OJSC "Paritetbank"

Financial statements in accordance with International Financial Reporting Standards and Independent auditor's report

For the year ended
31 December 2019

Contents

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INDEPENDENT AUDITOR'S REPORT

To the National Bank of the Republic of Belarus,
To the Shareholders, Supervisory Board, Management
of the Open joint-stock company "Paritetbank",
Ref. number: 04-05/76
Date: 16 June 2020

Information about the auditee:

Name: Open joint-stock company "Paritetbank"
(abbreviated name - OJSC "Paritetbank")
Location: Republic of Belarus, 220002, Minsk, 61a Kiseleva str.
Information about state registration: Open joint-stock company "Paritetbank" was registered by the National Bank of the Republic of Belarus on 15 May 1991, registration number 100233809
Payer's identification number: 100233809

Opinion

We have audited the accompanying financial statements of OJSC "Paritetbank" (hereinafter - "the Bank"), which comprise:

- The statement of financial position as at 31 December 2019;
- The statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- Notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects the financial position of OJSC "Paritetbank" as at 31 December 2019, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter - "IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (hereinafter - "ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report. We are independent of OJSC "Paritetbank" in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our responsibilities under those requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the auditee in accordance with the legislation and the ethics standards.

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

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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. Each matter specified below includes the information on how the corresponding matter had been addressed during our audit.

We met all the obligations described in the Auditor's Responsibilities for the Audit of the Financial Statements section of this report including those related to the matters specified. Therefore, our audit engaged implementation of the procedures elaborated in response to our risk assessment of material misstatements in the financial statements. The results of audit procedures, including those performed while considering the matters referred to below, form the basis for our opinion on the accompanying financial statements.

Allowance for impairment of loans to customers, as well as allowance for credit related commitments

Due to the materiality of the allowance for impairment of loans to customers and credit related commitments for the financial position of the Bank, as well as due to the complexity and necessity of applying judgements in estimating expected credit losses in accordance with the IFRS 9 standard, this matter is a key audit matter.

In order to determine a significant increase in credit risk from the date of initial recognition, both on an individual and on a portfolio basis, and to calculate expected credit losses ("ECL") judgment must be applied. The assessment of the increase in credit risk is based on the relative change in credit ratings, the length of past due debt and other objective and subjective factors. The selection of thresholds at which the increase in credit risk is considered significant, such as the amount of credit rating deterioration, is also subjective.

During our audit, we paid particular attention to the following:

- assessment of the credit risk models and assumptions used to determine the key parameters of the reservation and expected credit losses for the portfolio;
- assessment of Management's judgment on the identification of significant increases in credit risk on an individual and portfolio basis, using quantitative and qualitative criteria;
- testing expected future cash flows, including collateral cash flows, with respect to significant impairment loans to customers and credit related commitments.

Our audit procedures included an assessment of the methodology for calculating expected credit losses developed by the Bank in accordance with IFRS 9 to assess allowances for impairment of loans to customers and credit related commitments.

The ECL calculation includes valuation methodologies that use significant unobservable inputs and factors, such as internal credit ratings, as well as complex statistical modelling and expert judgment. These methodologies are used to determine the probability of default, the value of the credit claim under the risk of default and the level of loss in case of default on the basis of available historical data and external information adjusted to projections, including projected macroeconomic variables.

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Key audit matters (ending)

The calculation of expected credit losses for significant financial assets that have been impaired on a case-by-case basis requires analysis of financial and non-financial information and a broad use of assumptions. Estimation of future cash flows is based on significant unobservable inputs such as current and projected borrower financial performance, collateral cost and probability assessment of possible scenarios. The use of other modeling methodologies, assumptions and projections may lead to substantially different estimates of the allowance for expected credit losses.

Information on the allowance for expected credit losses in respect of loans to customers and credit related commitments is provided in Note 10 "Loans to customers", Note 20 "Commitments, and contingent liabilities and assets", Note 24 "Risk management" to the financial statements.

We have assessed the reasonableness of the credit risk factors and thresholds selected by Management to determine a significant increase in credit risk on an individual and portfolio basis. We have evaluated the consistency of the application of criteria selected by Management at the reporting date.

