BELGAZPROMBANK

Financial Statements and
Independent Auditors' Report
For the year ended 31 December 2019

BELGAZPROMBANK

CONTENTS

Independent Auditor's Report

To the Shareholders, the Board of Directors and the Management Board of Belorussian-Russian Belgazprombank Joint Stock

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Belorussian-Russian Belgazprombank Joint Stock (hereinafter – "Belgazprombank" or 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 (hereinafter – "IFRS").

The Bank's location is 60/2, Pritytsky str., Minsk, 220121, Belarus and is registered by the National Bank of the Republic of Belarus as at 28 November 1997, under the registration number 16; under the registration number in the Unified State Register of Legal Entities and Individual Entrepreneurs 100429079.

What we have audited

The Bank's financial statements comprise:

- the income statement for the year ended 31 December 2019;
- the statement of comprehensive income for the year then ended;
- the statement of financial position as of the date then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

Other matters

The financial statements of the Bank for the year ended 31 December 2018 were audited by the auditors firm "KPMG" LLC whose report, dated 12 March 2019, expressed an unmodified opinion on those statements for the period from 1 January to 31 December 2018.

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Our audit approach

Overview

Materiality	• Overall Bank materiality: 7 450 thousand Belarusian roubles
Key audit matters	• Expected Credit Losses allowance for loans to legal entities

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

Materiality

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

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

Overall Bank materiality	7 450 thousand Belarusian roubles
How we determined it	1% of the Bank's net assets as of 31 December 2019
Rationale for the materiality benchmark applied	We chose the net assets as a benchmark for determining the level of materiality, since, in our opinion, this indicator is widely used in the banking sector, including regulatory and control authorities, for analysing the financial position of the banks. We have established the materiality at the level of 1%, which falls within the range of acceptable quantitative thresholds for materiality.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

Key audit matter	How our audit addressed the key audit matter
Expected Credit Losses allowance for loans to legal entities	
We focused on this matter due to significance of loans to legal entities balance and significance of judgment and estimates required for calculation of the related Expected Credit Losses ("ECL") allowance for loans to legal entities. The allowance represents the management's best estimation of the expected credit losses on loans to legal entities as at the reporting date. The Bank divides the borrowers – legal entities into those to whom individual credit rating is assigned and those to whom a credit rating is not assigned in accordance with the Bank's policies. The Bank uses different ECL models for these borrowers: 1) ECL collective assessment for loans to legal entities based on the categories of credit quality (probability of default (PD) depends on the credit rating of the borrower); 2) ECL collective assessment for loans to legal entities without individual credit rating assigned (PD is determined using matrices of migration of overdue debt). Loss given default (LGD) calculation approach is similar for both ECL collective models. LGD is an estimation of the unrecoverable part of the asset from the projected cash repayment and the existing collateral. The projected cash repayment is calculated by sub-portfolios based on statistic data on received cash flows from default loans. Cash flows from collateral is determined by calculating the income received from the sale of collateral taken against debt repayment from the default borrower weighted by the level of loan security. Note 2 "Significant accounting policies", Note 19 "Loans to customers", Note 38 "Risk management policies", included in the financial statements, contain detailed information on ECL allowance for loans to legal entities.	We assessed the key methodologies for calculation of the ECL allowance for loans to legal entities for compliance with the requirements of International Financial Reporting Standards. We assessed and tested (on a sample basis) the design and operating effectiveness of the controls over data used for ECL allowance calculation for loans to legal entities: the authorization of the loan agreement and the disbursement of money; process of loan agreements data input into the Bank's software; classification of loan agreements between sub-portfolios, timely transfer of the overdue debt to the accounts for the overdue debt; correctness of allowance stage determination, transfer of credit ratings calculated in the Bank's software to the calculation of ECL allowance. The purpose of our procedures was to determine that we could rely on these controls for the purposes of our audit. We tested the calculation of ECL allowance for loans issued to legal entities assessed collectively based on the categories of credit quality (PD depends on the internal rating of the borrower). Our audit procedures covered 40% of loans assessed collectively based on the categories of credit quality. We analyzed loan files of selected borrowers, their latest financial statements, information on factors of financial instability, debt management procedures and violations of payment schedules. For selected loans classified to stage 3 we assessed assumptions used during forecast cash flows including financial position of the borrowers and collateral value. We analyzed calculation of the collectively assessed ECL allowance for loans to legal entities with no credit rating assigned. We inspected the PD calculation based on the composition of matrices for credit exposure migration by groups of overdue periods. We tested (on a sample basis) the operating effectiveness of the controls over overdue debt exposure of legal entities. We analyzed LGD calculation model and tested key elements of the model subjected to judgment and estimates: reviewed calculation of recoverable amount from realization of collateral; on a sample basis we tested security level of loans, including the collateral value used in LGD calculation. We performed analytical procedures for the total amount of ECL allowance for loans to legal entities: developed trend lines, analyzed the correlation between changes in loan exposure and ECL allowance.

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 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 financial reporting process.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 and other requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The certified auditor responsible for the audit resulting in this independent auditor's report is Alena Tsyalyak.

Director
Alena Tsyalyak

Qualification certificate of the Auditor of the Ministry of Finance of the Republic of Belarus No. 767 of May 20, 2003, without limitation of validity.
Certificate of compliance with the qualification and business reputation requirements for auditors engaged in auditing in banks, banks groups and bank holdings No. 19 of September 10, 2008, without limitation of validity (date of the last testing – June 19, 2018)

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

Date of signing of the audit report: 3 March 2020

BELGAZPROMBANK

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Interest income calculated using the effective interest rate method	5, 34	337,341	301,953
Other interest income	5, 34	15,205	10,246
Interest expenses	5, 34	(170,441)	(131,594)
NET INTEREST INCOME		182,105	180,605
Impairment loss/ (recovery) on financial assets	6, 34	(10,533)	33,899
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON FINANCIAL ASSETS		171,572	214,504
Net gain from investment securities at fair value through other comprehensive income reclassified to income statement		822	3,122
Net gain from foreign exchange operations	7	12,785	50,624
Net gain / (loss) from trading operations	8, 34	35,099	(21,822)
Fee and commission income	9, 34	80,682	62,403
Fee and commission expenses	9, 34	(18,922)	(15,326)
Net loss on operations with precious metals	10	(4,432)	(9,720)
Impairment recovery on off-balance sheet commitments	6	277	1,258
Net profit arising from the derecognition of financial assets measured at amortised cost	11	3,369	-
Other income	12, 34	17,554	5,228
NET NON-INTEREST INCOME		127,234	75,767
OPERATING INCOME		298,806	290,271
OPERATING EXPENSES	13, 34	(171,363)	(151,894)
PROFIT BEFORE INCOME TAX		127,443	138,377
Income tax expense	14	(15,905)	(34,468)
NET PROFIT		**111,538**	**103,909**
Basic and diluted earnings per share (BYN)	31	0.0032	0.0051

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
3 March 2020
Minsk

Chief Accountant
N.M. Dylevskaya
3 March 2020
Minsk

The Notes on pages 14-88 form an integral part of these Financial Statements

BELGAZPROMBANK

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
NET PROFIT		111,538	103,909
OTHER COMPREHENSIVE INCOME			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in investment securities at fair value through other comprehensive income reclassified to income statement		(822)	(3,122)
Impairment recovery / (losses) on investment securities		2,156	(1,566)
Net change in fair value of investment securities at fair value through other comprehensive income		11,518	(1,209)
TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)		12,852	(5,897)
TOTAL COMPREHENSIVE INCOME		**124,390**	**98,012**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
3 March 2020
Minsk

Chief Accountant
N.M. Dylevskaya
3 March 2020
Minsk

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BELGAZPROMBANK

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	31 December 2019	31 December 2018
ASSETS:			
Cash and cash equivalents	15, 34	675,919	593,310
Securities at fair value through profit or loss	16, 34	213,971	233,686
Derivative financial instruments, assets	17, 34	1,151	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	18	36,297	75,186
Loans to customers	19, 34	3,327,739	3,069,654
Investment securities	20	516,782	351,260
Including those pledged under repurchase agreements	20	*14,725*	*24,001*
Non-current assets held for sale	21	17,597	30,588
Property, equipment, intangible and right-of-use assets	22	164,229	159,303
Investment property	23	939	-
Deferred income tax assets	14	6,592	4,683
Other assets	24, 34	32,365	20,245
TOTAL ASSETS		**4,993,581**	**4,542,438**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments, liabilities	17, 34	89	1,709
Due to banks and other financial institutions	25, 34	884,309	894,217
Due to customers	26, 34	3,010,607	2,726,724
Debt securities issued	27	148,222	50,229
Current income tax liabilities		9,615	10,464
Other liabilities	28, 34	22,118	21,836
Subordinated debt	29, 34	173,283	158,446
Total liabilities		4,248,243	3,863,625
EQUITY:			
Share capital	30	535,944	535,944
Investment securities revaluation reserve		20,832	7,980
Retained earnings		188,562	134,889
Total equity		745,338	678,813
TOTAL LIABILITIES AND EQUITY		**4,993,581**	**4,542,438**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
3 March 2020
Minsk

Chief Accountant
N.M. Dylevskaya
3 March 2020
Minsk

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BELGAZPROMBANK

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	Share capital	Investment securities revaluation reserve	Retained earnings	Total equity
31 December 2017		**377,140**	**8,857**	**104,676**	**490,673**
IFRS 9 adoption impact		**-**	**5,020**	**(13,198)**	**(8,178)**
Adjusted balance as at 1 January 2018		**377,140**	**13,877**	**91,478**	**482,495**
Net profit		-	-	103,909	103,909
Other comprehensive income, net of income tax					
Investment securities revaluation reserve					
Net change in fair value		-	(1,209)	-	(1,209)
Net change in fair value of investment securities transferred to profit or loss		-	(3,122)	-	(3,122)
Impairment loss on investment securities		-	(1,566)	-	(1,566)
Total other comprehensive loss		**-**	**(5,897)**	**-**	**(5,897)**
Total comprehensive income for the year		**-**	**(5,897)**	**103,909**	**98,012**
Transactions with shareholders					
Dividends declared after 2017	30	-	-	(60,498)	(60,498)
Increase in share capital	30	158,804	-	-	158,804
Total transactions with shareholders		158,804	**-**	**(60,498)**	**98,306**
31 December 2018		**535,944**	**7,980**	**134,889**	**678,813**
Net profit		-	-	111,538	111,538
Other comprehensive income, net of income tax					
Investment securities revaluation reserve					
Net change in fair value		-	11,518	-	11,518
Net change in fair value of investment securities transferred to profit or loss		-	(822)	-	(822)
Impairment recovery on investment securities		-	2,156	-	2,156
Total other comprehensive income		**-**	**12,852**	**-**	**12,852**
Total comprehensive income for the year		**-**	**12,852**	**111,538**	**124,390**
Transactions with shareholders					
Dividends declared after 2018	30	-	-	(57,865)	(57,865)
Total transactions with shareholders		**-**	**-**	**(57,865)**	**(57,865)**
31 December 2019		**535,944**	**20,832**	**188,562**	**745,338**

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
3 March 2020
Minsk

Chief Accountant
N.M. Dylevskaya
3 March 2020
Minsk

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BELGAZPROMBANK

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOW FROM OPERATING ACTIVITIES:			
Net profit		111,538	103,909
Adjustments:			
Impairment losses / (recovery) on financial assets	6	10,533	(33,899)
Impairment recovery on off-balance sheet commitments	6	(277)	(1,258)
Net change in the fair value of derivatives		(1,062)	(2,814)
Revaluation of precious metals balance sheet items	10	4,729	10,037
Net change in fair value of securities at fair value through profit or loss		(13,236)	6,486
Effect of assets recognition at below-market rate		2,782	304
Decrease in value of non-current assets held for sale		-	210
Depreciation and amortization	13, 22	21,035	16,891
Loss from sale of property, equipment and non-current assets held for sale	13	48	581
Net change in payroll obligations		2,151	473
Net interest income	5	(182,105)	(180,605)
Net lease exspenses		923	-
Net change in fee and commission income accrued and penalties		3,752	(447)
Profit from disposal of investment securities		(822)	(3,122)
Income tax expenses	14	15,905	34,468
Translation differences, net	7	(794)	(53,763)
Cash flows from operating activities before changes in operating assets and liabilities		(24,900)	(102,549)
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum mandatory reserve deposit with the National Bank of the Republic of Belarus		(4,924)	(2,986)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions		43,388	8,277
Securities at fair value through profit or loss		26,607	(95,864)
Derivative financial instruments		2,814	(816)
Investement securities		14,147	3
Loans to customers		(311,676)	(281,738)
Other assets		(13,337)	6,535
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		121,839	82,181
Due to customers		347,852	(172,381)
Other liabilities		(159)	10,553
Interest received		348,181	320,836
Interest paid		(163,543)	(133,839)
Income tax paid		(18,663)	(35,321)
Net cash inflow / (outflow) from operating activities		367,626	(397,109)

BELGAZPROMBANK

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian Roubles)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOW FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(27,864)	(22,113)
Proceeds from sale of property, equipment and non-current assets held for sale, other property		16,077	8,080
Purchase of investment securities		(315,487)	(382,800)
Proceeds from sale and repayment of investment securities		143,343	592,062
Net cash (outflow) / inflow from investing activities		(183,931)	195,229
CASH FLOWS FROM FINANCING ACTIVITIES:			
Syndicated loans attracted	32	-	275,573
Repayment of syndicated loans	32	(98,817)	-
Proceeds from debt securities issued	32	376,611	488,436
Repayment of debt securities issued	32	(280,827)	(524,381)
Attraction of loans received from international financial institutions	32	23,195	-
Repayment of loans received from international financial institutions	32	(35,873)	(34,393)
Dividends paid	30	(57,865)	(60,498)
Net cash inflow from financing activities		(73,576)	144,737
NET CHANGE IN CASH AND CASH EQUIVALENTS		110,119	(57,143)
Effect of exchange rate changes on cash and cash equivalents		(27,510)	15,126
CASH AND CASH EQUIVALENTS, beginning of the year	15	593,310	635,327
CASH AND CASH EQUIVALENTS, end of the year	15	675,919	593,310

On behalf of the Management Board:

Chairman of the Management Board
V.D. Babaryka
3 March 2020
Minsk

Chief Accountant
N.M. Dylevskaya
3 March 2020
Minsk

The Notes on pages 14-88 form an integral part of these Financial Statements

(in thousands of Belarusian Roubles, unless otherwise indicated)

1. ORGANIZATION

Belorussian-Russian Belgazprombank Joint Stock (hereinafter, "Belgazprombank" or the "Bank"), initially named as Bank Ekorazvitie, was established in 1990. Subsequently, the Bank was renamed as Bank Olymp. After the acquisition of controlling interest by PJSC Gazprom (Russian Federation) and CJSC "Gazprombank" (Russian Federation), the Bank was reorganized into Belorussian-Russian Belgazprombank Joint Stock and was registered by the National Bank of the Republic of Belarus (hereinafter, the "National Bank") on 28 November 1997.

The Bank conducts its business under the license for performing banking operations No. 8 issued by the National Bank on 24 May 2013. The Bank accepts deposits from the public and organizations, grants loans, transfers payments in the Republic of Belarus and abroad, exchanges currencies, carries out operations with securities and provides other banking services to its corporate customers and individuals.

The registered office of the Bank is located at: 60/2 Pritytsky St., Minsk, 220121, Republic of Belarus.

As at 31 December 2019 and 31 December 2018, the structure of the Bank's share capital was as follows:

Shareholders	Ownership interest
PJSC Gazprom (Russian Federation)	49.818
Gazprombank (Joint-stock Company) (the Russian Federation)	49.818
OJSC "Gazprom transgaz Belarus" (the Republic of Belarus)	0.266
State Committee on Property of the Republic of Belarus	0.097
Other	less than 0.001
Total	**100.000**

The ultimate controlling party of the Bank is the Government of the Russian Federation.

In 2014, the Office of Foreign Assets Control of the U.S. Department of the Treasury (hereinafter, the "OFAC") and the Council of the European Union (hereinafter, the "EU") introduced sectoral sanctions against some entities of the Russian Federation including Gazprombank (Joint-stock Company) and PJSC Gazprom.

Belgazprombank is not subject to the sanctions limiting financial transactions that were imposed on Gazprombank (Joint-stock Company) since the share of Gazprombank (Joint-stock Company) in the Bank is currently less than 50% (49.82%).

At the same time, limitations on the extraction of mineral resources in hard-to-reach locations imposed on PJSC Gazprom, notwithstanding the fact that Gazprom share in the Bank amounts to 50.08% (taking into account the 100% share of PJSC Gazprom in OJSC "Gazprom transgaz Belarus"), do not extend to the Bank's operations, since those are not related to the extraction of mineral resources in hard-to-reach locations.

The lack of grounds for the limitations provided for by the sectoral sanctions of OFAC when conducting transactions with the Bank is confirmed in an external legal opinion issued in the form of a memorandum by an international legal advisor.

These Financial Statements were authorized for issue by the Chairman of the Management Board and the Chief Accountant of the Bank on 3 March 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These Financial Statements were prepared in accordance with International Financial Reporting Standards (hereinafter IFRS).

Other basis of presentation criteria

These Financial Statements were prepared under the assumption that the Bank is a going concern and will continue to operate for the foreseeable future. The Management and Shareholders intend to further develop the business of the Bank in the Republic of Belarus. The Management believes that the going concern assumption is appropriate for the Bank due to its sufficient capital adequacy ratio and based on the historical experience that short-term obligations will be refinanced in the normal course of business.

These Financial Statements are presented in thousands of Belarusian Roubles (“BYN thousand”), unless otherwise indicated.

These Financial Statements were prepared on a historical cost basis, except for certain non-cash items that originated before 31 December 2014, which were recognized in accordance with the International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29), and certain assets that are recognized at revalued value or fair value as at each reporting date as indicated below.

During 2014 and the prior years, the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with IAS 29. Starting from 1 January 2015, the economy of the Republic of Belarus is no longer considered hyperinflationary, thus the cost 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.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Bank maintains its accounting records in accordance with the legislation of the Republic of Belarus. These Financial Statements were prepared on the basis of accounting records maintained in accordance with Belarusian accounting rules and were adjusted to conform to IFRS.

The Bank generally presents its statement of financial position items in order of liquidity. The analysis regarding the recovery of financial assets or repayment of financial liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 38.

Changes in accounting policies and presentation

Beginning from 1 January 2019 the Bank began to apply the new standard IFRS 16 “Leases” that came into force.

IFRS 16 was issued in January 2016 and replaced the existing guidance on leases, including IAS 17 “Leases”, Explanation of IFRIC 4 “Determining Whether an Arrangement Contains a Lease“, Explanation of the SIC 15 "Operating leases - incentives" and Explanation of the SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease."

In the transition to IFRS 16 Leases, the Bank applied a modified retrospective approach. Under this approach, a lessee doesn’t restate comparative information. At the date of initial application (1 January 2019) of the new leases standard, a lessee recognizes the cumulative effect of initial application as an adjustment to the opening balance of retained earnings.
Adopting the new standard, the Bank applied the following recognition exemptions for lease agreements as a lessee:
- short-term leases (i.e., leases with a lease term of 12 months or less); and
- leases of a low-value asset.

IFRS 16 “Leases” introduces a unified model for accounting for lessees of lease agreements, which implies their reflection on the balance sheet of the lessee. According to this model, the lessee, on the commencement date should recognize in the statement of financial position an asset in the form of a right-of-use asset, representing the right to use the underlying asset, and a lease liability, representing the obligation to make rental payments.

At the commencement date, the lease liabilities are measured at present value of the future lease payments. The lease payments shall be discounted using the interest rate the lessee shall use in order to raise additional funds to acquire an asset of similar value under similar economic conditions.

The lease liability comprises the following payments:
- fixed lease payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The initial measurement of the right-of-use asset cost at the commencement date comprise:
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequently the measurement of the right-of-use assets are carried with the application of a cost model less any accumulated depreciation and any accumulated impairment losses and considering the adjustment of the carrying amount of the lease liability to reflect its reassessment. The right-of-use assets are depreciated by straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

As at 1 January 2019, the Bank recognized both the right-of-use assets and the lease liabilities in the same amount of BYN 2,911 thousand. In order to place the Bank’s offices and to build the necessary infrastructure for its every day operation the Bank rents buildings and premises and parking spaces, billboards, line-cable structures, virtual resources and places for technical equipment accommodation.

The following table discloses the comparison of the amount of lease commitments for operating lease and the amount of the lease liabilities, recognized according to IFRS 16:

	The effect of IFRS 16 adoption as at 1 January 2019
Total future lease payments for lease agreements, where the Bank is a lessee	**3,826**
Recognition exemptions for lease agreements:	
- short-term leases	(125)
- leases of a low-value assets	(355)
Total lease payments, included in the measurement of the lease liability according to IFRS 16	**3,346**
Discounting effect	(435)
Lease liabilities / Right-of-use assets	**2,911**

In the Financial Statements the right-of-use assets, as well as accumulated depreciation, are presented by the Bank within the line “Property, equipment, intangible and right-of-use assets” (Note 22). Lease liabilities are presented within the line “Other liabilities” (Note 28).

