derivative financial assets	87	-	**87**	65	-	**65**
Loans to customers	597 959	377 665	**975 624**	557 887	275 759	**833 646**
Investment securities	82 980	23 443	**106 423**	34 004	13 985	**47 989**
Property and equipment	-	32 065	**32 065**	-	15 449	**15 449**
Intangible assets	-	22 048	**22 048**	-	22 758	**22 758**
Other assets	546	7 274	**7 820**	1 194	7 435	**8 629**
Total	**923 712**	**474 636**	**1 398 348**	**816 733**	**355 508**	**1 172 241**
Amounts due to credit institutions	(40 599)	(15 199)	**(55 798)**	(24 595)	(17 396)	**(41 991)**
Derivative financial liabilities	(60)	-	**(60)**	(84)	–	**(84)**
Amounts due to customers	(369 150)	(473 766)	**(842 916)**	(342 356)	(418 121)	**(760 477)**
Debt securities issued	(80 345)	(3 115)	**(83 460)**	(41 278)	-	**(41 278)**
Other borrowings	(30 997)	(9 931)	**(40 928)**	(1 093)	(29 469)	**(30 562)**
Current income tax liabilities	(1 715)	-	**(1 715)**	(7 104)	–	**(7 104)**
Deferred income tax liabilities	-	(12 835)	**(12 835)**	–	(16 181)	**(16 181)**
Other liabilities	(34 733)	(8 158)	**(42 891)**	(15 692)	(696)	**(16 388)**
Subordinated debt	(267)	(26 558)	**(26 825)**	(267)	(38 193)	**(38 460)**
Total	**(557 866)**	**(549 562)**	**(1 107 428)**	**(432 469)**	**(520 056)**	**(952 525)**
Net position	**365 846**	**(74 926)**	**290 920**	**384 264**	**(164 548)**	**219 716**

(in thousands of Belarusian Roubles)

An overdue amount of loan in the amount of BYN 6 465 thousand as at 31 December 2019 (31 December 2018: BYN 6 392 thousand) was included in the loans to customers with a maturity of more than one year.

The Bank expects that not all contingent or contractual obligations will require performance before the expiration date. The Bank's management believes that in case of early repayment of amounts due to customers, the Bank will be able to dispose its liquid assets to make the necessary payments. Management also believes that in case of decrease in financing from counterparty banks, the Bank will be supported by shareholders by increasing the size of liquidity maintenance credit lines. The Bank also has access to constantly operating instruments for regulating liquidity on behalf of the regulator.

For the following categories of financial assets and liabilities, the expected periods differ from the contractual ones.

Customer accounts - the Bank’s liquidity management includes an assessment of the minimum required balance on current (settlement) customer accounts, that is, the funds attracted in an amount that takes into account stable relationships with customers, which is determined using statistical methods applied to historical data on fluctuations in customer account balances for at least 360 days prior to the date of analysis Due to this, liabilities to repay amounts due to customers with the maturity over one year are mostly comprised of semi-fixed balance of amounts due to customers.

29. Related party transactions

In accordance with IAS 24 Related Party Disclosures, the Bank treats parties as related when the parties are able to control or significantly influence to the Bank's operating and financial decisions (shareholders, entities under common control, key management personnel). When making decision by the Bank whether the parties are related, the content of the relationship between the parties, and not only their legal form.

The Bank enters into banking transactions with related parties including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

The outstanding balances of related party transactions are as follows:

	Total 2019			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers as at 31 December	17 424	281	54	83
Loss allowance	(37)	(3)	-	(1)
Loans to customers less loss allowance	**17 387**	**278**	**54**	**82**
Term deposits as at 31 December	50 425	3 026	393	118
Current customer accounts as at 31 December	2 872	2 282	915	562

(in thousands of Belarusian Roubles)

	Total 2018.			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Loans to customers as at 31 December	29 387	1 680	20	34
Loss allowance	(16)	(13)	-	-
Loans to customers less loss allowance	**29 371**	**1 667**	**20**	**34**
Term deposits as at 31 December	56 720	8 588	337	121
	967	872	2 598	252

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 31 December 2019	26 825	-	-	-
Loan commitments as at 31 December	32 019	9 560	204	112
Guarantees as at 31 December	15 118	-	-	-
Loss allowance for financial guarantees	(131)	-	-	-
Other liabilities – accrual of unused vacation liabilities	-	-	452	-

	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Subordinated debt as at 31 December 2018	38 460	-	-	-
Loan commitments as at 31 December	2 100	13 195	125	104
Guarantees as at 31 December	21 588	-	-	-
Loss allowance for financial guarantees	(142)	-	-	-
Other liabilities – accrual of unused vacation liabilities	-	-	344	5

The average-weighted contract rate on loans in 2019 was 10,51% (in 2018 – 11,84%). In general, loans are represented by long-term revolving credit lines, mainly denominated in Belarusian Roubles. The average-weighted contract rate on deposits in 2019 was 2,29% (in 2018 – 2,31%). During the reporting period, the Bank mainly attracted short-term deposits, commonly denominated in foreign currency.

As at 31 December 2019 and 31 December 2018, the guarantees issued are represented by long-term guarantees in the national currency which were issued during the period from 2016 to 2018 with maturity in March 2021.