When testing the impairment calculated on a portfolio basis, we have analyzed the underlying statistical models, key inputs and assumptions, used to calculate expected credit losses. For selected material loans, we have checked internal credit ratings, credit risk factors and stage classification. With respect to our selection of material impaired corporate loans, we, together with valuation experts, have reviewed assumptions about future cash flows, including the cost of collateral and probability of possible scenarios. We have reviewed the results of the Bank's subsequent testing of the models used for IFRS 9.

We have also examined the disclosures in the Bank's financial statements regarding the allowance for expected credit losses on loans to customers and credit related commitments.

Other matters

The audit of the financial statements of OJSC “Paritetbank” for the year ended 31 December 2018 was conducted by another auditor, which expressed an unqualified audit opinion on the financial statements in the audit report dated 11 June 2019.

Responsibilities of the Auditee for the Preparation of the Financial Statements

The Management of the auditee is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 and (or) error.

In preparing the financial statements, the Management is responsible for assessing the ability of the auditee to continue as a going concern and the appropriateness of applying the going concern principle, as well as the proper disclosure in the financial statements, where appropriate, of information on going concern, except for cases where Management intends to liquidate the auditee, to terminate its activities, or where it does not have any viable alternative other than liquidation or termination of activity.

Those charged with governance are responsible for the supervision of the preparation of audite's financial statements.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the financial statements are free from material misstatement, whether due to fraud and (or) error, and to issue an auditor's report that includes our opinion expressed in the prescribed form. Reasonable assurance forms a high level of assurance, but it does not guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise due to fraud and (or) error and are considered material if, individually or taken together, they could reasonably be expected to influence the economic decisions of the users of these financial statements taken on its basis.

As part of audit conducted in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud and (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 the internal control system relevant to the audit of the financial statements 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 internal control system;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures of the financial statements made by the auditee;
- 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 auditee'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 auditee to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements (ending)

From the matters communicated with those charged with governance, we determine the key audit matters and describe these matters in our auditor's report (unless law or regulation precludes public disclosure about the matter or when we determine that the adverse consequences of such disclosure would reasonably be expected to outweigh the public interest benefits of such communication).

Deputy Director for Audit		Natalia Lyakhovchenko
Auditor-in-charge		Margarita Rassolko

Auditor's report date: 16 June 2020

Place of issue: Minsk, Republic of Belarus

Date of receipt by the auditee: 16 June 2020

INFORMATION ABOUT THE AUDITOR:

Name:	BDO Limited Liability Company
Location:	8 Pobediteley ave., floor 8, office 7, Minsk, 220020, Republic of Belarus
Information on state registration:	Certificate on the state registration was issued by Minsk City Executive Committee dated 15 November 2013
Payer's identification number:	190241132

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STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian rubles)

	Notes	31 December 2019	31 December 2018
ASSETS:			
Cash and cash equivalents	6	69,285	72,735
Due from banks	7	3,770	653
Securities	8	112,981	129,851
Derivative financial assets	9	139	44
Obligatory provisions in the National Bank of the Republic of Belarus		3,259	4,106
Loans to customers	10	249,246	222,983
Long-term assets held for sale	11	241	111
Property and equipment	12	29,796	27,869
Intangible assets	13	3,339	954
Deferred assets on income tax	14	269	820
Current income tax requirements		434	533
Other assets	15	2,066	1,808
TOTAL ASSETS		**474,825**	**462,467**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	16	48,367	98,279
Derivative financial liabilities	9	-	25
Due to customers	17	300,565	239,167
Debt securities issued	18	6,674	12,035
Other liabilities	15	5,863	2,012
TOTAL LIABILITIES		**361,469**	**351,518**
CAPITAL:			
Share capital	19	153,754	153,754
Own redeemed shares		(136)	(136)
Reserve for revaluation at fair value of investments measured at fair value through other comprehensive income		1,759	338
Accumulated loss		(42,021)	(43,007)
TOTAL EQUITY		**113,356**	**110,949**
TOTAL LIABILITIES AND EQUITY		**474,825**	**462,467**

The notes on pages 14 to 71 form an integral part of these financial statements.