Also, in accordance with IFRS 16, the nature of expenses recognized by the Bank in respect of these contracts has changed. In the income statement instead of rent expenses, that are uniformly recognized over the term of the contract, the Bank shall disclose the following expenses: depreciation of right-of-use assets within the line “Operating expenses” and interest expenses, related to lease liabilities, within the line “Interest expenses”.

Lease payments, related to short-term leases or leases for which the underlying asset is of low value, the lessee shall recognize as an expense in the income statement on a straight-line basis over the lease term.

The Bank, as a lessee, revaluates the lease obligation upon the occurrence of certain events (change in the lease term, change in the rate and a corresponding change in future lease payments).

The accounting rules for lessors generally remain the same - they continue to classify leases as finance and operating and, accordingly, reflect them differently in their statements.

Under the transition to IFRS 16, as a lessor, the Bank is not obliged to make any adjustments under lease agreements, unless the Bank is an intermediate lessor under a sublease agreement.

Significant accounting policies are presented below. The Bank has consistently applied the following accounting policies, except as described above.

Recognition of interest 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:

- gross carrying amount of the asset; or
- 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 expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The effective interest rate calculation includes transaction costs as well as fees and charges paid or received that form an integral part of the effective interest rate. Transaction costs include additional expenses directly attributable to the acquisition or issue of the financial asset or 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 amortisation 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.

Gross carrying amount of a financial asset measured at amortized cost is the amortized cost of the financial asset before adjustment for the amount of loss allowance.

Calculation of interest income and expenses

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. When calculating interest income and expenses the effective interest rate is applied to the amount of the asset gross carrying amount (when the asset is not credit-impaired) or 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.

For financial assets that became 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 a financial asset is no longer credit-impaired, interest income is calculated based on gross carrying amount.

For financial assets that were credit-impaired at initial recognition interest income is calculated through applying the effective interest rate adjusted for credit risk to the amount of the financial asset amortized cost. For such assets interest income is not calculated based on gross carrying amount even if the related credit risk subsequently decreases.

Presentation

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

- interest income on financial assets measured at amortized cost (including fees and commission for loan-maintenance, fees and commission from contractual counterparties on the credit cards with installment payment plans, on Delay consumer loans, and also the related loan granting direct costs, built-in the calculation of the loans' effective interest rate;

- interest on debt instruments measured at fair value through other comprehensive income (FVOCI);

Other interest income presented in the income statement includes interest income on non-derivative debt financial instruments measured at fair value through profit or loss (FVTPL) and net investments in finance leases.

Interest expenses presented in the income statement include:
- interest expenses on financial liabilities measured at amortized cost;
- financial expenses on lease liabilities.

Recognition of income under repurchase and reverse repurchase agreements

In the normal course of business the Bank enters into sale and repurchase agreements ("repos") as well as purchase and sale back agreements of financial assets ("reverse repos").

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other compensation and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest.

Gain/loss on the sale and repurchase ("repo") and reverse repurchase agreements ("reverse repo") is recognized as interest income or expense in the income statement based on the difference between the repurchase price accreted to date using the effective interest rate method and the sale price when such instruments are sold to the counterparty. When a repo (reverse repo) is fulfilled on its original terms, the effective yield/interest between the sale and repurchase price negotiated under the original contract is recognized using the effective interest method.

Recognition of fee and commission income

Loan servicing fees that are not part of the effective interest rate are recognized as the services are provided.

A contract with a customer that results in a recognised 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. In this case 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.

Recognition of dividend income

Dividend income from investments is recognized when the Bank's right to receive dividends has been established (provided there is a high probability that the economic benefits will flow to the Bank and the amount of income can be measured reliably).

Recognition of lease income

The Bank's policy for recognition of income as a lessor is disclosed in the Leases section of this note.

Recognition of trading income and expenses

Trading income and expenses are recognized in profit or loss as trading transactions are carried out. They include:
- income and expenses from the securities, measured at fair value through profit or loss;
- income and expenses from derivative financial instruments.

Recognition of Expenses on Contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits

According to the legislation of the Republic of Belarus the Bank makes contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits, whose activity is aimed at the protection of rights and legitimate interests of the individuals.

Financial assets and liabilities

The Bank recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the financial instrument. The financial assets and liabilities, purchased and sold on a ongoing basis, are recognized on a settlement date.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities respectively on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized directly in profit or loss.

Financial assets and financial liabilities are set off and the net amount is reported in the statement of financial position only when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or corresponding interpretation, and is specifically disclosed in the accounting policies of the Bank.

Financial assets classification

On initial recognition, financial assets are classified as measured at amortized cost or at FVOCI or at FVTPL.
A financial asset is measured at amortized cost if is not classified by the Bank as at FVTPL and if it meets both of the following conditions:

- the financial 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 solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

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

For debt financial instruments measured at FVOCI gains and losses are recognized in other comprehensive income except for the following items that are recognized in profit or loss in the same manner as for financial assets at amortized cost:

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

On derecognition of a debt financial asset measured at FVOCI accumulated profit or loss that were previously recognized in other comprehensive income are 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 other comprehensive income. This election is made for each investment separately.

For such equity instruments gains and losses are never reclassified into profit or loss and no impairment is recognized in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the initial cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as at FVTPL.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that 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 by the Bank 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 realising 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 how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered independently, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

Assessment whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI criterion) on the outstanding principal, the Bank will consider the contractual terms of the financial instrument. This will include assessing whether the financial asset contains a contractual term that could change the time periods or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and time periods of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets;
- features that modify consideration for the time value of money (e.g. periodic revision of interest rates).

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to revise the interest rate following the change of key rate set by the National Bank. The borrowers have an option to either accept the revised rate or redeem the loan at par without significant penalty. The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that interest represents consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding. Thus, the Bank treats these loans as essentially those with a variable interest rate.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and deposit accounts with the National Bank in accordance with legislation requirements, with original maturity of up to 90 days, due from banks with original maturity of up to 90 days, which may be freely converted to a corresponding amount of cash within a short period of time, except for guarantee deposits and other restricted balances.

Mandatory reserve deposit with the National Bank

Mandatory cash reserves with the National Bank are mandatory reserves deposited with the National Bank in accordance with the applicable legislation which are not available to finance day to day operations of the Bank. Hence, they are not considered as part of cash and cash equivalents.

Repurchase and reverse repurchase agreements

Repos and reverse repos are utilized by the Bank as an element of its liquidity management.

Repos transactions are accounted for as financing transactions. Financial assets sold under repo are retained in the Financial Statements and consideration received under these agreements is recorded as a financial liability collateralized by assets.

Assets purchased under reverse repos are recorded in the Financial Statements as cash placed on deposit which is collateralized by securities or other assets and are classified as due from banks and/or loans to customers.

The Bank enters into repurchase agreements under which it receives or transfers collateral in accordance with normal market practice. Under standard terms for repurchase transactions in the Republic of Belarus and other CIS countries, the recipient of collateral has the right to sell or repledge the collateral, subject to returning equivalent securities on settlement of the transaction.

The Bank ceases to recognize securities only when the risks and rewards of ownership are fully transferred.

Financial assets measured at fair value through profit or loss

Financial asset is classified as at fair value through profit or loss when the financial asset is either held for trading or is designated as at fair value through profit or loss at initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near future; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term purchases and resale; or
- it is a derivative (except for derivatives that are financial guarantees or classified and effective hedging instruments).

Financial assets measured at fair value through profit or loss are stated at fair value, with any remeasurement recognized in profit or loss. Fair value is determined in the manner described in Note 36.

Derivative financial instruments

The Bank uses the following derivative financial instruments (derivatives): foreign currency forwards, forward securities contracts with open and fixed delivery date, precious metals swap contracts. These instruments are used by the Bank to manage its exposure to foreign exchange rate and price risks.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. As foreign currency forwards and precious metal swaps do not have an active market in the Republic of Belarus, their fair value is measured using the interest rates parity model. The resulting gains or losses are recognized in financial results.

Investment securities

Investment securities are debt investment securities measured at FVOCI and equity investments.

The fair value of investment securities denominated in a foreign currency is determined in that foreign currency and translated at the exchange rate at the reporting date. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange translation differences for equity instruments are recognized in other comprehensive income.

Loans to customers

Loans to customers include:

- loans to customers measured at amortized cost (Note 19). They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method; and
- finance lease receivables (Note 19).

Financial assets impairment

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

- cash equivalents;
- due from the National Bank of the Republic of Belarus, banks and other financial institutions;
- financial assets that are debt instruments;
- net investment in finance leases;
- other financial assets;

- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments, for which they are measured as 12-month ECL:

- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for receivables are always measured at an amount equal to lifetime ECLs.

The Bank's approach to financial assets impairment, significant increase of credit risk and the definition of default is disclosed in Note 38.

Measurement of ECLs

ECLs are a default probability-weighted estimation of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: the present value of all cash shortfalls (i.e. the difference between the contractual cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive: the present value of the estimated future cash flows, calculated using the effective interest rate method adjecsted for the probability of default and the level of losses);
- *financial assets that are credit-impaired at the reporting date*: 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 that are due to the Bank if the commitment is drawn down by the borrower and the cash flows that the Bank expects to receive, if the commitment is drawn down; and
- *financial guarantee contracts*: the present value of the expected payments to reimburse the holder's credit losses less any amounts that the Bank expects to recover.

The expected credit losses model applied by the Bank is disclosed in Note 38.

Restructured financial assets

If 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 derecognised, and ECL are measured as follows:

- if the expected restructuring does 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 results 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.

The information about the influence of financial assets' restructuring on the credit risk increase estimation and the estimation of the default customers is disclosed in Note 38.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI, and 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 presented in Note 38.

A loan the terms of which were renegotiated due to an adverse change of the borrower's financial condition is usually considered credit-impaired if there is no evidence that the risk of not receiving contractual cash flows has decreased significantly and there are no other indicators of impairment. Additionally, credit-impaired loans include retail loans overdue by more than 90 days.

Purchased or originated credit-impaired assets (POCI assets)

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

POCI assets include the following assets of the Bank:

– new financial assets provided by the Bank as part of a credit-impaired asset restructuring (replacement of a credit-impaired assets with another asset having a similar credit risk grade);

– assets that originated upon derecognition of a financial asset due to a significant modification of contractual terms as part of credit-impaired financial assets restructuring;

– acquired credit-impaired financial assets.

Impairment allowance is not created for POCI assets on their initial recognition. Instead, the amount of lifetime expected credit losses is included into the effective interest rate calculation (hereinafter, the "EIR").

To calculate the EIR for acquired or originated credit-impaired financial assets expected cash flows are used taking into account the initial estimate of lifetime expected credit losses. The calculated amount of contractual cash flows of an asset is decreased by the amount of lifetime expected credit losses.

The resulting EIR is called credit risk adjusted EIR. On initial recognition of POCI assets (generally, these are originated assets) the fair value of such loans is determined based on the cash flows that are expected to be received by the Bank as a result of selling collateral and/or receiving cash flows.

Subsequently, expected credit losses for POCI assets are always measured at an amount equal to the lifetime expected credit losses. The amount of expected credit losses for such assets is equal to the amount of changes in the amount of the lifetime expected credit losses since initial recognition of the respective asset.

The amount of positive changes in the lifetime expected credit losses is recognized as impairment gains even if the amount of such changes exceeds the amount, if any, that was previously recognized within profit or loss as impairment loss.

Interest on POCI assets is charged to the amortized cost using the credit-adjusted EIR determined on the initial recognition of the asset.

Presentation of allowance for expected credit losses in the statement of financial position

The amount of expected credit losses allowance is presented in the statement of financial position as follows:

- *financial assets measured at amortized cost*: as a decrease of the gross carrying amount of such assets;
- *loan commitments and financial guarantee agreements:* generally, as a provision within the other liabilities in the statement of financial position;
- *where a financial instrument includes both a drawn and undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component (drawn down loan commitment):* the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component (*drawn down loan commitment*). 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:* loss allowance isn't recognised in the statement of financial position because the carrying amount of these assets is equal to their fair value. However, the loss allowance is disclosed and is recognised in the investment securities revaluation reserve.

Renegotiated loans

Where possible, the Bank strives to restructure loans rather than to collect the collateral. This may involve extending of the payment arrangements and the renegotiation of new loan conditions. If the financial instrument is not derecognized, once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Write-offs

Loans and investment securities are written off (partially or in full) when they are reasonably considered to be uncollectible partially or in full. Usually this is the very case when the Bank determines that the borrower has no assets or sources of income that could generate cash flows sufficient to repay outstanding amounts subject to a write-off. The assets are assessed on an individual basis.

The recovery of previously written off amounts are included in "Impairment loss / (recovery) on financial assets" in the income statement.

Each case of the write-off assets is examined by the Bank on an individual basis.

Financial assets that are written off could still be subject to enforcement activities of the Bank in accordance with the Bank's procedures for collecting of amounts due.

Reclassification of financial assets and liabilities

Classification of financial assets after initial recognition does not change, except for that in the period following the period when the Bank changes its business-model concerning financial assets management.

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition of financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Bank 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 derecognised) 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 recognised in other comprehensive income is recognised in profit or loss.

The cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated by the Bank as at FVOCI is not recognised in 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 recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of ownership 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 sale-and-repurchase transactions.

In transactions in which the Bank doesn't transfer substantially all of the risks and rewards of ownership of a financial asset and 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.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank assesses whether cash flows related to such modified asset significantly differ. If cash flows differ significantly (significant modification) the rights for contractual cash flows related to the original financial asset are considered to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised 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 recognized 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 as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the refinancing rate of the National Bank, if the loan agreement entitles the Bank to do so.

The Bank performs quantitative and qualitative assessment of whether the modification is significant, i.e. whether the cash flows related to the original financial asset differ significantly from those of the modified one or the new one.

The Bank performs quantitative and qualitative assessment of whether the modification is substantial, analyzes qualitative factors, quantitative factors and the combined effect of qualitative and quantitative factors.

If cash flows differ significantly, the rights for contractual cash flows related to the original financial asset are considered to have expired. Similarly, in performing this assessment the Bank acts in line with the requirements with regard to the derecognition of financial liabilities.

The Bank may determine that a modification is significant based on the following qualitative factors:

- change of the financial asset currency;
- change of the collateral type or other enhancements of the asset;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion.

If cash flows are modified in consequence of the borrower's financial difficulties, then the objective of the modification is usually to maximise the recovery sum of the asset in accordance with 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 release of the part of the cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place.

This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.

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

If such modification is caused by a financial distress of the borrower, the related profit or loss is presented in impairment losses. In other cases the related profit or loss is presented in interest income calculated using the effective interest rate method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Bank treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified so that cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised 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 performs quantitative and qualitative assessment of whether modification is material analyzing qualitative factors, quantitative factors and the overall effect of qualitative and quantitative factors. The Bank concludes that a modification is material based on the following qualitative factors:

- change of the financial liability currency;
- change of the collateral type or other enhancements of the liability;
- addition of a conversion feature;
- change of the financial liability subordination.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of 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 recognised in profit or loss. For floating-rate financial liabilities, 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 and fees incurred are recognised 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.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Financial liabilities

Financial liabilities, including due to banks and due to customers, debt securities issued by the Bank, other borrowings and other liabilities, are initially measured at fair value, net of overhead costs.

Financial liabilities are subsequently measured at amortized cost. Interest expense is calculated using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period.

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives are recognised immediately in profit or loss.

Although the Bank performs trading transactions with derivatives to hedge its risks, these transactions do not meet the hedging transactions accounting criteria.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as the lessor

Finance lease receivables are recognized as loans to customers in the amount of the Bank's net investment in finance leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Bank's net investment in finance leases.

Income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Precious metals

Gold and other precious metals are recorded at fair value. To determine the fair value of assets denominated in precious metals the Bank uses the National Bank's bid prices effective as at the reporting date (considering their nominal in grams) which approximate fair values being discounted using London Bullion Market rates. To determine the value of the Bank's liabilities denominated in precious metals and recorded in impersonal metal accounts the Bank uses the National Bank's accounting prices. Changes in prices are recognized in net gain/(loss) on operations with precious metals.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any recognized impairment loss (if any). Cost of property and equipment acquired before 1 January 2015 is restated for inflation.

Depreciation is recognized so as to write off the cost of property and equipment (other than construction in progress items) less their residual values over their useful lives using the straight-line basis. The estimated useful life, carrying values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. In these Financial Statements the depreciation is calculated on a straight-line basis at the following annual rates:

	Usefull life
Buildings and constructions	from 8 to 125 years
Computer equipment, furniture and other equipment	from 1 to 110 years
Vehicles	from 6 to 15 years

Construction in progress items for production or administrative purposes are carried at construction cost restated for inflation, less any recognized impairment loss. Cost of construction includes professional fees. Such property and equipment items are classified to appropriate categories of property and equipment when completed or ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property and equipment of the Bank includes a separate category of corporate collection of the works of art which are not subject to depreciation because of their unique nature and significant estimated useful lives.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on sale or other disposal of an item of property and equipment is determined as the difference between the sale price and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at historical cost less accumulated amortization and accumulated impairment losses, if any. Cost of intangible assets acquired before 1 January 2015 is restated for inflation.

Amortization is recognized on a straight-line basis over their estimated useful lives. All Intangible assets have definite useful life. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Amortization of intangible assets is calculated on a straight-line basis at the following annual rates:

	Usefull life
Intangible assets	from 1 to 15 years

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds on disposal and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset or cash generating unit is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognized in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Reversals of impairment losses are immediately recognized in profit or loss.

Investment property

Investment property is an object of property, which is not occupied by the Bank, held to earn rental income or for capital appreciation, or both. Investment property is initially recognised at its purchase cost, including transaction costs.

Subsequently investment property is carried at historical cost less accumulated depreciation and any recognized impairment loss. Depreciation is calculated on a straight-line basis over the useful live of an object.

Taxation

Income tax expense represents the amount of the tax currently payable and deferred tax.

Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because of items of income or expense that are taxable or deductible in other reporting periods and does not include items that are never taxable or deductible. Current income tax liability is calculated using tax rates that have been enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax accounting data used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax is not recognized for the following temporary differences:

- differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that where the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, as of the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income tax for the year

Current and deferred income taxes are recognized through profit or loss, except when they relate to items that are recognized directly in other comprehensive income or directly in equity, in which case, the current and deferred income taxes are also recognized directly in other comprehensive income or in equity respectively.

Operating taxes

In the Republic of Belarus, where the Bank operates, there are also various other tax requirements applied to the Bank's activities, other than income tax. These taxes are included as a component of operating expenses in the income statement.

Provisions for future expenses

Provisions for future expenses are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that the Bank will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision for future expenses is the best estimate of the consideration required to settle the present obligations at the reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision for future expenses is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle obligations are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions for future expenses recognized by the Bank include provisions for unused vacations of employees.

Contingencies

Commitments and contingent liabilities are not recognized in the statement of financial position but are disclosed in the Financial Statements unless the outflow of economic benefits is remote. Contingent assets are not recognized but disclosed in the Financial Statements when an inflow of economic benefits is probable.

Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value, with their initial fair value being amortized over the life of such guarantee or commitment. Subsequently, they are measured at the higher of the amortized amount initially recognized and the loss allowance amount.

The Bank has no loan commitments measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance according to the approach described in Note 38. Liabilities arising from financial guarantees and loan commitments are included within the Other liabilities line item.

Functional currency

The functional currency of these Financial Statements is the national currency of the Republic of Belarus – Belarusian Rouble.

Foreign currency

In preparing the Financial Statements of the Bank, transactions in currencies other than the functional currency (foreign currencies) are recorded at the rates of exchange effective at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates effective at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates effective at the date when the fair value was determined. Non-monetary items in a foreign currency that are measured at historical cost are not restated. Foreign exchange differences that arise during settlements related to monetary items or during translation of monetary items at rates other than those at which they were translated upon initial recognition during the period or in the previous Financial Statements are recognized in profit or loss in the period in which they occurred.

The exchange rates at the year-end used by the Bank in the preparation of the Financial Statements are as follows:

	31 December 2019	31 December 2018
USD/BYN	2.1036	2.1598
EUR/BYN	2.3524	2.4734
100 RUB/BYN	3.4043	3.1128

Collateral

The Bank obtains collateral in respect of customer liabilities. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

The Bank examines the property as a collateral against fulfillment of obligations under the loan agreement.(in case of customer default the property that is difficult to sell is not considered to be a colleteral).

On the reporting date the Bank reviews the estimated cost of the collateral, as it is used as input data when calculating expected credit losses as part of the credit risk management process.

The collateral received as a back-up for the fulfillment of the obligations on customer loans is classified into a category corresponding to the intentions of the Bank: as a property and equipment to be used in production activities or as non-current assets held for sale. The additional information concerning collateral is disclosed in the Note 19.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. The Bank must complete the sale of the asset within one year from the date the asset is classified as held for sale. The Bank classifies assets received through repossession under default loan agreements into this category, unless the Bank is going to use the repossessed assets in its investing and operating activities.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Operating segments

Operating segments are components that represent operational activity implying the generation of profit or the incurrence of expenses, which have observable financial data related to them, that is regularly assessed by the Bank's management in the process of allocating resources and analyzing financial performance. The segments' operation analysis is represented in Note 35.