The income and expenses arising from related party transactions are as follows:

(in thousands of Belarusian Roubles)

	Total 2019			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	3 427	122	3	8
Interest expense on subordinated debt	(2 000)	-	-	-
Interest expense on amounts due to customers	(1 130)	(74)	(40)	(17)
Recovery of loss allowance	(21)	10	-	-
Fee and commission income	267	68	5	5
Gains from foreign currency transactions	14	5	-	-
Personnel expenses	-	-	5 138	-

	Total 2018			
	Shareholders	***Entities under common control***	***Key management personnel***	***Other related parties***
Interest income on loans to customers	3 120	187	1	2
Interest expense on subordinated debt	(2 010)	-	-	-
Interest expense on amounts due to customers	(3 216)	(77)	(24)	(14)
Recovery (charge) of loss allowance	65	90	-	-
Fee and commission income	328	60	8	6
Gains from foreign currency transactions	31	15	-	-
Personnel expenses	-	-	5 586	-

Key management personnel remuneration includes the following items:

	2019	***2018***
Salaries and other short-term payments to employees	4 097	4 760
Social insurance contributions	1 041	826
Total key management personnel remuneration	**5 138**	**5 586**

Information on remuneration to Supervisory Board members is disclosed in Note 25.

30. Capital adequacy

The Bank actively manages the capital base to cover risks inherent in its business. The Bank's capital adequacy is monitored using the ratios established by the Basel Capital Accord dated 1988 and the ratios established by the National Bank when observing the Bank.

As at 31 December 2019 and 2018, the Bank fully complied with all external capital requirements established.

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

The Bank manages its capital structure and makes adjustments to it taking into account changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return capital to shareholders or issue equity securities. No changes were made in the objectives, policies and processes compared to the previous years.

Capital adequacy ratio established by the National Bank (unaudited)

The National Bank of the Republic of Belarus requires banks to maintain a capital adequacy ratio at 10% of risk-weighted assets, calculated on the basis of BAS. As at 31 December 2019 and 31 December 2018, the Bank's capital adequacy ratio calculated on the abovementioned basis was as follows:

(in thousands of Belarusian Roubles)

	Total 2019	*Total 2018*
Core capital	146 523	113 603
Additional capital	99 375	85 478
Total capital	**245 898**	**199 081**
Risk-weighted assets	**1 409 662**	**1 196 508**
Capital adequacy ratio	17,44%	16,64%

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2019 and 31 December 2018, The Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord dated 1988 using a standardized approach and taking into account subsequent amendments related to including market risks, comprised:

	Total 2019	*Total 2018*
Tier 1 capital	267 495	196 541
including Share capital	*110 426*	*57 134*
retained earnings	*179 117*	*162 165*
intangible assets	*(22 048)*	*(22 758)*
Tier 2 capital	28 005	38 842
including Subordinated debt, taken into account in the calculation of capital	*26 628*	*38 425*
fair value reserve of investment securities	*1 377*	*417*
Total capital	**295 500**	**235 383**
Risk-weighted assets	**1 386 863**	**1 165 955**
Tier 1 capital adequacy ratio	19,29%	16,86%
Total capital ratio	21,31%	20,19%

Calculation of capital adequacy under the provisions of the Basel Capital Accord is based on the financial statements prepared in accordance with IFRS.

Difference in the amounts of risk-weighted assets that are used in the calculation of capital adequacy under the requirements of the National Bank of the Republic of Belarus and provisions of the Basel Capital Accord arises as a result of adjustments of financial statements due to the differences in the accounting policies.

31. Subsequent events

According to the National Bank of the Republic of Belarus, core inflation was 3.3 percent in annual terms in February 2020.

In the first months of 2020 there was significant volatility in the world market. Together with other factors, it led to a sharp decline in oil prices and stock indices, as well as depreciation of the Belarusian ruble. As at 9 April 2020, the official exchange rate of U.S. dollar against the Belarusian ruble was BYN 2,5512, the rate of EUR against the Belarusian ruble was BYN 2,7715, the rate of RUB 100 against the Belarusian ruble was BYN 3,3669.

These events increase the level of uncertainty in the Belarusian business environment. The Bank assesses the current situation as a non-adjusting event after the reporting date, the quantitative effect of which cannot be estimated at present with reasonable certainty. The Bank is currently analysing the possible impact of changing macroeconomic conditions on the Bank's financial position and performance. At the same time, the Bank is taking adequate measures to support sustainable business development under the current circumstances.

The Bank monitors and conducts stress tests on a daily basis within the operative and strategic management of liquidity risk in order to ensure unconditional compliance with prudential liquidity ratios, compliance of the actual amount of liquid assets with their required level, as well as to ensure unconditional maintenance of liquidity over the long term, to retain the ability to independently (without external support) restore the optimum ratio of requirements and liabilities in case of any disproportions arisen due to risk factor impact. All statutory ratios of the National Bank of Belarus are complied with by the Bank after the reporting period until the date of issue of these financial statements (unaudited).

(in thousands of Belarusian Roubles)

The Bank monitors exchange rate volatility daily to assess the impact on the Bank's activities and to manage market risk.

Under the current situation in the financial and real sectors against the background of the world economy recession due to the virus pandemic, volatility in the world financial markets, low oil prices, the Bank has taken measures to maintain its financial stability.

The Bank also conducted an unscheduled stress test of the Bank's stability, within which it assessed the impact of current and possible negative events in the future. The results show that the amount of available capital (capital available to cover risks) to economic capital (capital required to cover risks) remains sufficiently strong.

To ensure uninterrupted operation, taking into account the changed environment, the Bank assessed relevance of crisis financing plans and banks' action plans in case of unforeseen circumstances, as well as possibility of their effective application in the event of unforeseen circumstances, and also approved the Bank's Action plan to ensure continuous operation and restoration of the Bank's activity in conditions of epidemiological threat.