Chairman of the Management Board
I. Katibnikov
16 June 2020
Minsk

Республиканское акционерное общество «ПАРИТЕТБАНК» г. Минск

Chief Accountant
E. Scriba
16 June 2020
Minsk

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Belarusian rubles)

	Notes	2019	2018
INTEREST INCOME			
Interest income on financial assets recorded at amortized cost			
Loans to customers		27,798	20,614
Due from banks		220	740
Securities		518	205
Interest income from financial assets recorded at fair value through other comprehensive income			
Securities		5,944	5,028
Interest income from financial assets recorded at fair value through profit or loss			
Securities		-	1,731
INTEREST EXPENSES			
Interest expenses on financial liabilities recorded at amortized cost			
Due to customers		(6,718)	(4,707)
Due to banks		(8,616)	(5,409)
Debt securities issued		(1,320)	(569)
NET INTEREST INCOME		17,826	17,633
Allowance for loan impairment	10	(3,519)	(1,493)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOAN IMPAIRMENT		14,307	16,140
Net commission income	21	3,867	3,540
Net income from securities transactions		3,423	(1,705)
Net gain from foreign currency transactions:			
- trade transactions		7,174	3,402
- revaluation of currency items		(1,327)	1,052
Net income from transactions with derivative financial instruments		(12)	(15)
Other income	22	3,810	4,757
NON-INTEREST INCOME		16,935	11,031
Personnel expenses	23	(13,775)	(9,815)
Depreciation and amortization	12, 13	(2,594)	(1,601)
Other operating expenses	23	(12,359)	(11,859)
Other income/(expenses) from impairment and allowance creation	6,7,11,15	(1,057)	(373)
NON-INTEREST EXPENSES		(29,785)	(23,648)
PROFIT BEFORE INCOME TAX EXPENSE		1,457	3,523
Income tax benefit	14	(468)	(353)
PROFIT FOR THE YEAR		989	3,170

The notes on pages 14 to 71 form an integral part of these financial statements.

Chairman of the Management Board
I. Katibnikov
16 June 2020
Minsk

«ПАРИТЕТБАНК»

Chief Accountant
E. Scriba
16 June 2020
Minsk

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

	Notes	2019	2018
PROFIT FOR THE YEAR		989	3,170
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to profit or loss			
Changes in fair value of financial assets		1,343	(147)
Change in deferred income tax recognized in equity		-	37
Change in the allowance for impairment on securities measured at fair value through other comprehensive income		78	107
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,410	3,167

The notes on pages 14 to 71 form an integral part of these financial statements.

Chairman of the Management Board
I. Katibnikov
16 June 2020
Minsk

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

Chief Accountant
E. Scriba
16 June 2020
Minsk

OJSC "PARITETBANK"

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

	Notes	Share capital	Own redeemed shares	Accumulated loss	Reserve for revaluation at fair value of investments measured at fair value through other comprehensive income	Total equity
31 December 2017		153,754	(136)	(46,722)	(26)	106,870
Effect of the first-time adoption of IFRS 9 as at 1 January 2018		-	-	548	367	915
Restated balance as at 1 January 2018		153,754	(136)	(46,174)	341	107,785
Comprehensive income						
Profit for the year		-	-	3,170	-	3,170
Other comprehensive income for the year		-	-	-	(3)	(3)
Total comprehensive income for the year		-	-	3,170	(3)	3,167
Transactions with shareholders						
Dividends declared	19	-	-	(3)	-	(3)
As at 31 December 2018		153,754	(136)	(43,007)	338	110,949
Comprehensive income						
Profit for the year		-	-	989	-	989
Other comprehensive income for the year		-	-	-	1,421	1,421
Total comprehensive income for the year		-	-	989	1,421	2,410
Transactions with shareholders						
Dividends declared	19	-	-	(3)	-	(3)
As at 31 December 2019		153,754	(136)	(42,021)	1,759	113,356

The notes on pages 14 to 71 form an integral part of these financial statements.

Открытое акционерное общество «ПАРИТЕТБАНК» Республика г. Минск

Chairman of the Management Board
I. Katibnikov
16 June 2020
Minsk

Chief Accountant
E. Scriba
16 June 2020
Minsk

OJSC "PARITETBANK"