3. SIGNIFICANT ASSUMPTIONS AND KEY SOURCES OF MEASUREMENT UNCERTAINTY

The preparation of Financial Statements according to IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about significant areas of measurement uncertainty and critical judgments in applying accounting policies is described in the following notes:

Use of estimates and judgments

In preparing these Financial Statements, the Management has made a professional judgement, assumptions and estimates that affect the application of the Bank's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results could differ from those estimates.

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

Judgments

Information about judgements made in applying accounting policies that have the most significant impact on the amounts recognised in the Financial Statements is disclosed in this and other notes:

- classification of financial assets: assessment of the business model in which a financial asset is held and assessment of whether the contractual terms of a financial asset include solely payments of principal and interest.
- information on establishing the criteria for determining whether credit risk on the financial asset 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 is presented in Note 38.

Assumptions and measurement uncertainty.

Information about assumptions and measurement uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 includes:

Impairment of financial instruments

- the following assumptions regarding the impairment of financial instruments are presented in Note 38: assessing whether the credit risk of an asset has increased significantly since initial recognition; and incorporating forward-looking information into the measurement of ECLs.

Measurement of fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability under the condition of an ordinary transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. When measuring the fair value of an asset or liability the Bank considers characteristics of the asset or liability if the market participants would take those characteristics in pricing the asset or liability as at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 of the fair value hierarchy (Note 36). The levels reflect the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

When the level of the fair value hierarchy per the best estimate as at the reporting date differs from the level that was previously assigned to assets or liabilities transfer into and out of the level occurs. The date of transfer is determined as the date of the event or change in circumstances that caused the transfer.

Measurement of fair value of financial derivatives

Derivative financial instruments represented by forwards do not have an active market and are measured using the interest rates parity model. Interest rates on financial instruments denominated in the same currency and with relevant maturity period are used as such rates.

Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.

Derivative financial instruments represented by swap contracts with precious metals are measured at fair value, which is calculated as net result between fair value of the claim and obligation.

4. NEW STANDARDS AND INTEPRETATIONS NOT YET EFFECTIVE

The Bank has yet to adopt the following new and revised standards, amendments and interpretations issued and not yet effective.

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

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of materiality and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of materiality is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (‘IBORs’). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities.

A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments clarify on the classification requirements for debt a company might settle by converting it into equity. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as a separate component of a compound financial instrument.

The Bank plans to adopt these pronouncements when they become effective.

5. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income:		
Interest income calculated using the effective interest rate method:		
Interest on loans to customers	296,885	273,917
Interest on investment securities	34,304	20,254
Interest on due from banks and other financial institutions	5,616	6,325
Interest income on REPO transactions	230	1,071
Other interest income	306	386
Total interest income calculated using the effective interest rate method	337,341	301,953
Other interest income:		
Interest on securities at fair value through profit or loss	12,718	9,654
Interest income on finance lease receivables	2,487	592
Total other interest income	15,205	10,246
Total interest income	**352,546**	**312,199**
Interest expenses:		
Interest expenses on financial instruments recorded at amortized cost:		
Interest on Due to customers	100,896	63,904
Interest on due to banks and other financial institutions, loans from the National Bank	48,506	36,566
Interest on subordinated debts	11,445	22,046
Interest on debt securities issued	5,669	7,176
Interest expenses on REPO transactions	1,039	1,475
Interest expenses on lease liabilities	98	-
Other interest expenses	2,788	427
Total interest expenses on financial liabilities recorded at amortized cost	**170,441**	**131,594**
Net interest income	**182,105**	**180,605**

6. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The movements in expected credit losses allowance for financial assets, financial guarantees and other contingent liabilities for the years ended 31 December 2019 and 31 December 2018 are as follows:

	Loans to customers	Invest-ment securities	Other assets	Guarantees and other contingencies	Total
As at 1 January 2018	**133,128**	**5,116**	**7,581**	**3,429**	**149,254**
(Recovery)/charge of allowance	(34,310)	1,566	(1,155)	(1,258)	(35,157)
Repayment against previously created allowance	10,505	-	-	-	10,505
Write-off of assets	(12,155)	-	-	-	(12,155)
Unwinding of discount	3,631	-	-	-	3,631

	Loans to customers	Invest-ment securities	Other assets	Guarantees and other contingencies	Total
As at 31 December 2018	**100,799**	**6,682**	**6,426**	**2,171**	**116,078**
Charge/(recovery) of allowance	8,320	2,156	57	(277)	10,256
Repayment against previously created allowance	9,557	-	-	-	9,557
Write-off of assets	(14,668)	-	(3,659)	-	(18,327)
Unwinding of discount	5,782	-	-	-	5,782
As at 31 December 2019	**109,790**	**8,838**	**2,824**	**1,894**	**123,346**

The amount of charge / (recovery) of allowance in the note " Allowance for expected credit losses" is reduced by the amount of recovery of previously created allowance (BYN 9,557 thousand and BYN 10,505 thousand in 2019 and 2018 years respectively) and by the amount of unwinding of discount (BYN 5,782 thousand and BYN 3,631 thousand in 2019 and 2018 years respectively). The listed amounts don't influence the expected credit losses on financial assets as at 31 December 2019 and 31 December 2018.

Below are the movements in allowance for financial assets, financial guarantees and other contingent liabilities with a breakdown by the expected credit losses measurement stages:

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	Total
Loans to customers				
As at 1 January 2018	**28,411**	**15,891**	**88,826**	**133,128**
Transfer to 12-month ECL	8,809	(8,807)	(2)	-
Transfer to lifetime ECL, but not credit-impaired	(7,093)	7,112	(19)	-
Transfer to lifetime ECL, credit-impaired	(1,978)	(1,685)	3,663	-
New financial assets originated or purchased	10,576	-	-	10,576
Financial assets that have been derecognised*	(9,250)	(3,607)	(2,760)	(15,617)
Write-off of financial assets against allowance created	-	-	(12,155)	(12,155)
Amount of income related to debt previously written-off	-	-	10,505	10,505
Unwinding of discount	-	-	3,631	3,631
Net change in loss allowance	(16,748)	(3,565)	(8,956)	(29,269)
Total as at 31 December 2018	**12,727**	**5,339**	**82,733**	**100,799**
Transfer to 12-month ECL	5,630	(3,359)	(2,271)	-
Transfer to lifetime ECL, but not credit-impaired	(10,025)	16,206	(6,181)	-
Transfer to lifetime ECL, credit-impaired	(2,736)	(4,908)	7,644	-
New financial assets originated or purchased	6,038	696	19,049	25,783
Financial assets that have been derecognised*	(2,869)	(787)	(11,004)	(14,660)
Write-off of financial assets against allowance created	-	-	(14,668)	(14,668)
Amount of income related to debt previously written-off	-	-	9,557	9,557
Unwinding of discount	-	-	5,782	5,782
Net change in loss allowance	851	(6,044)	2,390	(2,803)
Total as at 31 December 2019	**9,616**	**7,143**	**93,031**	**109,790**
Investment securities measured at FVOCI				
As at 1 January 2018	**5,116**	**-**	**-**	**5,116**
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL, but not credit-impaired	-	-	-	-
Transfer to lifetime ECL, credit-impaired	-	-	-	-
New financial assets originated or purchased	3,418	-	-	3,418

	12-month ECLs	Lifetime expected credit losses for assets that are not credit-impaired	Lifetime expected credit losses for assets that are credit-impaired	Total
Financial assets that have been derecognised*	(2,775)	-	-	(2,775)
Net change in loss allowance	923	-	-	923
Total as at 31 December 2018	**6,682**	**-**	**-**	**6,682**
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL, but not credit-impaired	-	-	-	-
Transfer to lifetime ECL, credit-impaired	-	-	-	-
New financial assets originated or purchased	4,423	-	-	4,423
Financial assets that have been derecognised*	(1,394)	-	-	(1,394)
Net change in loss allowance	(873)	-	-	(873)
Total as at 31 December 2019	**8,838**	**-**	**-**	**8,838**
Other financial assets				
As at 1 January 2018	**-**	**276**	**7,305**	**7,581**
Net change in loss allowance	-	59	(1,214)	(1,155)
Total as at 31 December 2018	**-**	**335**	**6,091**	**6,426**
Write-off of financial assets against allowance created	-	-	(3,659)	(3,659)
Net change in loss allowance	-	481	(424)	57
Total as at 31 December 2019	**-**	**816**	**2,008**	**2,824**
Contingent liabilities				
As at 1 January 2018	**3,138**	**257**	**34**	**3,429**
Transfer to 12-month ECL	44	(44)	-	-
Transfer to lifetime ECL, but not credit-impaired	(25)	25	-	-
Transfer to lifetime ECL, credit-impaired	(5)	(1)	6	-
New financial assets originated or purchased	1,589	-	-	1,589
Financial assets that have been derecognised*	(1,449)	(212)	(34)	(1,695)
Net change in loss allowance	(1,144)	(2)	(6)	(1,152)
Total as at 31 December 2018	**2,148**	**23**	**-**	**2,171**
Transfer to 12-month ECL	61	(61)	-	-
Transfer to lifetime ECL, but not credit-impaired	(87)	87	-	-
Transfer to lifetime ECL, credit-impaired	-	-	-	-
New financial assets originated or purchased	2,110	31	-	2,141
Financial assets that have been derecognised*	(1,578)	(33)	-	(1,611)
Net change in loss allowance	(895)	88	-	(807)
Total as at 31 December 2019	**1,759**	**135**	**-**	**1,894**

**Including repayment effect (early repayment)*

Allowances for loans to customers (Note 19) and other financial assets (Note 24) are deducted from the respective assets. Allowance for financial guarantees and other contingencies are recognized within other liabilities (Note 28). Allowances for investment securities do not decrease the value of assets and are recorded in other comprehensive income (Note 20).

7. NET GAIN FROM FOREIGN EXCHANGE OPERATIONS

Net gain from foreign exchange operations comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Dealing, net	11,991	(3,139)
Translation differences, net	794	53,763
Total net gain from foreign exchange operations	**12,785**	**50,624**

8. NET GAIN / (LOSS) FROM TRADING OPERATIONS

Net gain / (loss) from trading operations is as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Net gain / (loss) on derivative financial instruments	21,863	(14,681)
Net gain / (loss) on securities at fair value through profit or loss	13,236	(7,141)
Total net gain/ (loss) from trading operations	**35,099**	**(21,822)**

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2019	Year ended 31 December 2018
Fee and commission income:		
Bank payment card operations	46,096	30,887
Settlement and cash operations with clients	30,980	28,758
Documentary operations	2,319	1,209
Foreign currency operations	415	662
Other	872	887
Total fee and commission income	**80,682**	**62,403**
Fee and commission expenses:		
Bank payment card operations	11,922	9,359
Legal support of banking operations	3,210	2,779
Maintenance of bank accounts	2,545	1,673
Foreign currency operations	473	485
Payments accepted for the bank	298	328
Securities operations	143	370
Documentary operations	138	117
Other	193	215
Total fee and commission expenses	**18,922**	**15,326**

10. NET LOSS ON OPERATIONS WITH PRECIOUS METALS

Net gain on operations with precious metals comprises:

	Year ended 31 December 2019	Year ended 31 December 2018
Financial result from operations with precious metals	297	317
Revaluation of precious metals balance sheet items	(4,729)	(10,037)
Total net loss on operations with precious metals	**(4,432)**	**(9,720)**

11. NET PROFIT ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

During 2019, in order to increase the profitability of retail business operations, the Bank for the first time conducted transactions on the sale of pools of car loans to individuals, under the assignment of claims. Net profit arising from the derecognition of these financial assets, measured at amortised cost, amounted to BYN 3,369 thousand.

Additional information about the transactions mentioned above is disclosed in the note 19.

12. OTHER INCOME

Other income comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Fines and penalties received	2,940	2,247
Fees, received from payment systems	2,332	1,005
Lease payments	1,420	986
Income from disposal of non-current assets held for sale and other property	944	-
Settlement of tax payments	337	253
Dividends	183	227
Other	9,398	510
Total other income	**17,554**	**5,228**

As at 31 December 2019 the other income includes the transactions with related parties at the amount of BYN 8,759 thousand (Note 34).

13. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2019	Year ended 31 December 2018
Payroll expenses	53,064	50,686
Depreciation and amortization	21,035	16,891
Expenses for services of automated interbank and international settlement system	19,333	14,009
Mandatory social insurance contributions	14,191	12,368
Charity and sponsorship expenses	12,700	7,934
Remuneration to the members of the Board of Directors and Revision Committee	9,473	9,561
Contributions to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	7,485	6,381
Expenses on maintenance of banking software	6,279	4,321
Taxes other than income tax	4,354	5,187
Stationery and office expenses	3,174	3,538
Rent and property and equipment maintenance	2,357	3,015
Telecommunications expenses	2,195	1,870
Advertising costs	2,121	1,826
Insurance expenses	1,613	2,584
Security expenses	1,246	1,257
Information and advisory services	1,142	3,061
Disposal of property and equipment, intangible assets, non-current assets held for sale and other property	992	581
Vehicles maintenance and fuel expenses	818	875
Disposal of right-of-use assets	2	-
Other expenses	7,789	5,949
Total operating expenses	**171,363**	**151,894**

14. INCOME TAX

The Bank measures and records its current income tax payable based on its accounting data in accordance with the tax regulations of the Republic of Belarus where the Bank operates. These data may differ from IFRS.

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes. Major sources of non-deductible expenses include non-deductible payments to employees, some insurance and charity payments. Major amounts of non-taxable income relate to operations with securities issued by the Belarusian government, companies and banks.

Deferred tax reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2019 and 31 December 2018 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax and book differences for certain assets and liabilities.

The Bank calculates current income tax based on the statutory tax accounts maintained and prepared in accordance with the Belarusian statutory tax regulations. During the periods ended 31 December 2019 and 31 December 2018 the tax rate for the Bank was 25%.

Tax effect of temporary differences and movement of deferred taxes as at 31 December 2019 and 31 December 2018 are as follows:

	31 December 2019	**Changes in deferred taxes recognized in profits or losses**	**31 December 2018**	**Changes in deferred taxes recognized in profits or losses**	**1 January 2018**
Property, equipment and intangible assets	6,054	7,136	(1,082)	(164)	(918)
Other liabilities	1,494	1,035	459	238	221
Other assets	1,222	(802)	2,024	(554)	2,578
Securities at fair value through profit or loss	142	(1,277)	1,419	1,419	-
Non-current assets held for sale	47	(6)	53	10	43
Investment securities	(10)	-	(10)	-	(10)
Derivative financial instruments	(91)	(812)	721	314	407
Debt securities issued	(159)	(159)	-	(297)	297
Due to banks and other financial institutions	(449)	267	(716)	(299)	(417)
Due from banks and other financial institutions	(481)	58	(539)	243	(782)
Expected credit losses allowance for contingent liabilities	(569)	(218)	(351)	562	(913)
Loans to customers	(608)	(3,313)	2,705	(3,901)	6,606
Deferred tax assets	**6,592**	**1,909**	**4,683**	**(2,429)**	**7,112**

The balance between income tax expenses and accounting profit for the years ended 31 December 2019 and 31 December 2018 is as follows:

	Year ended 31 December 2019	**Year ended 31 December 2018**
Profit before tax	127,443	138,377
	25%	25%
Tax at the statutory tax rate	31,861	34,594
Tax effect of permanent differences:		
Tax effect of income on securities tax consessional under legislation	(16,729)	(10,575)
Tax effect of tax-deductible expenses	9,988	10,149
The effect of changes in the taxable base of fixed assets due to revaluation carried out for tax purposes	(6,813)	-
Tax effect of other permanent differences	(2,402)	300
Income tax expense	**15,905**	**34,468**
Current income tax expenses	17,814	32,071
Charge/(reversal) of deferred income tax recognized in profit or loss	(1,909)	2,397
Income tax expense	**15,905**	**34,468**

15. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash at the correspondent accounts in the National Bank	334,098	353,428
Correspondent accounts and demand deposits	130,823	160,612
Term deposits from the National Bank of the Republic of Belarus with original maturity of up to 90 days	120,175	-
Cash on hand	64,807	79,270
Deposits with banks and other financial institutions with original maturity of up to 90 days	26,016	-
Total cash and cash equivalents	**675,919**	**593,310**

The following table shows information on the credit quality of cash equivalents:

	12-month ECLs	31 December 2019	12-month ECLs	31 December 2018
International rating of AA+	6,098	6,098	22,573	22,573
International rating of AA-	16,570	16,570	900	900
International rating of A+	12,571	12,571	-	-
International rating of A	517	517	1,848	1,848
International rating of A-	211	211	577	577
International rating of BBB+	17,768	17,768	75,945	75,945
International rating of BBB	26	26	-	-
International rating of BBB-	7,840	7,840	1,097	1,097
International rating of BB+	9,778	9,778	15,504	15,504
International rating of BB	-	-	7,904	7,904
International rating of B	509,602	509,602	378,195	378,195
International rating of B-	9,135	9,135	4,168	4,168
International rating of CCC+	20,996	20,996	5,329	5,329
	611,112	**611,112**	**514,040**	**514,040**
Less allowance for losses	-	-	-	-
Total cash and cash equivalents	**611,112**	**611,112**	**514,040**	**514,040**

Information on the Bank's methodology for the calculation of expected credit losses on cash equivalents is presented in Note 38.

16. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Securities at fair value through profit or loss comprise the following trading securities:

	Credit rating as at 31 December 2019	Interest to nominal	31 December 2019	Credit rating as at 31 December 2018	Interest to nominal	31 December 2018
Bonds:						
Bonds of Eurasian Development Bank	BBB+	4.77%-7.75%	158,100	BBB	4.77%-7.75%	112,062
Eurobonds of Development Bank of the Republic of Belarus	B	6.75%	45,261	-	-	-
U.S. Treasury bonds	AAA	2.00%	10,610	AAA	1.88%-2.00%	53,708
Eurobonds of the Republic of Belarus	-	-	-	B	6.20%-7.63%	49,689
Bonds of Russian banks	-	-	-	BBB	8.20%	18,227
Total securities at fair value through profit or loss			**213,971**			**233,686**

Approaches to fair value measurement and the analysis by fair value hierarchy levels are presented in Note 36.

17. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2019, derivative financial instruments comprise:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency forward contracts:			
USD/EUR	USD 251,943,790	424	-
RUB/EUR	RUB 2,769,074,000	63	(42)
USD/RUB	USD 17,000,000	-	(44)
Total foreign currency forward contracts		**487**	**(86)**

	Nominal amount (mass in grams of purchased metal)	Fair value	
		Assets	Liabilities
Precious metals swap contracts:			
XAU/USD	XAU 68,693	349	-
XAU/EUR	XAU 15,419	227	-
XAU/BYN	XAU 58,804	88	(3)
Total metals swap contracts		**664**	**(3)**
Total derivative financial instruments		**1,151**	**(89)**

As at 31 December 2018, derivative financial instruments comprise:

	Nominal amount (in units of purchased currency)	Fair value	
		Assets	Liabilities
Foreign currency forward contracts:			
USD/EUR	USD 182,384,925	371	-
Total foreign currency forward contracts		**371**	**-**

	Nominal amount (mass in grams of purchased metal)	Fair value	
		Assets	Liabilities
Precious metals swap contracts:			
XAU/USD	XAU 1,527,788	2,857	(1,683)
XAU/EUR	XAU 258,817	691	(26)
XAU/BYN	XAU 171,444	604	-
Total metals swap contracts		**4,152**	**(1,709)**
Total derivative financial instruments		**4,523**	**(1,709)**

18. DUE FROM THE NATIONAL BANK OF THE REPUBLIC OF BELARUS, BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from the National Bank of the Republic of Belarus, banks and other financial institutions are represented as follows:

	31 December 2019	31 December 2018
Mandatory reserve deposit with the National Bank of the Republic of Belarus	34,225	29,301
Funds pledged as a collateral	2,072	2,187
Funds provided under repurchase agreement	-	43,698
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**36,297**	**75,186**

As at 31 December 2018 reverse repurchase agreements were concluded with one Belarusian bank for the period of up to two months. The Bank received foreign currency government long-term bonds and bonds of the National Bank as a collateral with the fair value of EUR 17,699 thousand, which is equal to BYN 43,776 thousand.

The following table shows information about the credit quality of amounts due from the National Bank, banks and other financial institutions:

	12-month ECLs	31 December 2019	12-month ECLs	31 December 2018
International rating of AA	1,855	1,855	1,947	1,947
International rating of A	105	105	108	108
International rating of B	34,225	34,225	29,301	29,301
International rating of B-	112	112	43,830	43,830
	36,297	**36,297**	**75,186**	**75,186**
Less allowance for losses	-	-	-	-
Total due from the National Bank of the Republic of Belarus, banks and other financial institutions	**36,297**	**36,297**	**75,186**	**75,186**

Information about the Bank's methodology of calculating expected credit losses for amounts due from the National Bank, banks and other financial institutions is disclosed in Note 38.

19. LOANS TO CUSTOMERS

Loans to customers are represented as follows:

	31 December 2019	31 December 2018
Loans issued	3,419,273	3,146,252
Net investments in finance lease	18,256	24,201
	3,437,529	3,170,453
Less allowance for losses	(109,790)	(100,799)
Total loans to customers	**3,327,739**	**3,069,654**

The table below summarizes the information on the loans by types of borrowers:

	31 December 2019	31 December 2018
Loans to corporate customers	2,760,469	2,616,037
Less allowance for impairment losses	(100,058)	(92,737)
Total corporate loans less allowance for impairment losses	**2,660,411**	**2,523,300**
Loans to individuals	677,060	554,416
Less allowance for impairment losses	(9,732)	(8,062)
Total loans to individuals less allowance for impairment losses	**667,328**	**546,354**

Movements in allowances for impairment losses on loans to customers for the years ended 31 December 2019 and 31 December 2018 are disclosed in Note 6.

As at 31 December 2019, the Bank provided loans to seven customers totaling BYN 722,021 thousand before allowance for impairment losses where the debt of each borrower individually exceeded 10% of the Bank's equity.

As at 31 December 2018, the Bank provided loans to seven customers totaling BYN 741,210 thousand before allowance for impairment losses where the debt of each borrower individually exceeded 10% of the Bank's equity.

Retail portfolio comprises the following products:

	31 December 2019	31 December 2018
Car loans	347,073	216,313
Payment cards	198,614	185,410
Loans on real estate	72,838	67,991
Delay consumer loans	52,376	78,750
Consumer loans	6,036	5,820
Other	123	132
	677,060	554,416
Less allowance for losses	(9,732)	(8,062)
Total loans to individuals	**667,328**	**546,354**

Delay consumer loans represent a program according to which individuals pay by installments for the consumer goods in a number of stores participating in the program.

At the end of 2019 the Bank initiated several transactions with two Belarusian banks and special purpose entity totaling BYN 98,839 thousand on the sale of pools of car loans to individuals under assignment of claims.

The aforementioned operations meet the criteria of termination of financial assets recognition. The contractual counterparties are not under the Bank's control.

The Bank considers that the car loan portfolio meets the criteria of the business model whose objective is achieved by holding the assets to collect contractual cash flows, as the amount of operations on selling of loans were not material and were not carried out on a permanent basis.

The information about the net profit from the termination of recognition of loans, mentioned above, is disclosed in Note 11.

The following table shows information on the credit quality of loans to corporate clients:

	12-month ECLs	Lifetime ECLs for assets that are not credit-impaired	Lifetime ECLs for assets that are credit-impaired	31 December 2019
Loans to corporate customers				
Bank's risk-class of A*	72	-	-	72
Bank's risk-class of B*	767,176	54,618	-	821,794
Bank's risk-class of C*	978,752	459,052	-	1,437,804
Bank's risk-class of E*	105,967	37,876	-	143,843
Bank's risk-class of D*	-	-	142,327	142,327
Not rated*	183,078	4,401	8,894	196,373
Finance lease receivables, corporate customers				
Bank's risk-class of B*	314	-	-	314
Bank's risk-class of C*	3,491	946	-	4,437
Bank's risk-class of E*	-	11,304	-	11,304
Bank's risk-class of D*	-	-	2,200	2,200
Not rated*	1	-	-	1
Total loans to corporate customers	**2,038,851**	**568,197**	**153,421**	**2,760,469**
Less allowance for losses	(6,180)	(4,968)	(88,910)	(100,058)
Total loans to corporate customers	**2,032,671**	**563,229**	**64,511**	**2,660,411**

	12-month ECLs	Lifetime ECLs for assets that are not credit-impaired	Lifetime ECLs for assets that are credit-impaired	31 December 2018
Loans to corporate customers				
Bank's risk-class of A*	371	-	-	371
Bank's risk-class of B*	593,674	18,794	-	612,468
Bank's risk-class of C*	908,634	268,699	-	1,177,333
Bank's risk-class of E*	331,887	113,664	-	445,551
Bank's risk-class of D*	-	-	201,809	201,809
Not rated*	140,572	1,163	12,569	154,304
Finance lease receivables, corporate customers				
Bank's risk-class of A*	29	-	-	29
Bank's risk-class of B*	1,538	-	-	1,538
Bank's risk-class of C*	2,634	396	-	3,030
Bank's risk-class of E*	10,510	8,322	-	18,832
Bank's risk-class of D*	-	-	742	742
Not rated*	30	-	-	30
Total loans to corporate customers	**1,989,879**	**411,038**	**215,120**	**2,616,037**
Less allowance for losses	(9,344)	(3,518)	(79,875)	(92,737)
Total loans to corporate customers	**1,980,535**	**407,520**	**135,245**	**2,523,300**

**The grouping of corporate customers by risk-classes is presented in Note 38.*

Loans to corporate customers that are credit-impaired are as follows:

Loans to corporate customers	**Lifetime ECLs for assets that are credit-impaired**
Gross carrying amount as at 1 January 2018	**222,183**
Classified as lifetime ECLs credit-impaired loans	14,163
Repayments	(22,556)
Write-off of financial assets against allowance created	(4,287)
Other changes	5,617
Gross carrying amount as at 31 December 2018	**215,120**
Classified as 12-month ECLs	(8,933)
Classified as lifetime ECLs not credit-impaired loans	(38,737)
Classified as lifetime ECLs credit-impaired loans	27,352
Repayments	(12,389)
Write-off of financial assets against allowance created	(4,948)
Other changes	(24,044)
Gross carrying amount as at 31 December 2019	**153,421**
Loss allowance as at 1 January 2018	**(86,888)**
Classified as lifetime ECLs credit-impaired loans	(795)
Repayments	2,582
Write-off of financial assets against allowance created	4,287
Other changes	939
Loss allowance as at 31 December 2018	**(79,875)**
Classified as 12-month ECLs	2,261
Classified as lifetime ECLs not credit-impaired loans	6,102
Classified as lifetime ECLs credit-impaired loans	(19,619)
Repayments	10,634
Write-off of financial assets against allowance created	4,948
Other changes	(13,361)
Loss allowance as at 31 December 2019	**(88,910)**
Total credit-impaired loans issued to ocorporate customers as at 31 December 2019	**64,511**

Below is the structure of the Bank's credit portfolio by industries as at 31 December 2019 and 31 December 2018:

	31 December 2019	**31 December 2018**
Analysis by sectors:		
Retail portfolio	677,060	554,416
Trade	545,835	469,010
Chemicals and petrochemicals	354,450	362,238
Investments in real estate	294,125	317,761
Financial and insurance services	248,315	244,623
Gas transportation	208,078	165,666
Oil industry	149,263	182,492
Transport	144,266	148,597
Light industry	126,107	86,722
Metallurgy	117,024	112,600
Other industry	109,494	105,857
Food industry	103,874	119,937
Machinery construction	75,513	67,083
Agriculture	73,474	64,526
Timber industry	30,504	23,915
Construction	26,714	54,679
Communications	19,592	121
Energy industry	4,100	21,584
Media business	2,300	1,729
Other	127,441	66,897
	3,437,529	3,170,453
Less allowance for losses	(109,790)	(100,799)
Total loans to customers	**3,327,739**	**3,069,654**

All loans were granted to companies operating in the Republic of Belarus, which reflects a significant geographical concentration characteristic of the Belarussian banking system on the whole.

The information about the loans by types of collateral is presented in the following table. The information is based on the carrying amount of the loans rather than on the fair value of the collateral:

	31 December 2019	31 December 2018
Loans collateralized by real estate and rights thereto	1,388,116	1,420,104
Loans collateralized by equipment and rights thereto	898,430	536,780
Loans collateralized by liens over receivables	354,151	146,294
Loans collateralized by inventories	180,194	235,703
Loans collateralized by guarantees of legal entities	151,801	67,396
Loans collateralized by credit risk insurance	39,834	64,076
Loans collateralized by sureties of individuals	34,874	55,402
Loans collateralized by cash and guarantee deposit	11,694	309
Loans collateralized by securities	3,307	3,271
Unsecured loans and loans collateralized by other and mixed types of collateral	375,128	641,118
	3,437,529	3,170,453
Less allowance for losses	(109,790)	(100,799)
Total loans to customers	**3,327,739**	**3,069,654**

The table above excludes overcollateralisation. Usually, the Bank revises the estimated value of the collateral for loans with signs of impairment as it is used as input data for calculating expected credit losses as part of credit risk management.

Real estate loans are collateralized by real estate. Car loans are collateralized by cars. The fair value of collateral under real estate and car loans is evaluated at the date of a loan origination and is not adjusted for subsequent changes at the reporting date.

As at 31 December 2019, the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale amounted to BYN 2,632 thousand and BYN 17,395 thousand respectively.

As at 31 December 2018, the cost of repossessed assets accounted for within property and equipment, non-current assets held for sale amounted to BYN 2,648 thousand and BYN 30,588 thousand respectively.

The components of net investments in finance lease as at 31 December 2019 and 2018 are as follows:

	31 December 2019	31 December 2018
Less than 1 year	10,805	11,299
From 1 to 5 years	11,432	18,696
More than 5 years	1,227	932
Minimum payments under financial leases	23,464	30,927
Less: unearned finance income	(5,208)	(6,726)
Net investments in finance lease before allowance	**18,256**	**24,201**
Less allowance for losses	(1,262)	(722)
Total finance lease receivables	**16,994**	**23,479**
Less than 1 year	8,836	7,352
From 1 to 5 years	9,043	16,069
More than 5 years	377	780
Net investments in finance lease before allowance	**18,256**	**24,201**
Less allowance for losses	(1,262)	(722)
Net investments in finance lease	**16,994**	**23,479**

As at 31 December 2019 and 31 December 2018, information about loans to customers is presented in the table below by overdue periods with regard to expected credit losses:

	12-month ECLs	Lifetime ECLs for assets that are not credit-impaired	Lifetime ECLs for assets that are credit-impaired	31 December 2019
Loans to corporate customers measured at amortized cost				
Not overdue	2,037,685	567,173	93,981	2,698,839
Overdue:				
Up to 30 days	1,166	148	9,485	10,799
From 31 to 60 days	-	623	525	1,148
From 61 to 90 days	-	253	7,954	8,207
From 91 to 180 days	-	-	3,261	3,261
Over 180 days	-	-	38,215	38,215
Loss allowance	**(6,180)**	**(4,968)**	**(88,910)**	**(100,058)**
Carrying amount	**2,032,671**	**563,229**	**64,511**	**2,660,411**
Loans to individuals measured at amortized cost				
Not overdue	648,241	-	-	648,241
Overdue:				
Up to 30 days	13,875	-	-	13,875
From 31 to 60 days	-	4,748	-	4,748
From 61 to 90 days	-	2,280	-	2,280
From 91 to 180 days	-	-	3,980	3,980
Over 180 days	-	-	3,936	3,936
Loss allowance	**(3,436)**	**(2,175)**	**(4,121)**	**(9,732)**
Carrying amount	**658,680**	**4,853**	**3,795**	**667,328**
Loans to customers	**2,691,351**	**568,082**	**68,306**	**3,327,739**

	12-month ECLs	Lifetime ECLs for assets that are not credit-impaired	Lifetime ECLs for assets that are credit-impaired	31 December 2018
Loans to corporate customers measured at amortized cost				
Not overdue	1,989,169	409,172	167,737	2,566,078
Overdue:				
Up to 30 days	710	1,365	221	2,296
From 31 to 60 days	-	329	11,427	11,756
From 61 to 90 days	-	172	12	184
From 91 to 180 days	-	-	2,197	2,197
Over 180 days	-	-	33,526	33,526
Loss allowance	**(9,344)**	**(3,518)**	**(79,875)**	**(92,737)**
Carrying amount	**1,980,535**	**407,520**	**135,245**	**2,523,300**
Loans to individuals measured at amortized cost				
Not overdue	534,344	-	-	534,344
Overdue:				
Up to 30 days	10,145	-	-	10,145
From 31 to 60 days	-	2,853	-	2,853
From 61 to 90 days	-	1,562	-	1,562
From 91 to 180 days	-	-	2,828	2,828
Over 180 days	-	-	2,684	2,684
Loss allowance	**(3,383)**	**(1,821)**	**(2,858)**	**(8,062)**
Carrying amount	**541,106**	**2,594**	**2,654**	**546,354**
Loans to customers	**2,521,641**	**410,114**	**137,899**	**3,069,654**

Analysis of the credit quality of loans provided to individuals by classes of loans and overdue periods as at 31 December 2019 and 31 December 2018 is presented as follows:

Loans to individuals assessed collectively	Payment cards	Car loans	Real estate loans	Delay consumer loans	Consumer loans	Other	31 December 2019 Total
Not overdue	182,356	338,149	70,712	50,962	5,939	123	648,241
Overdue:							
Up to 30 days	7,120	5,154	1,145	440	16	-	13,875
From 31 to 60 days	1,678	2,027	857	178	8	-	4,748
From 61 to 90 days	1,344	829	107	-	-	-	2,280
From 91 to 180 days	2,853	678	17	393	39	-	3,980
Over 180 days	3,263	236	-	403	34	-	3,936
Loss allowance	**(7,245)**	**(1,150)**	**(261)**	**(1,044)**	**(32)**	**-**	**(9,732)**
Loans to individuals less allowance for losses	**191,369**	**345,923**	**72,577**	**51,332**	**6,004**	**123**	**667,328**

Loans to individuals assessed collectively	Payment cards	Car loans	Real estate loans	Delay consumer loans	Consumer loans	Other	31 December 2018 Total
Not overdue	170,873	214,792	66,183	76,776	5,588	132	534,344
Overdue:							
Up to 30 days	6,762	1,167	1,477	561	178	-	10,145
From 31 to 60 days	1,929	323	331	239	31	-	2,853
From 61 to 90 days	1,413	-	-	149	-	-	1,562
From 91 to 180 days	2,211	31	-	586	-	-	2,828
Over 180 days	2,222	-	-	439	23	-	2,684
Loss allowance	**(6,067)**	**(121)**	**(80)**	**(1,775)**	**(18)**	**(1)**	**(8,062)**
Loans to individuals less allowance for losses	**179,343**	**216,192**	**67,911**	**76,975**	**5,802**	**131**	**546,354**

20. INVESTMENT SECURITIES

Investment securities are as follows:

	Interest to nominal	31 December 2019	Interest to nominal	31 December 2018
Long-term governmental bonds in foreign currency	3.79%-7.00%	431,524	4.95%-7.50%	248,958
Including pledged under repurchase agreements	*5.5%*	*14,725*	*5.00%-5.50%*	*18,251*
Short-term bonds issued by the National Bank of the Republic of Belarus, BYN	6.9%-7.4%	70,255	-	-
Bonds issued by Belarusian banks, BYN	9.00%	12,773	10.00%	13,072
Including pledged under repurchase agreements	-	-	*10.00%*	*5,164*
Bonds issued by local authorities, BYN	9.00%	1,510	10.00%	1,819
Short-term bonds issued by the National Bank of the Republic of Belarus in foreign currency	-	-	3.00%-4.25%	86,708
Including pledged under repurchase agreements	-	-	*3.00%*	*586*
Other unquoted equity instruments		720		703
Total investment securities		**516,782**		**351,260**

As at 31 December 2019, investments securities available for sale with the fair value of BYN 14,725 thousand were provided as collateral of funds received under repurchase transactions (Note 25) in the amount of BYN 13,202 thousand with the maturities of up to 1 year. The fair value of these securities is equal to their carrying amount.

As at 31 December 2018, investments securities with the fair value of BYN 24,001 thousand were provided as collateral of funds received under repurchase transactions in the amount of BYN 23,847 thousand with the maturity of up to one year (Note 25). The fair value of these securities is equal to their carrying amount.

As at 31 December 2019 and 31 December 2018, a loss allowance on investment securities equal to 12-months expected credit losses was recognized in other comprehensive income amounting to BYN 8,838 thousand and BYN 6,682 thousand respectively.

Information about the credit quality of investment securities is presented in the following table:

	12-month ECLs	**31 December 2019**	**12-month ECLs**	**31 December 2018**
International rating of B	516,062	516,062	350,557	350,557
Not rated	720	720	703	703
Total investment securities measured at FVOCI	**516,782**	**516,782**	**351,260**	**351,260**
Loss allowance	(8,838)	(8,838)	(6,682)	(6,682)
Carrying value - fair value of investment securities measured at FVOCI*	**516,782**	**516,782**	**351,260**	**351,260**

** Debt investment securities at FVOCI are stated at fair value while loss allowance is recognized in OCI.*

21. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale are presented as follows:

	Real estate	**Vehicles and equipment**	**Total**
As at 1 January 2018	**36,202**	**840**	**37,042**
Additions	3,699	790	4,489
Transfer to the property and equipment	(2,185)	-	(2,185)
Disposals	(7,703)	(845)	(8,548)
Decrease	-	(210)	(210)
As at 31 December 2018	**30,013**	**575**	**30,588**
Additions	1,751	18	1,769
Disposals	(14,345)	(415)	(14,760)
As at 31 December 2019	**17,419**	**178**	**17,597**

As at 31 December 2019 and 31 December 2018, non-current assets held for sale includs property (real estate, motor vehicles, equipment), that has been transferred to the Bank to repay loans or obtained by the Bank through repossession of leased items in the amounts of BYN 17,597 thousand and BYN 30,588 thousand, respectively.

As at 31 December 2019 and 31 December 2018, the management of the Bank intends to sell the property classified as non-current assets held for sale. The Bank plans to complete the sale of these assets within the next 12 months.

Under IAS 36 “Impairment of assets” there are no indicators of impairment of the non-current assets held for sale carrying amount.

As at 31 December 2019 and 31 December 2018, non-current assets held for sale include buildings and constructions, which the Bank transferred to the trust management, amounting to BYN 16,738 thousand and BYN 28,188 thousand, respectively.

22. PROPERTY, EQUIPMENT, INTANGIBLE AND RIGHT-OF-USE ASSETS

Property, equipment and intangible assets comprise:

	Buildings and constructions	Computer equipment, furniture and other equipment	Vehicles	Corporate collection of art works	Investments into property, equipment and intangible assets	Intangible assets	Total
Initial cost							
As at 1 January 2018	**81,536**	**58,869**	**3,982**	**14,437**	**10,263**	**42,578**	**211,665**
Additions	-	-	-	-	22,711	-	22,711
Transfers between categories	8,581	7,252	149	2,018	(26,705)	8,705	-
Disposals	(39)	(782)	(149)	-	-	(131)	(1,101)
As at 31 December 2018	**90,078**	**65,339**	**3,982**	**16,455**	**6,269**	**51,152**	**233,275**
Additions	-	-	-	-	24,233	-	24,233
Transfers between categories	2,128	6,285	697	653	(20,485)	10,722	-
Disposals	(1,016)	(1,328)	(592)	(43)	(406)	(349)	(3,734)
As at 31 December 2019	**91,190**	**70,296**	**4,087**	**17,065**	**9,611**	**61,525**	**253,774**
Accumulated depreciation							
As at 1 January 2018	**5,839**	**28,250**	**2,016**	**-**	**-**	**21,964**	**58,069**
Charge for the year	1,184	7,225	508	-	-	7,974	16,891
Transfers between categories	(755)	755	-	-	-	-	-
Written-off on disposal	(5)	(704)	(149)	-	-	(130)	(988)
As at 31 December 2018	**6,263**	**35,526**	**2,375**	**-**	**-**	**29,808**	**73,972**
Charge for the year	1,391	7,940	528	-	-	10,268	20,127
Transfers between categories	-	-	-	-	-	-	-
Written-off on disposal	(34)	(1,395)	(591)	-	-	(349)	(2,369)
As at 31 December 2019	**7,620**	**42,071**	**2,312**	**-**	**-**	**39,727**	**91,730**
Net book value							
31 December 2018	**83,815**	**29,813**	**1,607**	**16,455**	**6,269**	**21,344**	**159,303**
31 December 2019	**83,570**	**28,225**	**1,775**	**17,065**	**9,611**	**21,798**	**162,044**

As at 31 December 2019, the Bank transferred buildings and constructions amounting to BYN 6,151 thousand to the trust management.

Right-of-use assets’ movements for the year 2019 are as follows:

Initial cost	Right-of-use assets
As at 1 January 2019	**2,911**
Additions	184
Disposals	(156)
As at 31 December 2019	**2,939**
Accumulated deprecation	
As at 1 January 2019	**-**
Charge for the year	908
Writen-off on disposal	(154)
As at 31 December 2019	**754**
Net book value	
31 December 2018	**2,911**
31 December 2019	**2,185**

As at 31 December 2019, the future lease payments for lease agreements,recognized as exemptions (short-term leases, leases of a low-value assets), where the Bank is a lessee, amounted to BYN 252 thousand.

23. INVESTMENT PROPERTY

As at 31 December 2019, a building with a total carrying amount of BYN 939 thousand was transferred from the property and equipment to investment property. The building is under the trust management and is in operating lease.

Investment property movements for the year 2019 are as follows:

	Investment property
As st 31 December 2018	**-**
Additions	957
Amortisation	(18)
As at 31 December 2019	**939**

During 2019 the Bank recognized the income in the amount of BYN 1 thousand and the expenses in the amount of BYN 6 thousand from investment property.

As at 31 December 2019, according to IAS 36 “Impairment of assets” there is no indication of impairment of the investment property carrying amount. The fair value of investment property is approximately equal to its carrying amount.