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

	Notes	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expense	14	1,457	3,523
Adjustments to:			
Depreciation and amortization	12, 13	2,594	1,601
Creation of an allowance for loan impairment	10	3,519	1,493
Creation of an allowance for impairment of other assets	6,7,11,15	1,057	373
(Profit)/loss on disposal of property and equipment, intangible assets and investment property		(11)	(194)
Net change in accrued interest		16,009	2,829
Change in the fair value of derivative financial instruments	25	(139)	(19)
Revaluation at fair value of investments measured at fair value through profit or loss		(371)	1,611
Creation of a provision for unused vacations and accrued bonuses		1,152	329
Income from exchange differences		1,327	(1,052)
Gain on disposal of long-term assets held for sale and other property		180	(2)
Effect of the first-time adoption of IFRS 9 as at 1 January 2018		-	915
Cash flows from operating activities before changes in operating assets and liabilities		**26,774**	**11,407**
Decrease / (increase) of operating assets:			
Due from banks		(2,208)	(1,881)
Loans to customers		(44,210)	(38,132)
Derivative financial instruments		19	10
Other assets		(3,727)	2,406
Decrease / (increase) of operating liabilities:			
Due to banks		(50,036)	23,888
Due to customers		65,227	40,985
Other liabilities		(901)	(397)
Net cash inflows (outflows) from operating activities before tax		**(35,836)**	**26,879**
Income tax paid		190	(1,062)
Net cash inflows (outflows) from operating activities		**(8,872)**	**37,224**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property and equipment and intangible assets	12, 13	(3,891)	(1,585)
Acquisition of securities		(90,315)	(94,129)
Proceeds from redemption of securities		91,451	71,005
Proceeds from distribution of property and equipment and intangible assets		125	291
Proceeds from sale of shares		14,615	7,960
Net cash inflows (outflows) from investing activities		**11,985**	**(16,458)**

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

	Notes	2019	2018
Issue / (repayment) of debt securities	29	(5,445)	10,343
Dividends paid	19	(3)	(3)
Net cash inflows / (outflows) from financing activities		**(5,448)**	**10,340**
Effect of changes in foreign exchange rates on cash and cash equivalents		(1,076)	2,144
Effect of changes in expected credit losses on cash and cash equivalents		(39)	(15)
Net increase/(decrease) in cash and cash equivalents		(3,450)	33,235
Cash and cash equivalents at the beginning of the reporting year	6	72,735	39,500
Cash and cash equivalents at the end of the reporting year	6	**69,285**	**72,735**

The notes on pages 14 to 71 form an integral part of these financial statements.

Chairman of the Management Board
I. Katibnikov
16 June 2020
Minsk

«ПАРИТЕТБАНК»
Республиканское открытое акционерное общество
г. Минск

Chief Accountant
E. Scriba
16 June 2020
Minsk

1. ORGANIZATION

Commercial Bank "Poisk" (hereinafter - the "Bank") was registered by the National Bank of the Republic of Belarus (hereinafter – "NB RB") under No. 5 on 15 May 1991. In 1992 the Bank was reorganized as SCB "Poisk" (Meeting of shareholders dated 12 March 1992, Minutes No. 1) and registered in NB RB on 2 July 1992 under No. 5. Since 1999 the Republic of Belarus has been the principal shareholder of the Bank. On 21 November 2000 NB RB registered amendments and additions to the Statute of SCB "Poisk", approved by the meeting of the Bank's shareholders on 21 September 2000 (Minutes No. 2) and related to the change in the name to the OJSC "Bank "Poisk". On 26 March 2004 the General Meeting of Shareholders of OJSC "Bank "Poisk" (Minutes No. 2) decided to rename OJSC "Bank "Poisk" to OJSC "Paritetbank". The changes were registered by the NB RB on 5 May 2004 under No. 5.

The Bank was granted the banking license No. 5 dated 27 October 2014 for the following banking operations:

- raising of funds of legal entities and individuals on accounts and deposits;
- placement of raised funds of legal entities on accounts and deposits on its own behalf and at their own expense under the repayment, payment, and maturity conditions;
- opening and maintaining bank accounts of legal entities;
- settlement and cash services to individuals and legal entities, including correspondent banks;
- currency exchange transactions;
- purchase and sale of precious metals in cases stipulated by the National Bank of the Republic of Belarus;
- issuance of bank guarantees;
- trust funds under the contract of trust management;
- issue (emission) of bank payment cards;
- issuance of electronic money;
- issue of securities confirming the raising of funds on deposits and placing them on the accounts;
- accounts receivable financing (factoring);
- provision to individuals and legal entities of special premises or safes in them for bank storage of documents and valuables (cash, securities, precious metals and gem stones, etc.);
- transportation of cash, precious metals and gem stones and other valuables between banks and non-bank credit and financial organizations, their separate and structural divisions, as well as delivery of such valuables to customers of the Bank and non-bank credit and financial organizations.

The Bank also holds a license for securities and stock exchange operations.

The Bank has 25structural divisions in the Republic of Belarus and a head office located in Minsk and having its registered address at 61a Kiseleva str., 25 Minsk, Republic of Belarus.

(in thousands of Belarusian rubles)

As at 31 December 2019 and 2018, the Bank's share capital was distributed among its shareholders as follows:

Shareholders	31 December 2019	31 December 2018
Administration of the President of the Republic of Belarus	-	-
State Property Committee of the Republic of Belarus	99.83%	99.83%
Other (legal entities and individuals)	0.17%	0.17%

Information about investments in the Bank's associates is provided below:

Name	Country of operation	Share		Type of activity
		2019	2018	
LLC "Investment Company "Paritet"	Republic of Belarus	50.0%	50.0%	Financial leasing

In 2013, the Bank discontinued recognition of its investment in an associate and the amount of the investment was charged to the Bank's expenses.

The total unrecognized share of the Bank in profit for 2019 was 0.5 thousand BYN and in profit for 2018 - 4 thousand BYN. The Bank's unrecognized share in the accumulated profit of the joint venture as at 31 December 2019 was 3 thousand BYN and in the accumulated loss as at 31 December 2018 was 336 thousand BYN.

2. ECONOMIC ENVIRONMENT IN WHICH THE BANK OPERATES

Republic of Belarus. The economy of the Republic of Belarus manifests some of the characteristics inherent in developing markets. Civil and tax legislation continues to evolve and is subject to varying interpretations, which creates additional difficulties for banks operating in the Republic of Belarus.

The continued instability and volatility of global financial markets, in particular those of Russia and Europe, which are the main export markets for Belarus, as well as other risks may have a material negative impact on the Belarusian financial and corporate sector. Management has measured allowances for loan impairment in accordance with the provisions of applicable financial reporting standards. These standards require the recognition of impairment losses arising from past events and take into account possible changes as a result of future events, including future changes in the economic environment.

The future economic development of the Republic of Belarus depends on external factors and internal measures taken by the government to maintain economic growth and improvement of tax and other legislation. Management believes that all necessary measures are being taken to maintain the stability and development of the Bank's operations in the current environment.

3. SUMMARY OF ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on the basis of historical cost accounting, adjusted for the initial recognition of financial instruments at fair value and the revaluation of buildings held for sale, financial assets and financial instruments measured at fair value through profit or loss. The main accounting policies used in the preparation of these financial statements are set out below. These policies have been applied consistently to all periods presented in the financial statements.

Financial instruments - classification and measurement. From 1 January 2018 in accordance with IFRS 9 financial assets are classified as subsequently measured at amortized cost, fair value through other comprehensive income or at fair value through profit or loss, based on: business model used by the Bank to manage financial assets; the contract cash flow characteristics of the financial asset.

To choose the category of financial assets, the Bank consistently conducts two tests to determine the category of financial assets: business model test and solely payments of principal and interest test.

Business model analysis is performed at the level of asset portfolios. The Bank analyzes all significant and objective evidence available at the measurement date to determine the business model for specific portfolios of financial assets.

A financial asset shall be measured at amortized cost if both of the following conditions are met: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contract cash flows and the contract terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: the financial asset is held within a business model whose objective is achieved by both collecting contract cash flows and selling financial assets and the contract terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

At initial recognition the Bank irrevocably decides to represent as part of other comprehensive income changes in the fair value of investments in equity instruments, not intended for trading. The Bank recognizes dividends received from such investments in profit or loss.

Financial liabilities are measured at fair value through profit or loss when they meet the definition of held for trading or classified in this category at initial recognition. Financial liabilities are measured at fair value through profit or loss if: the Bank at initial recognition irrevocably classifies a financial liability as measured at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; fair value is used as the basis for managing a group of financial liabilities or financial assets; or financial liabilities held for trading, including derivatives.

All other financial liabilities are classified as measured at amortized cost using effective interest rate method.

Upon initial recognition, financial assets (except for trade receivables) and financial liabilities are measured by the Bank at fair value increased or decreased in the case of a financial asset or financial liability not measured at fair value through profit or loss, the amount of transaction costs that relate directly to the acquisition or issue of a financial asset or financial liability. If the trade receivables do not contain a significant financing component it is measured at their transaction price.