24. OTHER ASSETS

Other assets comprise:

	31 December 2019	31 December 2018
Other financial assets:		
Settlements on Bank payment cards	6,379	7,655
Fee and commission income and penalties accured	3,121	6,873
Receivables from sale of non-current assets held for sale	68	51
Funds in settlements	15,098	3,401
Other debtors	2,178	1,957
Less allowance for losses	(2,824)	(6,426)
Total other financial assets	**24,020**	**13,511**

	31 December 2019	31 December 2018
Other non-financial assets:		
Prepayments for property, equipment and other assets	6,355	3,409
Prepaid expenses and other non-financial assets	804	2,188
Inventories	612	526
Precious metals	496	597
Taxes recoverable and prepaid taxes other than income tax	78	14
Total other assets:	**32,365**	**20,245**

Movements in loss allowance for other assets for the years ended 31 December 2019 and 2018 are disclosed in Note 6.

As at 31 December 2019 the Bank has collected enough information to essess the loan defaults through the allowance matrices and to calculate the expected credit losses. On the basis of migration matrix analysis the group of other financial assets with the overdue of more than 360 days was identified as a default. The difference in expected credit loss essessments is disclosed in Note 38.

Analysis of the credit quality of other financial assets by overdue periods as at 31 December 2019 is presented as follows:

Other financial assets	**Lifetime ECLs for assets that are not credit-impaired**	**Lifetime ECLs for assets that are credit-impaired**	**31 December 2019**
Overdue			
Up to 30 days	2,104	-	2,104
From 31 to 120 days	400	-	400
From 121 to 210 days	394	-	394
From 211 to 360 days	326	-	326
Over 360 days	-	2,143	2,143
No maturity	21,477	-	21,477
Less allowance for losses	**(816)**	**(2,008)**	**(2,824)**
Total other financial assets	**23,885**	**135**	**24,020**

Analysis of the credit quality of other financial assets by overdue periods as at 31 December 2018 is presented as follows:

Other financial assets	**Lifetime ECLs for assets that are not credit-impaired**	**Lifetime ECLs for assets that are credit-impaired**	**31 December 2018**
Overdue			
Up to 30 days	1,959	-	1,959
From 31 to 60 days	421	-	421
From 61 to 90 days	136	-	136
Over 90 days	-	6,365	6,365
No maturity	11,056	-	11,056
Less allowance for losses	**(335)**	**(6,091)**	**(6,426)**
Total other financial assets	**13,237**	**274**	**13,511**

25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2019	31 December 2018
Loans from banks and non-banking financial institutions	653,204	517,536
Syndicated loan	175,607	287,975
Loans from international financial organizations	23,664	38,385
Correspondent and demand accounts of other banks	16,497	25,124
Loans received under repurchase agreements	13,202	23,847
Funds as a collateral	2,135	1,350
Total due to banks and other financial institutions	**884,309**	**894,217**

As at 31 December 2019, loans received under repurchase agreements comprised short-terms loans received from two Belarusian banks with maturities of up to one year that were collateralized by debt securities in foreign currency with the fair value of BYN 14,725 thousand (Note 20).

As at 31 December 2018, loans received under repurchase agreements comprised short-terms loans received from four Belarusian banks with maturities of up to one year that were collateralized by debt securities in BYN with the fair value of BYN 5,164 thousand and in foreign currency with the fair value of BYN 18,837 thousand (Note 20).

As at 31 December 2019, due to banks and other financial institutions included loans from three banks totaling BYN 351,736 thousand that individually exceeded 10% of the Bank's equity, which represents a significant concentration (40% from the total amount).

As at 31 December 2018, due to banks and other financial institutions included loans from three banks totaling BYN 413,437 thousand that individually exceeded 10% of the Bank's equity, which represents a significant concentration (46% from the total amount).

26. DUE TO CUSTOMERS

Due to customers comprise:

	31 December 2019	31 December 2018
Term deposits	1,788,993	2,144,199
Current/settlement accounts and demand deposits	1,221,614	582,525
Total due to customers	**3,010,607**	**2,726,724**

Below are the Bank’s due to customers by industries as at 31 December 2019 and 31 December 2018:

Analysis by sectors:	31 December 2019	31 December 2018
Individuals	1,395,915	1,293,917
Gas transportation	648,454	603,898
Trade	196,189	145,516
Machinery construction	150,133	160,162
Construction	149,888	89,506
Financial and insurance companies	90,117	23,598
Goverment administration	51,067	675
Other industry	43,329	75,368
Transport	42,644	56,081
Chemicals and petrochemicals	40,092	24,446
Investments in real estate	38,562	57,764
Food industry	28,080	15,999
Agriculture	27,653	25,287
Timber industry	15,398	11,798

Analysis by sectors:	31 December 2019	31 December 2018
Oil industry	9,837	9,772
Media business	6,778	4,274
Energy industry	5,102	1,346
Metallurgy	4,650	2,283
Communication	3,873	9,905
Light industry	3,407	5,686
Other	59,439	109,443
Total due to customers	**3,010,607**	**2,726,724**

As at 31 December 2019, due to customers totaling BYN 612,406 thousand (20% of the total) comprised the balances of accounts of one customer, which represents significant concentration.

As at 31 December 2018, due to customers totaling BYN 593,080 thousand (22% of the total) comprised the balances of accounts of one customers, which represents significant concentration.

As at 31 December 2019 and 31 December 2018, due to customers of BYN 22,683 thousand and BYN 7,053 thousand, respectively, were held as collateral against letters of credit, guarantees and loans issued by the Bank.

27. DEBT SECURITIES ISSUED

Debt securities issued are represented by bonds held by individuals and legal entities.

	31 December 2019	31 December 2018
Bonds issued by the Bank and held by legal entities	116,059	-
Bonds issued by the Bank and held by individuals	32,163	50,229
Total debt securities issued	**148,222**	**50,229**

28. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2019	31 December 2018
Other financial liabilities:		
Settlements on other banking operations and accrued expenses	4,980	9,742
Lease liabilities	2,115	-
Loss allowance for financial guarantees and other contingent liabilities	1,894	2,171
Settlements for property and equipment and other assets acquired	1,758	1,757
Total other financial liabilities	**10,747**	**13,670**
Other non-financial liabilities:		
Salary payable to employee	6,314	4,163
Taxes payable other than income tax	2,700	2,060
Payables to the reserves of the State Agency of Guaranteed Compensation of Individual Deposits	2,070	1,712
Other non-financial liabilities	287	231
Total other liabilities	**22,118**	**21,836**

Movements in provision for guarantees and other contingent liabilities for the years ended 31 December 2019 and 31 December 2018 are disclosed in Note 6.

29. SUBORDINATED DEBT

	Currency	Maturity date	Interest rate	31 December 2019	31 December 2018
The subordinated debt from Gazprombank (Joint-stock Company)	Russian roubles	January 2022	5.95%	88,901	81,289
The subordinated debt from PJSC “Gazprom”	Russian roubles	January 2022	8.25%	84,382	77,157
Total subordinated loans				**173,283**	**158,446**

Subordinated debts were raised in January 2015. Payments on this debt are subordinated to repayments of the Bank's other liabilities to all other creditors.

In 2018, PJSC Gazprom and Gazprombank (Joint-Stock Company) converted in equal parts 50% of provided subordinated debts into the Bank’s share capital through acquiring ordinary shares of an additional issue by way of a private placement. In the statement of cash flows this transaction is reflected as non-monetary.

30. SHARE CAPITAL

As at 31 December 2019 and as at 31 December 2018 authorized, issued and fully paid capital of the Bank consisted of 34,812,225,866 ordinary shares and 3,932,200 preference shares with the par value of BYN 0,01 each.

During the year ended 31 December 2018, PJSC Gazprom and Gazprombank (Joint-Stock Company) converted in equal parts 50% of the subordinated debt amounting to BYN 158,804 thousand into the Bank’s share capital, which resulted in the share capital amounting to BYN 535,944 thousand.

Hyperinflation effect accumulated before 31 December 2014 amounts to BYN 187,783 thousand.

All ordinary shares are ranked equally and carry one vote. Preference shares are non-voting. Preference shares are entitled to annual dividends, the amount of which is determinable by annual shareholders meetings, but which may not be less than 1% of the par value.

The decision on payment of dividends is made by the General Meeting of Shareholders upon the recommendation of the Board of Directors. The Bank has no obligation to redeem preference shares, except for the cases provided in the legislation of the Republic of Belarus, as well as cases of voluntary assumption of such obligations.

During the period ended 31 December 2019, the Bank declared dividends for 2018 on ordinary and preference shares in the amount of BYN 57,685 thousand. The amount of declared and paid dividends per one ordinary and one preference share is BYN 0.00166.

During the period ended 31 December 2018, the Bank declared dividends for 2017 on ordinary and preference shares in the amount of BYN 60,498 thousand. The amount of declared and paid dividends per one ordinary and one preference share is BYN 0.00319.

31. EARNINGS PER SHARE

The table below shows earnings and weighted average number of ordinary shares figures used for calculating basic earnings per share.

	Year ended 31 December 2019	Year ended 31 December 2018
Earnings used for calculating earnings per share	111,538	103,909
Weighted average number of ordinary shares used for calculating earnings per share	34,812,225,866	20,255,149,389
Earnings per share (BYN)	0.0032	0.0051

Basic earnings per share are equal to diluted earnings per share.

32. RECONCILIATION OF CHANGES IN LIABILITIES AND CASH FLOWS FROM FINANCING ACTIVITIES

	Loans from international financial organisations	Debt securities issued	Subordinated loans	Syndicated loans
Balance as at 1 January 2018	**69,776**	**77,557**	**351,599**	**-**
Cash flow				
Inflows	-	488,436	-	275,573
Outflows	(34,393)	(524,381)	-	-
Total changes related to cash flows from financing activities	**(34,393)**	**(35,945)**	**-**	**275,573**
Non-monetary changes				
Effect of exchange rate fluctuations	3,176	4,703	(26,937)	15,097
Increase in share capital	-	-	(158,804)	-
Other changes				
Interest paid	(1,658)	(3,262)	(29,458)	(3,773)
Interest accrued	1,484	7,176	22,046	1,078
Balance as at 31 December 2018	**38,385**	**50,229**	**158,446**	**287,975**
Cash flow				
Inflows	23,195	376,611	-	-
Outflows	(35,873)	(280,827)	-	(98,817)
Total changes related to cash flows from financing activities	**(12,678)**	**95,784**	**-**	**(98,817)**
Non-monetary changes				
Effect of exchange rate fluctuations	(1,890)	(1,642)	14,891	(15,374)
Other changes				
Interest paid	(1,822)	(1,818)	(11,499)	(7,282)
Interest accrued	1,669	5,669	11,445	9,105
Balance as at 31 December 2019	**23,664**	**148,222**	**173,283**	**175,607**

Information about the amounts of loans from international financial organizations, as well as the syndicated loan amount is disclosed in Note 25. Information about the amounts of debt securities issued by the Bank is disclosed in Note 27, information on the amounts of subordinated debt is presented in Note 29.

33. DEFERRED FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank becomes a party to financial instruments with off-balance sheet risks for the purpose of meeting the needs of its customers. These instruments, being susceptible to various degrees of credit risk, are not recognized in the statement of financial position.

The Bank's maximum exposure to credit risk on contingent liabilities and loan commitments in the case of other party's failure to execute its obligations and impairment of all counterclaims, collateral or security, is represented by the contractual amounts of those instruments.

As at 31 December 2019 and 31 December 2018, the nominal or contract value of contingent liabilities and loan commitments were as follows:

	31 December 2019	31 December 2018
Contingent liabilities and loan commitments:		
Commitments on loans and unused credit lines, cancellable	588,888	571,604
Guarantees issued and similar commitments, including financial guarantees	89,071	113,379
Letters of credit, not covered	12,736	12,218
Letters of credit that are not covered, the applicant under which is the Bank	1,940	-
Letters of credit, covered	726	28
Total contingent liabilities and loan commitments	**693,361**	**697,229**

Allowance for financial guarantees and other contingencies are recognized within other liabilities (Note 28).

Legal proceedings – In the normal course of business, customers and counterparties can claim against the Bank. The opinion of the Management is that no material losses will be incurred by the Bank as a result thereof and accordingly no provision has been made in these Financial Statements.

Pensions and retirement plans – Employees are entitled to pension benefits in accordance with the laws and regulations of the Republic of Belarus. As at 31 December 2019 and 31 December 2018, the Bank had no liabilities for any supplementary pension payments, post-retirement health care, insurance benefits, or other retirement benefits to its current or former employees.

Legislation - Certain provisions of Belarusian business and tax legislation in particular are subject to varying interpretations and may be applied inconsistently. In addition, since interpretations made by the Management may differ from official interpretations and compliance with law may be challenged by the authorities, the Bank may be subject to additional tax payments and fines and other preventive actions. Management of the Bank believes that the Bank has made all required tax and other payments and accruals, therefore no additional provisions have been created in these Financial Statements. A tax period remains open for review by the tax authorities in subsequent periods.

***Fiduciary management* –** In the course of its ordinary activities the Bank concludes agreements with customers (individuals and corporate clients) for trust management of the customers' assets: as a fiduciary the Bank receives cash for trust management to further acquire or sell investment instruments as instructed by the customers

Assets and liabilities related to trust management are not recognized in the Bank's Financial Statements.

Operating environment – The core operations of the Bank are conducted in the Republic of Belarus. In 2019, while key macroeconomic indicators remain resilient, there has been a slight slowdown of economic growth. The annual GDP growth as at the end of 2019 amounted to 1.2%.

In 2019, a slowdown of inflation was observed. The annual consumer price index amounted to 4.7% with the target figure not exceeding 5% for 2019. Economic activity remained moderate and did not put pressure on inflationary processes. Monetary conditions, reflecting the combined effect of interest rates and exchange rates on the economy, remained generally neutral. The exchange rate trend was stable. At the end of the year, the national currency strengthened against the US dollar by 2.6%.

Due to a high degree of integration, the Belarusian economy is subject to a significant influence of the Russian Federation. In 2019, the Russian economy grew by 1.3%. The greatest impact on the growth of the physical volume of GDP had the increase in the value added by the extractive and processing industries. The overall macroeconomic situation in Russia remained uncertain, which was caused by volatility in raw material markets, geopolitical uncertainty and possibility of new sanctions.

The current sanctions imposed on entities and individuals in the Russian Federation often affect Belarusian businessmen due to a close integration of the two economies. At the same time, the current wording of the U.S. and European Union sectoral sanctions does not provide legal grounds for the application against Belgazprombank of the sectoral sanctions introduced against the key shareholders of the Bank (Gazprom and Bank GPB (JSC)).

In its business activities, the Bank conducts a number of transactions with residents of the Russian Federation, as well as residents of the Republic of Belarus that experience impact on their financial and economic activities from the residents of the Russian Federation. However, the Bank is persuing a prudent policy, maintaining sufficient financial stability cushion to absorb possible risks.

In 2019 the sovereign ratings of the Republic of Belarus assigned by international rating agencies remained unchanged ("B3" by Moody's, "B" by Fitch Ratings and Standard&Poor's). On 14 June 2019 the Bank's rating was confirmed by international rating agency Fitch Ratings at "B" with stable outlook.

34. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The ultimate controlling party of the Bank is the Government of the Russian Federation.

For Financial Statements disclosure purposes the Bank groups its related parties into the following categories:
shareholders;
companies under common control;
key management personnel.

Details of transactions between the Bank and related parties are disclosed below:

	Year ended 31 December 2019				
	Shareholders	**Companies under common control**	**Key management personnel**	**Total**	**Total for Financial Statements item**
Interest income calculated using the effective interest rate method	25	4,948	110	**5,083**	**337,341**
Other interest income	-	4,361	-	**4,361**	**15,205**
Interest expenses	(21,423)	(33,885)	(181)	**(55,489)**	**(170,441)**
Impaiment loss / (recovery) on financial assets	-	(3)	12	**9**	**(10,533)**
Net gain / (loss) from trading operations	17,346	6,044	-	**23,390**	**35,099**
Fee and commission income	17	1,851	7	**1,875**	**80,682**
Fee and commission expenses	(1,034)	(292)	-	**(1,326)**	**(18,922)**
Other income	8,759	-	-	**8,759**	**17,554**
Operating expenses	-	(14)	(16,408)	**(16,422)**	**(171,363)**
salary and other personnel costs	-	-	*(15,613)*		
social security and insurance contributions	-	-	*(795)*		

	Year ended 31 December 2018				
	Shareholders	**Companies under common control**	**Key management personnel**	**Total**	**Total for Financial Statements item**
Interest income calculated using the effective interest rate method	163	7,788	106	**8,057**	**301,953**
Other interest income	-	3,912	-	**3,912**	**10,246**
Interest expenses	(32,000)	(19,650)	(867)	**(52,517)**	**(131,594)**
Impaiment loss / (recovery) on financial assets	-	-	1	**1**	**33,899**
Net gain / (loss) from trading operations	24,410	(4,534)	-	**19,876**	**(21,822)**
Fee and commission income	-	1,920	7	**1,927**	**62,403**
Fee and commission expenses	(2,239)	(226)	-	**(2,465)**	**(15,326)**
Operating expenses	-	(17)	(17,415)	**(17,432)**	**(151,894)**
salary and other personnel costs	-	-	*(16,668)*		
social security and insurance contributions	-	-	*(747)*		

Remuneration of the key management personnel for the years ended 31 December 2019 and 31 December 2018 was represented by short-term remunerations.

The statement of financial position as at 31 December 2019 and 31 December 2018 included the following amounts which arose due to transactions with related parties:

	31 December 2019				
	Shareholders	**Companies under common control**	**Key management personnel**	**Total**	**Total for Financial Statements item**
ASSETS:					
Cash and cash equivalents	3,828	29,287	-	**33,115**	**675,919**
Securities at fair value through profit or loss	-	158,100	-	**158,100**	**213,971**
Derivative financial instruments, assets	181	189	-	**370**	**1,151**
Loans to customers	-	8	763	**771**	**3,327,739**
Including loss allowance	-	-	*(5)*	***(5)***	***(109,790)***
Other assets	2	106	2	**110**	**32,365**
Including loss allowance	-	*(3)*	-	***(3)***	***(2,824)***
LIABILITIES:					
Derivative financial instruments, liabilities	15	71	-	**86**	**89**
Due to banks and other financial institutions	195,803	312,293	-	**508,096**	**884,309**
Due to customers	-	748,387	5,472	**753,859**	**3,010,607**
Term deposits	-	217,840	4,773	**222,613**	**1,788,993**
Current/settlement accounts and demand deposits	-	530,547	699	**531,246**	**1,221,614**
Other liabilities	225	16	1,124	**1,365**	**22,118**
Subordinated debt	173,283	-	-	**173,283**	**173,283**
Contingent financial liabilities	-	1,085	534	**1,619**	**693,361**

	31 December 2018				
	Shareholders	**Companies under common control**	**Key management personnel**	**Total**	**Total for Financial Statements item**
ASSETS:					
Cash and cash equivalents	14,237	43,151	-	**57,388**	**593,310**
Securities at fair value through profit or loss	-	130,289	-	**130,289**	**233,686**
Derivative financial instruments, assets	371	-	177	**548**	**4,523**
Loans to customers	-	10	670	**680**	**3,069,654**
*including loss allowance**	-	-	(17)	**(17)**	**(100,799)**
Other assets	408	525	2	**935**	**20,245**
LIABILITIES:					
Derivative financial instruments, liabilities	-	-	29	**29**	**1,709**
Due to banks and other financial institutions	240,050	340,512	-	**580,562**	**894,217**
Due to customers	50	744,381	31,248	**775,679**	**2,726,724**
Term deposits	-	728,295	30,454	**758,749**	**2,144,199**
Current/settlement accounts and demand deposits	50	16,086	794	**16,930**	**582,525**
Other liabilities	4,386	3	1,292	**5,681**	**21,836**
Subordinated debt	158,446	-	-	**158,446**	**158,446**
Contingent financial liabilities	-	1,508	513	**2,021**	**697,229**

As at 31 December 2019 the Bank reflected contingent financial claims to the related parties against the counter-guarantee at the amount of BYN 10,180 thousand and claims for cash against the banks at the amount of BYN 613 thousand

Transactions with related parties were performed under conditions similar to those with unrelated parties.

Additional information about terms and conditions of transactions with related parties can be found in the following notes: transactions with securities carried at fair value through profit or loss – Note 16; transactions with investment securities – Note 20, transactions with subordinated debt – Note 29.

35. SEGMENT ANALYSIS

To provide the shareholders and management of the Bank with analytical information to make effective management decisions with regard to the business development certain types of the Bank's management statements are prepared with a breakdown by operating segments.

Operating segments of the Bank are:

"Corporate Business" operating segment is the Bank's operating segment that represents activities related to transactions with customers, both entrepreneurs and corporate clients (credit transactions, acquisition and issue of securities, opening of deposits and current accounts, foreign currency transactions, commission and other banking transactions).

"Retail Business" operating segment is the Bank's operating segment that represents activities related to transactions with individuals (credit transactions, issue of securities, opening of deposits and current accounts, foreign currency transactions, commission and other banking transactions).

"Investment and Banking Business" operating segment is the Bank's operating segment that represents activities related to transactions with customers represented by banks and non-banking financial organizations.

Amounts that have not been classified into the above operating segments represent the "Unallocated amounts" category.
The performance of these segments is presented in the form of management statements. The major part of these statements is represented by the financial result and figures with regard to the amount of assets and liabilities.