After initial recognition the Bank measures a financial asset at: amortized cost, fair value through other comprehensive income or fair value through profit or loss.

The Bank applies impairment requirements to financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income.

After initial recognition the Bank measures a financial liability at: amortized cost or fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. Fair value of financial instruments traded in an active market is measured this way even if a market's normal daily trading volume is not sufficient to absorb the amount of assets and liabilities the entity has, and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets recognized at fair value on a recurring basis if the Bank: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Measurement techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Measurement techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of other resources given to acquire an asset at the time of its acquisition and includes *transaction costs.*

Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the book values of related items in the statement of financial position.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the book value. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net book value of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the entire expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Derecognition of financial assets. The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are convertible to known amounts of cash within a day and which are subject to an insignificant risk of changes in value. All short-term placements with other banks, beyond overnight placements, are included in due from other banks. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Precious metals and gemstones. Precious metals and gemstones in physical form are presented by the Bank within other non-financial assets at the lower of cost and net realizable value at the reporting date.

Obligatory provisions in the National Bank of the Republic of Belarus. Obligatory cash balances with the National Bank of the Republic of Belarus represent obligatory provision deposits with the National Bank of the Republic of Belarus, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable.

Impairment of financial assets recognized at amortized cost. At each reporting date, the Bank measures the expected credit losses for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. If, at the reporting date, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the estimated allowance for expected credit losses for that financial instrument at an amount equal to 12-month expected credit losses.

In accordance with the requirements of IFRS 9, the Bank applies the model of expected credit losses for the purpose of impairment of financial instruments, the key principle of which is the timely reflection of deterioration or improvement in the credit quality of financial instruments, taking into account current and forecast information. The amount of expected credit losses, recognized as allowance for expected credit losses, depends on level of change in the credit quality of a financial instrument from the date of its initial recognition (for credit related commitments the date of initial recognition is the date when the Bank assumes such commitment).

In accordance with the general approach, at the recognition date, financial instruments are included in Stage 1, then, depending on the degree of deterioration in credit quality from the date of initial recognition at subsequent reporting dates, the Bank classifies financial instruments to one of the following stages:

Stage 1 - Financial instruments that do not have factors that indicate an increase in credit risk and that do not have impairment indicators for which expected credit losses are calculated for a period of 1 year;

Stage 2 - Financial instruments that have factors that indicate an increase in credit risk, but do not have impairment indicators for which expected credit losses are calculated for the entire life of the financial instrument;

Stage 3 - Financial instruments that have impairment indicators for which expected credit losses are calculated for the entire life of the financial instrument.

In case of significant increase in credit risk as of the previous reporting date, compared with the date of initial recognition, and financial asset was assigned to Stage 2 and at the reporting date there are no factors indicating a significant increase in credit risk compared to initial recognition, the asset is assigned to Stage 1 and expected credit losses are determined on a 12-month horizon and loss allowance is recovered.

Purchased or originated credit-impaired financial assets are not transferable from Stage 3.

The Bank considers a significant increase in credit risk at the reporting date if there are, among other things, the following signs: overdue debt on a financial asset for a period exceeding 30 days for individuals, as well as a significant deterioration in the counterparty credit rating for legal entities and individual entrepreneurs and financial institutions.

The main factors of impairment and classification to Stage 3 are following: debt overdue more than 90 days, decrease of credit rating to level E for corporate customers, initiation of economic litigation (bankruptcy) proceedings against the client by the economic court.

The amount of loss allowance for expected credit losses (ECL) depends on the amount of exposure at default (EAD), the term of the financial asset or conditional liability, the probability of default (PD) and level of loss given default (LGD). In general the amount of loss allowance for expected credit losses is calculated using the formula:

$$ECL = PD \times LGD \times EAD,$$

where PD – probability of default. This value is a calculated estimate of the probability of default over a certain time period during the term of the financial asset (contingent liability).

LGD - loss given default. This value is a calculated estimate of losses arising in the event of a default at a certain point in time.

EAD – exposure at default.

Estimation of the probability of default (PD) of corporate customers is based on internal credit ratings. After determining the internal credit rating at the reporting date and the previous reporting date, a migration matrix is formed. The resulting migration matrix is adjusted taking into account the influence of macroeconomic factors calculated for 3 calendar years in advance. Any indicators that demonstrate the closest relation with the level of default can be used as a macroeconomic indicator.