All income and expenses of the Bank recorded in accounting are analyzed and segmented to form the financial result. There are the following types of income and expenses depending on the applied method of segmentation:

-direct income and expenses that are allocated between the operating segments based on analytical indicators in the Bank's accounting systems;

-allocated income and expenses that are distributed between the operating segments taking into account the selected allocation rule allowing to ensure the maximum accuracy of the distribution with an acceptable level of work efforts;

-transfer income and expenses that are allocated between the operating segments as part of the transfer pricing system based on the funding matrix and internal transfer pricing rules.

Assets and liabilities of the operating segments are presented as a balance report with a breakdown by operating segments. All balance sheet accounts of the Bank are analyzed and segmented to form the balance by operating segments.

Information on profit or losses, assets and liabilities by operating segments for 2019 is presented below:

	31 December 2019	Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
PROFIT OR LOSS:					
Interest income calculated using the effective interest rate method	337,341	187,015	110,190	40,136	-
Other interest income	15,205	2,487	-	12,718	-
Interest expenses	(170,441)	(67,953)	(42,168)	(57,453)	(2,867)
Net interest income	182,105	121,549	68,022	(4,599)	(2,867)
Impaiment loss / (recovery) on financial assets	(10,533)	(3,195)	(5,135)	(2,189)	(14)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON FINANCIAL ASSETS	**171,572**	**118,354**	**62,887**	**(6,788)**	**(2,881)**
Net gain from investment securities at FVOCI reclassified to income statements	882	-	-	882	-
Net gain from foreign exchange operations	12,785	13,590	3,079	(4,039)	155
Net gain/(loss) from trading operations	35,099	1,335	1,990	31,774	-
Fee and commission income	80,682	22,490	58,078	114	-
Fee and commission expenses	(18,922)	(1,402)	(16,213)	(1,306)	(1)
Net loss on operations with precious metals	(4,432)	(2,615)	(1,817)	-	-
Impaiment recovery on off-balance sheet commitments	277	352	(75)	-	-
Net profit arising from the derecognition of financial assets measured at amortised cost	3,369	-	3,369	-	-
Other income	17,554	382	5,222	605	11,345
NET NON-INTEREST INCOME	127,234	34,132	53,633	27,970	11,499
Net operating segment transfer income	-	(47,960)	12,651	5,302	30,007
OPERATING INCOME	**298,806**	**104,526**	**129,171**	**26,484**	**38,625**
OPERATING EXPENSES	**(171,363)**	**(54,067)**	**(71,885)**	**(6,293)**	**(39,118)**
Profit before income tax	127,443	50,459	57,286	20,191	(493)
Income tax expense	(15,905)	-	-	-	(15,905)
NET PROFIT	**111,538**	**50,459**	**57,286**	**20,191**	**(16,398)**
Assets	**4,993,581**	**2,664,822**	**669,562**	**1,397,035**	**262,162**
Liabilities	**4,993,581**	**1,683,663**	**1,405,236**	**962,439**	**942,243**

Information on profit or losses, assets and liabilities by operating segments for 2018 is presented below:

	31 December 2018	Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
PROFIT OR LOSS:					
Interest income calculated using the effective interest rate method	301,953	193,570	80,718	27,665	-
Other interest income	10,246	592	-	9,654	-
Interest expenses	(131,594)	(60,829)	(35,879)	(34,886)	-
Net interest income	180,605	133,333	44,839	2,433	-
Impaiment loss / (recovery) on financial assets	33,899	39,175	(4,437)	(1,520)	681
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES ON FINANCIAL ASSETS	**214,504**	**172,508**	**40,402**	**913**	**681**
Net gain from investment securities at FVOCI reclassified to income statements	3,122	-	-	3,122	-
Net gain from foreign exchange operations	50,624	12,191	17,547	20,886	-
Net gain/(loss) from trading operations	(21,822)	(7,990)	(7,370)	(6,462)	-
Fee and commission income	62,403	19,702	42,628	73	-
Fee and commission expenses	(15,326)	(976)	(13,433)	(913)	(4)

	31 December 2018	Corporate Business	Retail Business	Investment and Banking business	Unallocated amounts
Net loss on operations with precious metals	(4,432)	(2,615)	(1,817)	-	-
Impaiment recovery on off-balance sheet commitments	(9,720)	(1,804)	(7,916)	-	-
Other income	5,228	30	2,940	1	2,257
NET NON-INTEREST INCOME	**75,767**	**23,037**	**33,778**	**16,699**	**2,253**
Net operating segment transfer income	-	(13,272)	13,650	(378)	-
OPERATING INCOME	**290,271**	**182,273**	**87,830**	**17,234**	**2,934**
OPERATING EXPENSES	**(151,894)**	**(62,627)**	**(56,729)**	**(12,630)**	**(19,908)**
Profit before income tax	138,377	119,646	31,101	4,604	(16,974)
Income tax expense	(34,468)	-	-	-	(34,468)
NET PROFIT	**103,909**	**119,646**	**31,101**	**4,604**	**(51,442)**
Assets	**4,542,438**	**2,524,915**	**556,753**	**1,174,981**	**285,789**
Liabilities	**4,542,438**	**1,430,196**	**1,353,707**	**894,435**	**864,100**

The calculation of transfer income and expenses of operating segments is based on the Bank's funding matrix for the reporting period.

The construction of the funding matrix consists in correlating the Bank's liabilities and assets (funding certain assets with certain liabilities) in accordance with a set of certain methodological rules.

Transaction income from an operating segment occurs when the liabilities of that operating segment are used to fund the assets of another operating segment. The transfer expense of an operating segment occurs when the assets of a given operating segment are funded by liabilities of another operating segment.

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Under IFRS the fair value is determined based on the price that would be received to sell an asset, or paid to transfer a liability in an ordinary transaction between market participants at the measurement date.

For financial assets and liabilities carried at amortized cost with short maturities (less than 3 months) it is assumed that the carrying amounts approximates fair value. This assumption is also applied to demand deposits and current accounts without a maturity.

The financial assets and liabilities presented below are classified by the Bank at fair value hierarchy level 3.

Due from the National Bank of the Republic of Belarus, banks and other financial institutions

The fair value of term deposits in banks, according to management, is not significantly different from the carrying value as all deposits are placed with a floating interest rate or a fixed interest rate that corresponds to the market rate.

Loans to customers

Loans to customers have both floating and fixed interest rates.

The fair value of loans with floating rates, according to management, approximates their carrying value.

For loans with fixed rates, there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of loans with a fixed rate does not materially differ from their carrying value.

Due to banks and other financial institutions

Loans from banks and other financial institutions have both floating and fixed interest rates.

The fair value of borrowed funds at floating interest rates, according to management, approximates their carrying value.

For the majority of loans with fixed-rate maturities do not exceed one year. Due to these factors, the fair value of loans with a fixed rate does not materially differ from their carrying value.

Due to customers

Customer deposits have both floating and fixed interest rates.

The fair value of deposits with floating rates, according to management, approximates their carrying value.

For deposits with fixed rates, there is a practice to renegotiate interest rates to reflect current market conditions, as a result, interests on most balances are accrued at rates approximating market rates. Due to these factors, the fair value of deposits with a fixed rate does not materially differ from their carrying value.

Debt securities issued

Debt securities are issued by the Bank at fixed rates. On the whole, the debt financial instruments rates are in line with the market rates. The management believes that the fair value of such instruments does not significantly differ from their carrying values.

Subordinated debt

The fair value of subordinated debt carried at amortized cost is calculated as the present value of cash flows using the relevant market rate for these instruments as at the reporting date.

The following table shows the carrying value of subordinated debt and their fair value:

	Level of the fair value hierarchy	31 December 2098		31 December 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Subordinated debt	Level 3	173,283	171,756	158,446	152,664

The fair value of financial assets and financial liabilities, recognized at fair value on an ongoing basis, and classified by the Bank to hierarchy levels 1 and 2

Some financial assets and financial liabilities of the Bank are recorded at fair value as at the end of each reporting period. The table below provides information on how the fair value of these financial assets and financial liabilities is determined (including valuation techniques used, and the inputs).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2019	31 December 2018				
Derivative financial instruments (assets) (Note 17)	487	371	Level 2	Discounted cash flows. Future cash flows are estimated using the interest rates parity model. The rates for short-term interbank placements nominated in the relevant currency and with relevant maturity periods are applied as rates for the model.	Not applicable	Not applicable
Precious metals derivatives (assets) (Note 17)	664	4,152	Level 2	The net result between the discounted fair value of the claim for cash / precious metals and obligations to supply / pay precious metals / cash. The fair value of claims / liabilities for precious metals is the accounting price of the respective precious metal set by the National Bank of the Republic of Belarus. Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.	Not applicable	Not applicable
Securities at fair value through profit or loss (Note 16)	213,971	233,686	Level 1	Observed instrument quotes.	Not applicable	Not applicable
Investment securities net of equity investments quoted in the domestic market (Note 20)	516,062	350,557	Level 2	Discounted cash flows. Rates are defined as the rates for financial instruments with similar level of risk nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable
Derivative financial instruments (liabilities) (Note 17)	86	-	Level 2	Discounted cash flows. Future cash flows are estimated using the interest rates parity model. Rates are defined as the sovereign risk rates for financial instruments nominated in the relevant currency and with relevant maturity periods.	Not applicable	Not applicable

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Method(s) of assessment and key inputs	Significant unobservable inputs	The dependence of the unobservable inputs and fair value
	31 December 2019	**31 December 2018**				
Precious metals derivatives (liabilities) (Note 17)	3	1,709	Level 2	The net result between the discounted fair value of the claim for cash / precious metals and obligations to supply / payment for precious metals / cash. The fair value of claims / liabilities for precious metals is the accounting price of the respective precious metal set by the National Bank of the Republic of Belarus. Fair value of claims/commitments to receive/deliver cash is determined as a cash flow calculated based on the terms and conditions of the contract.	Not applicable	Not applicable

37. CAPITAL MANAGEMENT

The following table analyzes the Bank's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basel Committee (Basel II):

	31 December 2019	31 December 2018
Composition of regulatory capital:		
Tier 1 capital:		
Share capital	535,944	535,944
Retained earnings	188,562	134,889
Total Tier 1 capital	**724,506**	**670,833**
Subordinated debt	72,024	96,720
Investment securities revaluation reserve	20,832	7,980
Total regulatory capital	**817,362**	**775,533**
Risk weighted assets	4,853,124	4,699,523
Capital adequacy ratios:		
Tier 1 capital	15%	14%
Total capital	17%	17%

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain ratios of Tier 1 capital (4%) and total capital (8%) to total risk weighted assets.

The Bank manages its capital to ensure compliance with legislation requirements and ability to continue as a going concern while maximizing the return to shareholders through the optimization of the debt to equity ratio of the Bank.

The Bank's management reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with quantified assessment of the risks it undertakes (risk-weighted assets). The Bank`s management estimates the amount of capital required to achieve strategic objectives and the planned increase of assets, as well as optimal balance between profitability and capital adequacy, considering requirements of the shareholders, partners of the Bank as well as banking supervisory and regulatory authorities. The Bank performs analysis of risk factors that influence the Bank's capital and optimizes these risks by means of a balanced funding policy.

The National Bank of the Republic of Belarus sets and controls performance of the following requirements to the regulatory capital of the Bank calculated based on the financial information prepared in accordance with the legislation of the Republic of Belarus:

Ratio of Tier 1 fixed capital to risk weighted assets - 4.5% (7.0% taking into account the conservation buffer; 7.0% taking into account the conservation and countercyclical buffers; 8.5% taking into account the conservation, countercyclical and systemic importance buffers).
Ratio of Tier 1 capital to risk weighted assets - 8,5%;
Ratio of regulatory capital of the Bank to risk weighted assets - 10% (12.5% taking into account the conservation buffer);

** the countercyclical buffer is set by the National Bank of the Republic of Belarus within the range from 0 to 2.5%; as at 31 December 2019 and throughout the reporting year this figure was 0 %.*

As at 31 December 2019 and 31 December 2018, the Bank ensured compliance with all external regulatory requirements in relation to capital.

38. RISK MANAGEMENT POLICIES

Risk management is fundamental to the Bank's business. The Bank manages risks in the course of an ongoing process of identification, assessment and monitoring as well as through establishing risk limits and other control measures. The Bank's activities are subject to credit risk, liquidity risk and market risk, which comprises risks associated with changes in interest rates, currency exchange rates, as well as stock prices. The Bank's activities are also subject to operational risks and other non-financial risks (reputational and strategic risks).

Risk management structure

The Board of Directors carries general responsibility over risks identification and control. The Board of Directors ensures general organization of the risk management system, elimination of conflicts of interest and conditions to its occurrence within the risk management process. The Board of Directors approves the risk management system development strategy and the Risk Management and Capital Policies of the Bank, determines the maximum risk exposure in the form of risk appetite which is defined as the acceptable (safe) risk level for ensuring the financial reliability and long-term operation of the Bank on the basis of the strategy, nature, scope and complexity of the types of activity and the financial position. The Risk Committee of the Board of Directors bears responsibility for creating an effective risk management system of the Bank, ensuring the appropriate level of financial reliability and information security, ensuring compliance of the Bank's risk profile with the strategic characteristics of its activity, exercising control over the compliance with the established restrictions (limits) according to the Bank’s risk level (including the risk appetite). The Management Board organizes the Bank's risk management system and ensures that the Bank performs the objectives and goals set forth by the Board of Directors in the relevant sphere. The Management Board and the policy-making committee, within their respective authorities, approve regulations on the management of certain risk types that are developed to implement the Strategy and in compliance with the Risk Management and Capital Policies set forth the procedure and the frequency for the provision of risk reports to the governing bodies, collective bodies of the Bank. The Management Board bears responsibility for the operating effectiveness of the risk management system, for the maintenance of adequate risk profile of the Bank. Committees implement policies for managing certain risk types, set limits and restrictions for certain types of banking operations, financial instruments or operators, exercise control over prescribed risk levels and make decisions aimed at minimizing negative impact of the risks on the Bank’s activities. Credit Committees, Assets and Liabilities Management Committee, the Restructuring Committee make decisions on operations exposed to risks within the authority delegated by the Management Board.

Risk Management Department coordinates the risk management process, develops techniques to assess the level of credit, market, operational, liquidity, reputational and strategic risks, regularly assesses and monitors the specified risks and aggregated risk of the Bank, performs risk stress testing, carries out independent expert review of the credit transactions within the prescribed authority and prepares risk reports for the management of the Bank, shareholders and stakeholders of the Bank. Risk Management Department is independent from subdivisions (officers) of the Bank generating main risks of the Bank, which allows to ensure the provision of complete and accurate information on risk profile of the Bank to the management of the Bank.

Within the internal control system the Internal Audit Department assesses whether methodology and procedures on risk management are fully and effectively implemented, assesses the management effectiveness of certain types of risks and the risk management system of the Bank as a whole.

Departments of the Bank (individual officers) are responsible for risk identification for the lines of business, development and implementation of measures for minimization and operational control over risks related to their operation within the given authority.

As a part of risk management measures the Bank provides employees with powers of attorney which define authority levels that do not require approval of management bodies of the Bank.

Risk assessment and reporting systems

The Bank’s risks are evaluated based on probability-weighted quantitative methods allowing to establish the maximum threshold of possible loss in monetary terms, which will not be exceeded with a certain level of probability. The Bank also simulates the “stress scenarios” which will take place in case unlikely events occur.

A system of limits is in place in the Bank to monitor and control risks. The Bank’s system of limits is multilevel and includes limits for specific counterparties, portfolios, groups of assets and operations of the Bank recognized both in and off the balance sheet, limits on transactions with certain financial instruments, limits on the amount of loss, as well as limits on authorities and structural limitations.

The limits setting policy is based on the prudential ratios set by the National Bank. The main basis for limits setting is the maximum risk appetite, which should not exceed the equity of the Bank.

The management bodies of the Bank make decisions aimed at optimization of risk levels and also set limits on maximum risk for particular activities. They also set maximum risk levels at which the activity bearing the risk is suspended and steps aimed at risk minimization and mitigation are taken. The Assets and Liabilities Management Committee sets limits for divisions of the Bank on certain active and passive operations, interest rate level associated with them, limits on active operations with financial institutions, limits on operations with securities, industry limits of credit risk. Credit Committees approve aggregate limits and sub-limits on certain types of active transactions with corporate clients, limits on the amount of borrowers financing and the terms for financing.

The Management Board distributes and approves maximum risk for various banking activities in accordance with strategic priorities and analysis of the existing trends in the Bank and their possible future changes submitted by Risk Management Department.

Regional offices must adhere to the principles of risk management accepted by the Bank. Control over compliance with the set limits is performed on an on-going basis. Such control is performed by the employees who execute banking transactions in an ordinary course of business, by the Internal Control and Audit Department in the course of audits, by Risk Management Department in the course of risk evaluation and monitoring, by the Reporting Department during preparation of prudential financial statements. External control is carried out by the Revision Commission of the Bank.

Information on all types of activities is examined and processed with the purpose of analysis, control and early risk identification. The information together with relevant commentary is submitted to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank, committees of the Bank responsible for management of certain risks control, and to the managers of departments of the Bank. The reports contain information on the Bank's capital adequacy, risk profile, risk appetite, the levels of aggregate risk and certain risk types, major factors influencing these levels and changes in risk level. The Management Board receives a detailed quarterly report on risks with the information necessary for risks evaluation and decision-making. Additionally, each month the Risks Committee of the Board of Directors is informed on the amount of the economic and available capital of the Bank and on the Bank's capital adequacy.

The system of risk reporting implemented in the Bank enables access of all departments to the accurate information which is required for the management decisions.

Excessive concentration of credit risks

Risk concentration occurs in case a number of counterparties perform similar activities or activities taking place in one geographical region, or parties have similar economic characteristics. As a result of changes in economic, political and other conditions risk concentration has similar impact on the ability of these parties to meet their contractual obligations. Risk concentration reflects relative sensitivity of the Bank's performance to the changes in conditions which have impact on particular industry or geographical region.

In order to avoid excessive risk concentration the Bank's policies and procedures comprise guidelines and limits aimed at maintenance of diversified portfolios, including by the types of active operations, industries, the sources of their resources, currency types.

Credit risk

Credit risk is the risk that the Bank will incur losses in case its clients or counterparties do not meet their contractual obligations. The Bank manages credit risk by setting maximum risk it is ready to accept for certain counterparties, geographical and industry risk concentration, as well as by monitoring compliance with the credit limits set.

Credit risk is managed in three directions: transactions with corporate clients, transactions with retail customers, transactions with financial institutions.

Levels of credit risk assumed are managed by the following procedures:

- segregation of duties between authorized management bodies in decision-making process;
- limits setting for operations with the purpose of credit risk minimization;
- regular analysis of debtors' financial position and their ability to meet credit obligations;
- requirement of collateral for credit operations in order to limit risk exposure;
- constant monitoring of the level and status of the risks taken and preparation of appropriate risk reports to the Board of Directors, Risk Committee of the Board of Directors, Management Board, shareholders of the Bank and other stakeholders;
- evaluating and ensuring capital adequacy necessary for coverage of risks taken by the Bank in the course of business;
- ongoing internal control over adherence to the policies regulating operations, risks assessment and management carried out by the Internal Control and Audit Department.

Off-balance sheet credit commitments represent undrawn portions of credit facilities, guarantees and unsecured letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. In relation to credit risk associated with off-balance sheet financial instruments the Bank potentially carries loss which equals to total amount of unused credit lines. However, the probable amount of loss is less than total amount of unused credit lines since in the majority of cases commitments on loans arise if the clients meet certain creditworthiness indicators. The Bank applies the same credit policy to contingent liabilities as it does to loans, which is based on the procedures of approval of loans granted, setting of risk limits and constant monitoring.

The Bank implemented credit risk escalation procedure for the purpose of early identification and control over credit risks.

The Bank assesses a credit risk on the basis of qualitative and quantitative characteristics of the risk. The qualitative assessment of credit risk by separate transactions is carried out while analyzing the financial statements and non-financial information about the customer (business reputation, competitive position, transparency of the ownership structure, etc.) in interconnection with the required transaction parameters both when credit experts prepare economic reports on the possibility to carry out transactions and when the employees of Risk Management Department carry out independent expert review of the credit transaction risk assessment. The assessment of the quality of loan portfolio is performed on the basis of set credit risk indicators. The Bank carries out quarterly credit risk quantitative evaluation, which is based on the assessment of the probability of the events leading to risk, which allows to assess potential losses. The results of evaluation are submitted to the Credit Committees and the Management Board and are the basis for amendments of the credit policy.

The Bank estimates the amount of loss allowance for loans to corporate customers based on its past loss experience for portfolios of loans, current situation and expectations

Maximum credit risk exposure

For financial assets recognized in the statement of financial position the maximum exposure to credit risk equals to a carrying value of those assets, net of expected credit losses. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on, less expected credit losses.

The maximum amount of credit risk of the Bank may vary significantly depending on individual risks of different assets and general market risks.

The following table presents the maximum exposure to credit risk on financial assets and contingent liabilities.