Estimation of the probability of default (PD) of retail block customers is determined by dividing the credit debt of individuals into homogeneous loan portfolios by overdue periods: not past due, from 1 to 30 days, from 31 to 60 days, from 61 to 90 days, over 90 days. After dividing the credit debt of individuals into portfolios of homogeneous loans, a migration matrix is formed, which is adjusted for macroeconomic factors.

Estimation of the probability of default of financial institutions is based on external credit ratings established by external rating agencies. To obtain annual estimates of the probability of default (PD) for financial institutions, the Bank uses Moody's one-year migration matrices. One-year migration matrix is adjusted for macroeconomic factors, similar to the approach used for corporate customers. Herewith, the macroeconomic factor of the respective country of registration of financial institution is used.

LGD coefficient is calculated based on historical information. The percentage of receipts from defaulted loans is analyzed. Proceeds from sale of collateral are not included in calculation. For future periods for which there is not enough historical information to calculate loss given default coefficient the level of coefficient is set at 100%. LGD coefficient for financial institutions equals 100%.

When calculating the expected credit losses for corporate customers cash flows are taken into account not only from the repayment of loan, but also from the possible realization of collateral. Calculating the collateral adequacy on loans to legal entities, as well as guarantees of the Bank, the expected sale price of the collateral is determined. For this purpose, the market value of the property taking into account the forecasts for its change until the expected sale date of the property is determined.

To calculate the expected credit losses on receivables, a simplified approach is used, according to which the allowance for expected credit losses is recognized in an amount equal to the expected credit losses over the entire life of the financial instrument. The total amount of expected credit losses is calculated as the sum of the values of expected credit losses of three portfolios of receivables formed by the type of counterparty segment (financial institutions, corporate customers and retail block customers) and based on the number of days overdue. For receivables, for which evidence of impairment is identified, the allowance is assumed to be 100% of the outstanding amount.

For purchased or originated credit-impaired financial assets t the date of initial recognition, the Bank takes into account expected credit losses when calculating the effective interest rate adjusted for credit risk, and no allowance for impairment of such financial assets is formed. On subsequent reporting dates for the calculation of loss allowance the Bank estimates only the cumulative changes in the value of expected credit losses over the entire life of the asset.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantee agreement - an agreement under which the issuing party is obliged to make certain payments to the counterparty to compensate for the loss incurred by the latter as a result of the fact that the debtor specified in the contract was not able to make payment within the terms established by the original or revised terms of the debt instrument.

At initial recognition, the Bank evaluates the financial guarantee agreement at fair value.

After initial recognition, a financial guarantee agreement is measured at the higher of: the estimated loss allowance; and the initially recognized amount less, where appropriate, the total recognized income.

Investment securities measured at fair value through other comprehensive income. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities measured at fair value through other comprehensive income are recognized at fair value. Interest income on debt securities measured at fair value through other comprehensive income is calculated using the effective interest rate method, and recognized in profit or loss for the year. Dividends on equity instruments measured at fair value through other comprehensive income are recognized in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected.

All other elements of changes in the fair value are recognized in other comprehensive income until the investment is derecognized or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Securities measured at fair value through profit or loss. This category includes securities classified as held for trading. Securities are classified as held for trading if they are acquired for sale in the near future. Revaluation of securities recognized at fair value through profit or loss is recognized in statement of profit or loss.

Financial instruments measured at amortized cost. These financial instruments include debt investment securities for which the Bank has no intention to sell them immediately or in the near future, as well as loans and receivables. These financial instruments are recognized at amortized cost.

The Bank applies impairment requirements to financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income.

Allowance for expected credit losses on financial assets that are measured at fair value through other comprehensive income is recognized in other comprehensive income and does not reduce the book value of the financial asset in the statement of financial position.

Sale and repurchase agreements. Sale and repurchase agreements which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or other borrowed funds.

Securities purchased under agreements to resell ("reverse repurchase agreements"), which effectively provide a lender's return to the Bank, are recorded as due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repurchase agreements using the effective interest rate method.

Property and equipment. Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.
The book value of property and equipment is reviewed for impairment. In case of any indication of impairment the recoverable amount, which is the higher of the asset's fair value less costs to sell and its value as a result of its use, is estimated. The book value is reduced to its recoverable amount and an impairment loss is recognized in profit or loss for the year.