	31 December 2019	31 December 2018
Cash and cash equivalents (excluding cash on hand)	611,112	514,040
Securities at fair value through profit or loss	213,971	233,686
Derivative financial instruments	1,151	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	36,297	75,186
Loans to customers	3,327,739	3,069,654
Investment securities (excluding unquoted equity investments)	516,062	350,557
Other financial assets	24,020	13,511
Financial guarantees issued and similar commitments	59,571	89,190
Letters of credit not covered by cash	12,685	12,211
Total	**4,802,608**	**4,362,558**

When measuring credit risk and expected credit losses the Bank assesses whether the credit risk of a financial asset has increased significantly since initial recognition.

Significant increase in credit risk

When determining whether the credit risk on a financial asset 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 criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs, which manifests in a decrease of the rating, and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure of a financial asset has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The Bank recognizes a significant increase of credit risk using the following list of qualitative characteristics:

- internal rating of the debtor since initial recognition of a credit liability has decreased by 2 or more levels of the internal credit rating;
- seizure of the debtor’s current accounts (suspension of operations) as at the reporting date;
- existence of overdue amounts payable as at the last reporting quarter date exceeding revenue as at the respective date;
- occurrence of force majeure circumstances stipulated in the contract and other circumstances that have not resulted in the termination of the debtor's operations but leading to doubts with regard to the debtor’s ability to meet its obligations;
- restructuring of debt on a financial asset caused by commercial need (not related to the deterioration of the financial condition of the debtor);
- imposition of sanctions on a counterparty bank by controlling authorities and regulators.

The Bank 's sensitivity to a significant increase in credit risk has decreased almost 2019 year twice. As at 31 December 2018, the impact of the transition of all financial assets assigned by the Bank to the first stage to the second stage in case of realization of any of the criteria indicating a significant increase in credit risk would lead to an increase in the amount of reserves for expected credit losses by BYN 14,704 thousand or 15.7%.

As at 31 December 2019, the impact of the transition of all financial assets assigned by the Bank to the first stage to the second stage would lead to an increase in the amount of reserves for expected credit losses by BYN 7,941 thousand or 7.9%.

As a backstop evidencing a significant increase of credit risk for a financial asset since initial recognition, the Bank considers an overdue debt on principal and interest for the asset from 31 to 90 days , or from 8 to 14 days for assets with counterparty banks and of security issuers. 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.

Impairment of financial instruments

Impairment events include the following factors:

- existence as at reporting date of principal and/or interest amounts payable to the Bank under a contract that are overdue by 90 or more days for corporate customers and individuals and for a period of more than 14 days for counterparty banks and issuers of securities;
- presence of debt on principal on off-balance accounts of the Bank;
- recognition of property in the balance of the Bank to pay off debt;
- non-compliance by a counterparty bank with capital requirements, including capital adequacy requirements established by a regulator;
- loss of a counterparty bank recognized as at two or more quarter dates in a row amounting to more than 25% of the capital as at the last quarter date;
- decrease of the debtor's internal rating to "D" grade;
- restructuring of the debt under a financial asset related to a deteriorated financial position of the debtor;
- the debtor has been recognized as insolvent (bankrupt);
- a claim has been filed to recognize the debtor as insolvent (bankrupt), and the court rendered a decision to initiate legal proceedings on the claim;
- an authorized body of the Bank has decided to early collect the debtor's debt;
- and other.

Definition of default

The Bank considers a financial asset to be in default when:

- the customer has been recognized as insolvent (bankrupt);
- a claim has been filed to recognize the customer as insolvent (bankrupt), and the court rendered a decision to initiate legal proceedings on the claim;
- an authorized body of the Bank has decided to early collect the customer's debt;
- the customer fails to fulfill its obligations to pay the principal and/or interest amounts to the Bank during more than 90 calendar days as at the rating calculation date, and during more than 15 days for assets with counterparty banks and of security issuers;
- an authorized body of the Bank has decided to perform a forced restructuring of the customer's debt due to a write-off of a significant portion of the debt or provision of a grace period for repaying the principal and interest amounts, after which, based on a reasoned conclusion of the authorized body agreed with the risk management department, a decrease of the customer's liabilities under the loan transaction towards the Bank is expected.

Expected credit losses model

For the purpose of creating an allowance for the Bank's financial assets, the Bank applies the expected credit losses model to record changes in credit quality of a financial asset since initial recognition taking into account reasonable and appropriate historical information, factors specific to the debtor, current conditions and future economic situation.

Allowance for credit losses calculated using the expected credit losses model are measured as follows:

- based on 12-months ECLs (12-month ECLs are the portion of the lifetime ECLs that represent expected credit losses arising due to default events related to a financial asset that are possible within 12 months after the reporting date); or
- based on lifetime ECLs in case of a significant increase in credit risk for the instrument since its initial recognition, as well as in case of its impairment.

The Bank defines the following stages depending on the degree of credit risk change since initial recognition:

Stage 1 – “Satisfactory assets” – includes assets that are exposed to credit risk with no indicators of a significant increase in credit risk and impairment (12-months ECLs are calculated);

Stage 2 – “Assets with a significant increase in credit risk” – includes assets that are exposed to credit risk and with indicators of a significant increase in credit risk and with no indicators of impairment (lifetime ECLs are calculated). A financial asset is reclassified into Stage 1 in future periods if there are no indicators of impairment and a significant increase in credit risk. 12-Months ECL are recognized in case of such reclassification.

Stage 3 – “Impaired assets” – includes assets that are exposed to credit risk and with indicators of impairment (lifetime expected credit losses are calculated).

In future reporting periods, migration of financial assets from Stage 3 into Stage 2 or Stage 1 attributable to the restoration of financial assets credit quality is subject to certain restoration criteria, provided there are no indicators of impairment as at the reporting date, and indicators of a significant increase in credit risk exist (for Stage 2) or are absent (for Stage 1).

Measurement of ECLs

The calculation of expected credit losses allowance is made based on the following variables:

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

The following groups of financial instruments are distinguished when measuring expected credit losses:

- cash equivalents;
- loans (to corporate clients and individuals);
- due from the National Bank of the Republic of Belarus, banks and other financial institutions;
- credit related commitments (financial guarantees, letters of credit, undrawn loan facilities etc.);
- accounts receivable and other financial assets;
- claims to sovereign and sub-sovereign debtors.

Loans to individuals

Expected credit losses for loans to individuals are calculated on a portfolio basis. The annual PD for loans to individuals is determined by multiplying month migration matrices by overdue debt developed for a period of at least 12 months preceding the reporting date. For the purpose of calculating PD profiles for multiple years mathematical extrapolation methods are used.

To calculate the amount of default for loans to individuals the level of cash compensation is used. The level of cash compensation after after default is calculated by comparing the principal amounts under defaulted loans with the principal amount as at the default date for the period of at least 3 years and, based on this comparison, the determination of the repayment cash flow for the loan for a year, which is compared to the principal amount upon default after being discounted using the effective interest rate. Based on the data obtained, the average level of cash recovery for defaulted loans is calculated.

EAD represents the expected credit risk exposure upon default included account the Bank’s balance of liabilities to provide cash to debtors as at the default date. For overdraft loans the Bank calculates the loan conversion ratio based on statistical information on the average ratio of the customers’ debt to the overdraft limit for the period of at least 3 years. After that, the ratio is applied to the overdraft limit to calculate EAD.

Loans to corporate customers

The Bank measures expected credit losses for corporate clients’ debt through a collective assessment based on credit debt quality categories.

The collective assessment based on credit debt quality categories is based on the analysis of credit debt servicing quality, as well as on the credit history and other information about the debtor's business, which is available without undue cost or effort, and includes:

- analysis of the credit debt servicing discipline;
- distribution between stages depending on the degree of the credit risk change;
- analysis of property specified as collateral under the loan agreement (property that, according to the expectations of a responsible department employee, is hard to sell in case of the debtor's default is not accepted as collateral);
- forming a professional judgement as to whether a low credit rating for a financial asset can be recognized;
- forming professional judgement as to a rebuttable assumption of a 30 days delay;
- application of professional judgement redistributing financial assets between stages;
- discounting cash flows at the reporting date using a rate that is equal to the effective interest rate for a financial asset;
- calculation of allowance according to the expected credit losses model.

The annual PD is determined based on debtors risk class migration matrices using historical information for at least 1 year, including:

- grouping internal ratings into 5 risk classes: A, B, C, E, D;
- development of matrices for the amount of transfers between the risk classes within 1 year with a breakdown by quarters to calculate the annual PD;
- calculation of the annual PD by dividing the actual amount of transfers for a particular risk class by the total amount for this risk class.

For the purpose of calculating PD profiles for multiple years mathematical extrapolation methods are used.
The grouping of internal ratings into the five risk classes of A, B, C, E, D is performed by the Bank using a compatability table:

Risk class	Debtor's internal rating
A	AAA, AA+, AA, AA-, A
B	A-, BBB+, BBB
C	BBB-, BB+, BB, BB-, B+, B
E	B-, CCC, CC, C
D	D

Where the Bank cannot determine the internal rating of a debtor (due to a lack of financial information about the debtor), PD calculated using overdue amounts migration matrices are used to calculate expected credit losses.

The internal rating of a debtor is determined in accordance with internal methods of the Bank and falls into 20 categories. The rating is determined by comparing the estimated value indicating the possibility of a debt being classified into the "Bad" category, which is calculated by using a model with fixed possibility intervals determined using the following scale for the respective rating grades assigned based on available information.

Discrete value indicating the possibility of a debt being classified into the "Bad" category	Possibility of a debt being classified into the "Bad" category		Internal rating grade	
	Low end	Upper end	Numerical value	Letter identifier
0.09%	0.00%	0.15%	20	AAA
0.21%	0.15%	0.34%	19	AA+
0.46%	0.34%	0.75%	18	AA
1.04%	0.75%	1.68%	17	AA-
2.32%	1.68%	2.58%	16	A+
2.83%	2.58%	3.14%	15	A
3.45%	3.14%	3.83%	14	A-
4.22%	3.83%	4.68%	13	BBB+
5.14%	4.68%	5.71%	12	BBB
6.28%	5.71%	6.97%	11	BBB-
7.66%	6.97%	8.50%	10	BB+
9.35%	8.50%	10.38%	9	BB
11.40%	10.38%	12.66%	8	BB-
13.92%	12.66%	15.45%	7	B+
16.98%	15.45%	18.85%	6	B
20.72%	18.85%	23.00%	5	B-

Discrete value indicating the possibility of a debt being classified into the “Bad” category	Possibility of a debt being classified into the “Bad” category		Internal rating grade	
	Low end	Upper end	Numerical value	Letter identifier
25.28%	23.00%	28.07%	4	CCC
30.85%	28.07%	34.25%	3	CC
37.65%	34.25%	100.00%	2	C
100.00%	100.00%	100.00%	1	D

The approach towards the calculation of the total amount of LGD for a single financial asset is represented by assessing the portion of the asset unrecovered through the expected cash compensation and compensation through the available collateral.

Due from financial institutions

For banks that have been assigned an international rating, the classification is based on such rating. Ratings that were assigned using Moody’s, S&P and Fitch methodologies are taken into account. For banks that have not been assigned an international rating the rating of the country where a bank is a resident, degraded by one position, is used.

The Bank uses the information available to the Bank at the reporting date from external official sources about the level of unfulfilled obligations after the default on the principal debt for funds placed in financial institutions, in order to calculate the amount of loss given default,.

Investment securities

In assessing the impairment of sovereign debtor claims, the S & P rating agency 's annual default probability value corresponding to the rating assigned to the sovereign debtor is used. If the debtor does not have a rating assigned by the international agency S & P, the most current rating of other international agencies, reduced to the rating of the international agency S & P according to the table of compliance, is used.

In order to calculate the amount of loss in case of default on debt securities of financial institutions and sovereign, the Bank uses turnover factors for the year on the respective securities issues.

Other financial assets

As at 31 December 2019 the Bank had accumulated sufficient information to assess the probability of non-recovery and to calculate the expected credit losses by means of estimated reserve matrices representing the ratio of the relevant loss level to outstanding receivables balances in terms of the duration of the debt. The Bank shall apply the matrices of estimated reserves in the valuation of receivables, as well as accrued commission revenues and penalties.

The statute of limitations of the analysed data for calculation of matrices of estimated reserves for other financial assets is accepted not less than 2 years.

Based on the fact that receivables and accrued fee and commission income and penalties are usually of a short-term nature and the repayment of debts under these financial assets is carried out throughout the short-term period - 1 year, the Bank refers to the default event as of the reporting date as the overdue group "360+"

As at 31 December 2018 the Bank used a simplified approach to estimate expected credit losses for other financial assets, and the default event similar to other financial assets was considered the overdue group "90+".

	31 December 2019
Estimates of ECLs of receivables and accrued fee and commission income and penalties as at 31 December 2019	(2,824)
Estimates of ECLs of receivables and accrued fee and commission income and penalties as at 31 December 2018	(3,050)
Difference in estimates	**226**

The difference in estimates of expected credit losses for other financial assets by the Bank is reflected prospectively.

Incorporation of forward-looking information

If necessary, the Bank uses expert judgment to assess forward-looking information from external sources. External sources of information include economic data and forecasts published by state authorities, international organizations, as well as other information sources with a high degree of credibility.

The Bank has determined and documented the list of key factors affecting the credit risk and credit losses assessment for each portfolio of financial assets and, through the analysis of historical data, has analyzed the relationship between macroeconomic variables, credit risk and credit losses.
The key factors include:

- for loans to corporate customers and amounts due from financial institutions: GDP growth projections;
- for loans to individuals: average annual salary amount projections.

To prepare a scenario for macroeconomic indicators, macroeconomic projections data from several sources is used, assigning a specific weight to each of those sources and “optimistic” (30%), “basic” (50%), “negative” (20%) statuses to record expert expectations regarding macroeconomic projections.

As the main sources of scenario modeling of macroeconomic forecasts data of the Decree of the President of the Republic of Belarus "About the statement of the Main directions of monetary policy of the Republic of Belarus for 2020" ("optimistic"), the International Monetary Fund and the Eurasian Development Bank ("negative"), the target scenario of the Ministry of Finance of the Republic of Belarus of National statistical committee of Republic of Belarus ("basic"), are used.The respective weight of the statuses and the sources can be changed by the Bank based on a reasoned judgment.

Taking into account that the credit risk of the Bank is concentrated in the Republic of Belarus, the economic scenarios of the GDP growth and the annual average salary used as at 31 December 2019 included the following values for the Republic of Belarus:

	Value, %	**Scenario, %**
GDP growth rate for 2020	0.3	negative, 20
	1.9	Basic, 50
	2.8	Optimistic, 30

	Value, BYN	**Scenario, %**
Annual average salary for 2019	1,005.4	negative, 20
	1,123.4	Basic, 50
	1,162	Optimistic, 30

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 1-4 years. The effect of predicted macroeconomic factors is taken into account when calculating expected credit losses by adjusting the default probability value by the corresponding macroeconomic factor.

Credit risk is constantly monitored to ensure compliance with established limits in accordance with the risk and capital management policy approved by the Bank and to control the creditworthiness of clients.

Collateral

A major portion of loans is either collateralized or secured with guarantees from institutions or individuals. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are regularly updated regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are presented in Note 19.

The fair value of collateral is measured at the date the loan is issued. Monitoring of the market value of collateral is performed on a regular basis, its results are reported to the management of the Bank.

If necessary, borrowers are requested to provide additional collateral in accordance with the underlying agreement.

Set-off of financial assets and liabilities

Information disclosed in the tables below includes information on financial assets and liabilities that are subject to legally effective master netting agreements or similar agreements applicable to similar financial instruments regardless of whether they are offset in the statement of financial position or not.

Similar financial instruments include repurchase transactions, reverse repurchase transactions, agreements on securities borrowing and lending. Information on such financial instruments as loans and deposits is not disclosed in the tables below, except for the cases when they are set off in the statement of financial position.

The tables below contain financial assets and liabilities that are subject to legally effective master netting agreements or similar agreements as at 31 December 2019 and 31 December 2018:

	31 December 2019			31 December 2018		
Types of financial assets/financial liabilities	**Full amounts of recognized financial assets/financial liabilities**	**Amounts that were not off set in the statement of financial position**	**Net amount**	**Full amounts of recognized financial assets / financial liabilities**	**Amounts that were not off set in the statement of financial position**	**Net amount**
Reverse repurchase agreements, agreements on securities borrowing or similar agreements	-	-	-	43,698	(43,698)	-
Total financial assets	**-**	**-**	**-**	**43,698**	**(43,698)**	**-**
Repurchase agreements, agreements on securities lending or similar agreements	(13,202)	13,202	-	(23,847)	23,847	-
Total financial liabilities	**(13,202)**	**13,202**	**-**	**(23,847)**	**23,847**	**-**

Geographical concentration

The Bank regularly controls the risk associated with changes in legislation, economic development and financial sphere of countries, where the Bank's counterparties reside, and assesses its impact on the activities of the Bank (Note 32). This approach is aimed at minimization of possible losses from investment climate changes in the respective countries. The Assets and Liabilities Management Committee manages country risks of the Bank.

The geographical concentration of financial assets and liabilities is set out below:

	Belarus	CIS	OECD countries	Other countries	31 December 2019 Total
FINANCIAL ASSETS					
Cash and cash equivalents	604,481	17,632	53,771	35	675,919
Securities at fair value through profit or loss	45,261	158,100	10,610	-	213,971
Derivative financial instruments, assets	658	493	-	-	1,151
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	34,338	-	1,854	105	36,297
Loans to customers	3,327,512	35	1	191	3,327,739
Investment securities	516,778	-	4	-	516,782
Other financial assets	12,808	40	11,172	-	24,020
TOTAL FINANCIAL ASSETS	**4,541,836**	**176,300**	**77,412**	**331**	**4,795,879**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	3	86	-	-	89
Due to banks and other financial institutions	108,215	623,883	152,211	-	884,309

	Belarus	CIS	OECD countries	Other countries	31 December 2019 Total
Due to customers	2,887,619	48,299	73,042	1,647	3,010,607
Debt securities issued	148,222	-	-	-	148,222
Other financial liabilities	10,045	326	375	1	10,747
Subordinated debt	-	173,283	-	-	173,283
TOTAL FINANCIAL LIABILITIES	**3,154,104**	**845,877**	**225,628**	**1,648**	**4,227,257**
OPEN POSITION	**1,387,732**	**(669,577)**	**(148,216)**	**(1,317)**	

	Belarus	CIS	OECD countries	Other countries	31 December 2018 Total
FINANCIAL ASSETS					
Cash and cash equivalents	466,977	24,495	101,831	7	593,310
Securities at fair value through profit or loss	49,689	130,289	53,708	-	233,686
Derivative financial instruments, assets	4,054	453	16	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	73,131	-	1,947	108	75,186
Loans to customers	3,069,407	30	18	199	3,069,654
Investment securities	351,256	-	4	-	351,260
Other financial assets	11,565	852	1,094	-	13,511
TOTAL FINANCIAL ASSETS	**4,026,079**	**156,119**	**158,618**	**314**	**4,341,130**
FINANCIAL LIABILITIES					
Derivative financial instruments, liabilities	1,599	110	-	-	1,709
Due to banks and other financial institutions	123,788	631,558	138,871	-	894,217
Due to customers	2,567,457	59,868	97,067	2,332	2,726,724
Debt securities issued	50,229	-	-	-	50,229
Other financial liabilities	9,100	4,421	148	1	13,670
Subordinated debt	-	158,446	-	-	158,446
TOTAL FINANCIAL LIABILITIES	**2,752,173**	**854,403**	**236,086**	**2,333**	**3,844,995**
OPEN POSITION	**1,273,906**	**(698,284)**	**(77,468)**	**(2,019)**	

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.
A system of managing liquidity risks arranged in the Bank helps evaluate probability, causes and effects of changes in time structure of assets and liabilities, as well as take measures aimed at loss minimization and liquidity maintenance in the circumstances indicated. The Bank has developed and approved the authorization system and appointed officers responsible for certain stages of risk management.

The management manages assets and liabilities by taking into account liquidity, risk of simultaneous withdrawal and daily monitoring of future cash flows. The process comprises evaluation of expected cash flows, availability of high-quality collateral, which may be used for obtaining additional funds if required. Short-term liquidity is managed by the Treasury of the Bank, which carries out operations on the money market for the purpose of current liquidity maintenance and future cash flows optimization.

The Bank holds a diversified assets portfolio that can be realized for cash in case of unforeseen termination of cash inflow. The Bank also concluded credit lines agreements which may be used to meet requirements in cash funds. Besides, in accordance with the legislation, the Bank has an obligatory reserve deposit with the National Bank. The amount of the deposit depends on the level of deposits attracted from clients.

The following tables present the analysis of liquidity and interest-rate risks which discloses term to maturity of financial liabilities, calculated for non-discounted cash flows on financial liabilities (principal and interest) at the earliest date when the is liable to redeem the liability. The amounts disclosed in these tables do not reconcile to the amounts recorded in the statement of financial position as the presentation below includes maturity analysis of financial liabilities, that comprise total undiscounted remaining contractual payments (including interest payments).

	Up to 1 month	1-3 months	3 months – 1 year	1 year – 5 years	More than 5 years	31 December 2019 Total
FINANCIAL LIABILITIES						
Interest bearing financial liabilities						
Due to banks and other financial institutions	(72,153)	(127,243)	(411,693)	(297,105)	(10,719)	(918,913)
Due to customers	(969,264)	(180,537)	(777,410)	(719,533)	(61,556)	(2,708,300)
Debt securities issued	(244)	(107)	(537)	(174,791)	-	(175,679)
Subordinated debt	(4,780)	-	(5,207)	(187,777)	-	(197,764)
Total interest bearing financial liabilities	**(1,046,441)**	**(307,887)**	**(1,194,847)**	**(1,379,206)**	**(72,275)**	**(4,000,656)**
Non-interest bearing financial liabilities						
Due to banks	(13,950)	-	(1,700)	-	-	(15,650)
Due to customers	(407,337)	(7,224)	-	(8)	-	(414,569)
Debt securities issued	(1,487)	-	-	-	-	(1,487)
Other financial liabilities	(8,390)	(148)	(786)	(1,063)	(360)	(10,747)
Financial guarantees and similar labilities	(59,571)	-	-	-	-	(59,571)
Letters of credit not covered by cash	(1,874)	(7)	(699)	(10,105)	-	(12,685)
Total non-interest bearing financial liabilities	**(492,609)**	**(7,379)**	**(3,185)**	**(11,176)**	**(360)**	**(514,709)**
TOTAL FINANCIAL LIABILITIES	**(1,539,050)**	**(315,266)**	**(1,198,032)**	**(1,390,382)**	**(72,635)**	**(4,515,365)**
Derivative financial liabilities						**(89)**
Inflow	83,450	690	-	-	-	84,140
Outflow	(83,502)	(702)	-	-	-	(84,204)
Total net cash flows from derivatives	**(52)**	**(12)**	**-**	**-**	**-**	**(64)**

	Up to 1 month	1-3 months	3 months – 1 year	1 year – 5 years	More than 5 years	31 December 2018 Total
FINANCIAL LIABILITIES						
Interest bearing financial liabilities						
Due to banks and other financial institutions	(92,394)	(80,185)	(199,799)	(564,187)	(1,743)	(938,308)
Due to customers	(895,863)	(142,474)	(730,583)	(568,907)	(73,633)	(2,411,460)
Debt securities issued	(802)	(63)	(29,718)	(17,283)	-	(47,866)
Subordinated loans	(4,383)	(1,517)	(4,831)	(181,055)	-	(191,786)
Total interest bearing financial liabilities	**(993,442)**	**(224,239)**	**(964,931)**	**(1,331,432)**	**(75,376)**	**(3,589,420)**
Non-interest bearing financial liabilities						
Due to banks	(14,082)	-	(1,097)	-	-	(15,179)
Due to customers	(254,225)	(38,924)	(97,857)	(7,460)	-	(398,466)
Debt securities issued	(3,858)	-	-	-	-	(3,858)
Other financial liabilities	(13,585)	(22)	(63)	-	-	(13,670)
Financial guarantees and similar labilities	(89,190)	-	-	-	-	(89,190)
Letters of credit not covered by cash	(4,914)	(612)	-	(6,685)	-	(12,211)
Total non-interest bearing financial liabilities	**(379,854)**	**(39,558)**	**(99,017)**	**(14,145)**	**-**	**(532,574)**
TOTAL FINANCIAL LIABILITIES	**(1,373,296)**	**(263,797)**	**(1,063,948)**	**(1,345,577)**	**(75,376)**	**(4,121,994)**
Derivative financial liabilities						**(1,709)**
Inflow	4,159	3,931	9,227	7,631	-	24,948
Outflow	(4,384)	(4,254)	(9,893)	(8,454)	-	(26,985)
Total net cash flows from derivatives	**(225)**	**(323)**	**(666)**	**(823)**	**-**	**(2,037)**

The following table presents an analysis of liquidity risk based on carrying values of financial assets and liabilities based on their expected maturity. Management estimates expected maturity of financial assets and liabilities based on historical data analysis, existence of an active market and other factors affecting the period of assets and liabilities realization/settlement.

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2019 Total
FINANCIAL ASSETS								
Cash and cash equivalents	674,477	1,442	-	-	-	-	-	675,919
Securities at fair value through profit or loss	213,971	-	-	-	-	-	-	213,971
Derivative financial instruments, assets	849	302	-	-	-	-	-	1,151
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	34,225	-	-	-	-	-	2,072	36,297
Loans to customers	169,568	427,812	520,110	1,582,034	585,229	42,920	66	3,327,739
Investment securities	1,325	23,128	159,039	81,138	251,432	-	720	516,782
Other financial assets	22,777	20	15	103	-	105	1,000	24,020
TOTAL FINANCIAL ASSETS	**1,117,192**	**452,704**	**679,164**	**1,663,275**	**836,661**	**43,025**	**3,858**	**4,795,879**
FINANCIAL LIABILITIES								
Derivative financial instruments, liabilities	86	3	-	-	-	-	-	89
Due to banks and other financial institutions	85,764	121,684	396,014	271,687	9,160	-	-	884,309
Due to customers	604,525	177,901	746,177	660,474	56,188	-	765,342	3,010,607
Debt securities issued	1,731	72	17	146,402	-	-	-	148,222
Other financial liabilities	7,559	148	786	1,063	360	-	831	10,747
Subordinated debt	4,519	-	-	168,764	-	-	-	173,283
TOTAL FINANCIAL LIABILITIES	**704,184**	**299,808**	**1,142,994**	**1,248,390**	**65,708**	**-**	**766,173**	**4,227,257**
The gap between assets and liabilities	413,008	152,896	(463,830)	414,885	770,953			
The gap between assets and liabilities, on an accrual basis	413,008	565,904	102,074	516,959	1,287,912			
The gap between assets and liabilities, interest to financial assets on an accrual basis	8,6%	11,8%	2,1%	10,8%	26,9%			

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
FINANCIAL ASSETS								
Cash and cash equivalents	593,310	-	-	-	-	-	-	593,310
Securities at fair value through profit or loss	233,686	-	-	-	-	-	-	233,686
Derivative financial instruments, assets	934	1,659	1,930	-	-	-	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	29,197	14,501	-	-	-	-	31,488	75,186
Loans to customers	115,275	494,924	462,145	1,623,779	361,782	11,749	-	3,069,654
Investment securities	87,605	5,862	43,245	108,055	105,790	-	703	351,260
Other financial assets	12,293	256	16	74	-	153	719	13,511

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
TOTAL FINANCIAL ASSETS	**1,072,300**	**517,202**	**507,336**	**1,731,908**	**467,572**	**11,902**	**32,910**	**4,341,130**
FINANCIAL LIABILITIES								
Derivative financial instruments, liabilities	223	311	529	646	-	-	-	1,709
Due to banks and other financial institutions	106,289	74,930	179,781	531,794	1,423	-	-	894,217
Due to customers	677,158	174,070	805,610	533,828	68,164	-	467,894	2,726,724
Debt securities issued	4,660	36	28,935	16,598	-	-	-	50,229
Other financial liabilities	13,250	22	63	-	-	-	335	13,670
Subordinated debt	4,132	-	-	154,314	-	-	-	158,446
TOTAL FINANCIAL LIABILITIES	**805,712**	**249,369**	**1,014,918**	**1,237,180**	**69,587**	**-**	**468,229**	**3,844,995**
The gap between assets and liabilities	266,588	267,833	(507,582)	494,728	397,985			
The gap between assets and liabilities, on an accrual basis	266,588	534,421	26,839	521,567	919,552			
The gap between assets and liabilities, interest to financial assets on an accrual basis percentage of total amount of finance assets	6,1%	12,3%	0,6%	12,0%	21,2%			

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

Securities at fair value through profit or loss – the expected period of sale of the securities at fair value through profit or loss reported as at 31 December 2019 was determined by the management as less than 1 month since there is an active market where these securities may be sold within a short period of time.

Due to customers – the Bank's liquidity risk management includes estimation of the minimum balance of current (settlement) accounts of customers, i.e. the amounts raised considering stable relationships with customers, which is determined using statistical methods based on historical data of fluctuations in customer accounts balances during 365 days before the reporting date, thus, such minimum balances are included in the "Without maturity" category.

The following table presents the contractual periods of repayment of the mentioned financial statement lines as at 31 December 2019 and 31 December 2018:

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2019 Total
Securities at fair value through profit or loss	11,265	1,709	20,748	159,547	20,702	-	-	213,971
Due to customers	1,369,867	177,901	746,177	660,474	56,188	-	-	3,010,607
The gap between assets and liabilities within contractual periods of repayment	(555,040)	154,605	(443,082)	574,432	791,655			

	Up to 1 month	1-3 months	3 months - 1 year	1 year to 5 years	More than 5 years	Past due	Without maturity	31 December 2018 Total
Securities at fair value through profit or loss	-	2,750	42,928	138,770	49,238	-	-	233,686
Due to customers	1,144,921	174,070	805,610	533,828	68,164	-	131	2,726,724
The gap between assets and liabilities within contractual periods of repayment	(434,861)	270,583	(464,654)	633,498	447,223			

The Bank expects that not all contingent or contractual liabilities will require settlement before maturity. The Management of the Bank believes that it will be able to sell its liquid assets to settle liabilities on due to customers in case of demand for repayment before maturity. Beside that the Management of the Bank believes that if the financing from its counterparty banks decreases the Bank will get support from the shareholders by extending credit line limit to maintain liquidity. The Bank also has access to constant liquidity management instruments of the regulator.

For the purpose of early identification and control over liquidity risk the Bank implemented liquidity risk escalation procedure and developed a plan for business continuity and restoration of its operations in case of a crisis situation (liquidity crisis).

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to market risks of its claims and obligations which are subject to general and specific market fluctuations.

The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits. Market risk includes interest-rate risk, currency risk.

Interest rate risk

Interest-rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate and net interest income will change because of changes in interest rates. This risk arises due to cumulative discrepancy of terms and rate types of the interest bearing assets and liabilities, as well as due to high sensitivity to changes in the interest rates on debt instruments acquired for the purpose of receiving revenues from their resale.

Interest-rate risk is managed by a collective body – The Assets and Liabilities Management Committee. The Committee sets absolute limits for Bank’s operating departments, within which they can operate, and ensures control over the risk of interest rate margin change by monitoring the gap between interest bearing assets and liabilities. The Bank monitors its current financial performance on continuing basis, estimates interest rate sensitivity and its effect on profit and equity.

The effect of interest rate changes on Bank’s comprehensive income is evaluated based on the data about the amount and term of changes in the rates of financial assets and liabilities with variable interest rates, as well as on amounts of assets carried at fair value with fixed interest rate as at reporting date. Additionally the calculation includes the effect of reinvestment of fixed-rate instruments at new market rates as they mature. The estimation follows from the assumption that the Bank’s portfolio structure does not change and is based on “the reasonably possible changes in risk variables”. The level of these changes is determined by the management and is reported to the key management personnel. The following table presents an interest rate sensitivity analysis on the Bank’s comprehensive income at the year horizon. The analysis was based on the parallel shift of the yield curve for all assets and liabilities, the shift was estimated to be equal to 1 percentage point for all financial instruments regardless of their nominal currency. In addition, it was assumed that the change of all types of the interest rates took place at the beginning of the financial year and held constant throughout the reporting period. All other variables were held constant.

	31 December 2019		31 December 2018	
	Interest rate/discount rate 1%	**Interest rate/discount rate -1%**	**Interest rate/discount rate 1%**	**Interest rate/discount rate -1%**
Impact on profit before tax				
Assets				
Cash and cash equivalents	1,843	(1,843)	305	(305)
Securities at fair value through profit or loss *including:*	(5,377)	5,377	(7,026)	7,026
effect on interest income	139	(139)	*108*	*(108)*
effect on change in fair value	(5,516)	5,516	*(7,134)*	*7,134*
Derivative financial instruments, assets, impact on fair value of discount rate change	14	(15)	488	(362)
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	-	-	400	(400)
Loans to customers	21,510	(21,510)	18,738	(18,738)
Investment securities	679	(679)	1,086	(1,086)
Liabilities				
Derivative financial instruments, liabilities, impact on fair value of discount rate change	1	(2)	167	(303)
Due to banks and other financial institutions	(5,128)	5,128	(3,022)	3,022
Due to customers	(14,007)	14,007	(13,782)	13,782
Debt securities issued	(113)	113	(229)	229
Impact on profit before tax	**(578)**	**576**	**(2,875)**	**2,865**
Impact on other comprehensive income:				
Investment securities, impact on fair value of discount rate change	(15,296)	16,248	(9,768)	10,388
Impact on comprehensive income after taxation	**(16,361)**	**17,312**	**(13,145)**	**13,758**

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's financial position and cash flows are exposed to foreign currency exchange rate fluctuations.

Asset and Liability Management Committee manages the currency risk by limiting the open currency position on the basis of the estimated devaluation of the national currency and other macroeconomic indicators. The Treasury Department performs daily control over the open currency position of the Bank to ensure its compliance with the limits.

The Bank performs quantitative assessment of the currency risk using Value-at-Risk model. The assessment results are regularly reported to the management and are used for management decisions.

The Bank's exposure to currency risk is as follows:

	BYN	USD 1USD= BYN 2.1036	EUR 1EUR= BYN 2.3524	RUB 1RUB= BYN 0.034043	Other currencies	31 December 2019 Total
FINANCIAL ASSETS						
Cash and cash equivalents	479,619	62,202	88,288	44,302	1,508	675,919
Securities at fair value through profit or loss	-	192,614	-	21,357	-	213,971
Derivative financial instruments, assets	1,151	-	-	-	-	1,151
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	34,337	106	1,854	-	-	36,297
Loans to customers	1,211,399	482,935	1,327,046	306,359	-	3,327,739
Investment securities	85,260	270,899	160,623	-	-	516,782
Other financial assets	11,183	346	12,278	213	-	24,020
TOTAL FINANCIAL ASSETS	**1,822,949**	**1,009,102**	**1,590,089**	**372,231**	**1,508**	**4,795,879**
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	89	-	-	-	-	89
Due to banks and other financial institutions	134,763	62,689	471,869	214,988	-	884,309
Due to customers	952,757	1 491,081	472,184	79,434	15,151	3,010,607
Debt securities issued	116,059	14,702	17,461	-	-	148,222
Other financial liabilities	7,751	1,136	1,446	414	-	10,747
Subordinated debt	-	-	-	173,283	-	173,283
TOTAL FINANCIAL LIABILITIES	**1,211,419**	**1,569,608**	**962,960**	**468,119**	**15,151**	**4,227,257**
CURRENCY POSITION	**611,530**	**(560,506)**	**627,129**	**(95,888)**	**(13,643)**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts.

	BYN	USD 1USD= BYN 2.1036	EUR 1EUR= BYN 2.3524	RUB 1RUB= BYN 0.034043	Other currencies	31 December 2019 Total
Claims on derivative financial instruments and spot contracts	40	565,750	-	94,268	14,610	674,668
Liabilities on derivative financial instruments and spot contracts	5,976	6,681	624,736	35,845	-	673,238
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**(5,936)**	**559,069**	**(624,736)**	**58,423**	**14,610**	
TOTAL CURRENCY POSITION	**605,594**	**(1,437)**	**2,393**	**(37,465)**	**967**	

	BYN	USD 1USD= BYN 2.1598	EUR 1EUR= BYN 2.4734	RUB 1RUB= BYN 0.031128	Other currencies	31 December 2018 Total
FINANCIAL ASSETS						
Cash and cash equivalents	308,263	85,959	178,588	19,223	1,277	593,310
Securities at fair value through profit or loss	-	196,671	-	37,015	-	233,686
Derivative financial instruments, assets	4,523	-	-	-	-	4,523
Due from the National Bank of the Republic of Belarus, banks and other financial institutions	29,433	2,055	43,698	-	-	75,186
Loans to customers	1,059,719	579,928	1,179,844	250,163	-	3,069,654
Investment securities	15,594	302,636	33,030	-	-	351,260
Other financial assets	8,214	1,150	3,911	236	-	13,511
TOTAL FINANCIAL ASSETS	**1,425,746**	**1,168,399**	**1,439,071**	**306,637**	**1,277**	**4,341,130**

	BYN	USD	EUR	RUB	Other currencies	31 December 2018
FINANCIAL LIABILITIES						
Derivative financial instruments, liabilities	1,709	-	-	-	-	1,709
Due to banks and other financial institutions	117,097	70,749	631,466	74,905	-	894,217
Due to customers	760,831	1,363,960	389,063	38,781	174,089	2,726,724
Debt securities issued	-	31,830	18,399	-	-	50,229
Other financial liabilities	6,931	307	4,985	1,433	14	13,670
Subordinated debt	-	-	-	158,446	-	158,446
TOTAL FINANCIAL LIABILITIES	**886,568**	**1,466,846**	**1,043,913**	**273,565**	**174,103**	**3,844,995**
CURRENCY POSITION	**539,178**	**(298,447)**	**395,158**	**33,072**	**(172,826)**	

Derivative financial instruments and spot contracts with foreign currency

Fair value of derivative financial instruments with foreign currency is included in the presented currency analysis. The following table presents further analysis of currency risk on derivative financial instruments and spot contracts.

	BYN	USD 1USD= BYN 2.1598	EUR 1EUR= BYN 2.4734	RUB 1RUB= BYN 0.031128	Other currencies	31 December 2018 Total
Claims on derivative financial instruments and spot contracts	-	393,915	-	-	173,659	567,574
Liabilities on derivative financial instruments and spot contracts	(14,735)	(135,219)	(415,660)	-	-	(565,614)
NET DERIVATIVE FINANCIAL INSTRUMENTS AND SPOT CONTRACTS POSITION	**(14,735)**	**258,696**	**(415,660)**	**-**	**173,659**	
TOTAL CURRENCY POSITION	**524,443**	**(39,751)**	**(20,502)**	**33,072**	**833**	

Currency risk sensitivity

The degree of influence of changes in the main foreign currencies exchange rates on the Bank's financial result is used by the Bank when preparing reports on the currency risk for key management personnel considering changes in risk variables.

The following tables detail the Bank's sensitivity to a decrease and an increase of USD, EUR and RUB against the national currency as at 31 December 2019 and 31 December 2018. The mentioned currency exchange rates changes represent management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency amounts as at the period end that were translated as at the period end using the rates adjusted for the expected amount as compared to the effective rates.

	As at 31 December 2019		**As at 31 December 2018**	
	BYN/USD	**BYN/USD**	**BYN/USD**	**BYN/USD**
	6,5%	**-1,0%**	**20%**	**-10%**
Effect on profit before tax	(107)	17	(7,854)	680
Effect on comprehensive income after taxation	(80)	13	(5,891)	510

	As at 31 December 2019		**As at 31 December 2018**	
	BYN/EUR	**BYN/EUR**	**BYN/EUR**	**BYN/EUR**
	8.5%	**-1,0%**	**20%**	**-10%**
Effect on profit before tax	196	(23)	(4,095)	2,048
Effect on comprehensive income after taxation	147	(17)	(3,071)	1,536

	As at 31 December 2019		As at 31 December 2087	
	BYN/RUB	**BYN/RUB**	**BYN/RUB**	**BYN/RUB**
	2,6%	**-1,0%**	**20%**	**-10%**
Effect on profit before tax	(976)	376	6,614	(3,307)
Effect on comprehensive income after taxation	(732)	282	4,961	(2,480)

Limitations of sensitivity analysis

The above interest-rate risk and currency risk sensitivity analysis demonstrates the effect of a change in a key assumption mentioned above, while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and the results obtained should not be interpolated or extrapolated.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary depending on changes in the market. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative price fluctuations in the securities market, management actions could include selling investments, changing investment portfolio composition and taking other protective actions Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets held at market value on the balance sheet may be affected significantly. In these circumstances, different measurement bases for liabilities and assets may lead to significant volatility in equity.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty. The assumption that all interest rates change similarly also constitutes a limitation.

Operational risk

The Bank is subject to operational risk at all stages of its activity. Operational risk is the risk of loss and (or) additional expenses arising from non-compliance of procedures specified by the Bank's internal regulations for banking operations and other transactions with legislation or breach thereof by employees, incompetence or human error, software and systems failure or external events.

To collect information on operational risk events the Bank maintains a corresponding database. It reflects data on operational loss nature and amount with a breakdown by the Bank's activities, certain banking operations (processes), circumstances for occurrence and detection thereof.

The Bank performs assessment of operational risk to analyze operational risk condition and make correct management decisions.

Proactive methods of operational risk management in the Bank include maintaining operational risks register, using key operational risk indicators system, applying operational risk escalation procedures, using the developed scenarios and persuing effective procedures of the operational risk escalation as well as self-assessment and risk-audit procedures.

The Bank performs regular stress tests of operational risk to assess the resistance to realization of rare but plausible catastrophic events. The risk assesstment and stress test results are submitted to the Management Board for managerial decision-making.

39. EVENTS AFTER THE REPORTING DATE

The adjusting events after the reporting period are absent.

The Bank notes the following non-adjusting events after the reporting period:

- According to the National Bank of the Republic of Belarus, the basic year-on-year inflation in January 2020 amounted to 4,7%;
- As of 19 February 2020, the National Bank of the Republic of Belarus decreased refinance rate from 9 to 8,75%.

These non-adjusting events are not expected to have a significant impact on the Bank's activity.