An impairment loss recognized for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use, or its fair value less costs to sell.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

Gains and losses on disposals determined by comparing proceeds with book value are recognized in profit or loss for the year (within other operating income or expenses).

Depreciation. Construction in progress is not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Period for property and equipment depreciation, years
Buildings and structures	8 – 125
Computer equipment	3 – 14
Motor vehicles	5 – 9
Office furniture and other property and equipment	2 –100

The residual value of an asset is the estimated amount that the Bank would have received at this time had the asset been sold, less the estimated cost of disposal if the condition and age of the asset corresponded to the age and condition that the asset will have at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. After initial recognition, intangible assets are recognized at cost less accumulated amortization and any accumulated impairment losses. Intangible assets have a limited or indefinite useful life. Intangible assets with a limited useful life are amortized over the useful life of 2 to 50 years and are analyzed for impairment whenever there is an indication of possible impairment of an intangible asset. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each reporting year-end.

Long-term assets held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as "Non-current assets held for sale" if their book value will be recovered principally through a sale transaction, rather than through continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.
Due to credit institutions. Amounts due to credit institutions are recorded starting from the moment when cash or other assets are provided to the Bank by counterparty banks.

Due to customers. Amounts due to customers are non-derivative financial liabilities to individuals, government or corporate clients.

Debt securities issued. Debt securities issued include bonds issued by the Bank. If the Bank purchases its own debt securities issued, they are excluded from the statement of financial position, and the difference between the book value of the liability and the amount paid is included in income from early debt settlement.

Derivative financial instruments. Derivative financial instruments, including currency exchange contracts, currency and interest rate swaps, are recorded at fair value.
All derivative financial instruments are recognized as assets if fair value of these instruments is positive and as liabilities if their fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (income less losses on derivative financial instruments). The Bank does not apply hedge accounting.

Income tax. Income taxes have been recorded in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax expenses comprise current tax payments and deferred tax and are recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current taxation is calculated based on the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the taxable bases of assets and liabilities and their book values for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax assets and liabilities are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will be realized.

Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Allowance for liabilities and charges. Allowance for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Settlements with suppliers and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital Ordinary and preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the Events after the reporting date note. Profit distribution and other expenditures are made on the basis of accounting statements prepared in accordance with the legislation of the Republic of Belarus. In accordance with the requirements of the legislation of the Republic of Belarus, profit distribution is based on the current year's net profit according to the accounting statements prepared in accordance with the requirements of the legislation of the Republic of Belarus.

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

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognized as income when the syndication has been completed and the Bank retains no part of the loan package for itself, or retains a part at the same effective interest rate as for the other participants.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Investment portfolio and other management advisory and service commission income is recognized based on the applicable service contracts, usually on a time-proportion basis. Commission income on asset management relating to investment funds are recorded in proportion to the volume of services provided over the period that the service is provided. The same principle is applied for property management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional currency of the Bank and the Bank's presentation currency, is the national currency of the Republic of Belarus, Belarusian ruble ("BYN").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the National Bank of Belarus at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the National Bank of Belarus, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

At 31 December 2019, the official exchange rate used for translating foreign currency balances was USD 1 = 2.1036 BYN (2018: USD 1 = BYN 2,1598).

Fiduciary assets. Assets held by the Bank in its own name, but on the account of third parties, are not reported in the statement of financial position. Commissions received from fiduciary activities are shown in fee and commission income.

Offsetting. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Belarus state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued as the related services are provided by the Bank's employees. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Amendments of the financial statements after issue. The Bank's shareholders and management have the power to amend the financial statements after issue.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts and the book value of assets and liabilities in the following financial year. Estimates and assumptions are continuously reviewed on the basis of management experience and other factors, including expectations for future events, which management believes are justified in the light of current circumstances. In applying accounting policies, management also uses professional judgments and assessments. Professional judgments that have the most significant impact on the amounts reported in the financial statements and the estimates that may result in significant adjustments to the book value of assets and liabilities in the following financial year include:

Going concern. Management has prepared these financial statements on a going concern basis.

Allowance for expected credit losses. The Bank regularly analyzes its loans and receivables for impairment. Management's judgment is required to estimate the amounts and timing of future cash flows when determining an impairment loss. In calculating these cash flows, the Bank makes judgments about the financial position of the borrower and the net realisable value of collateral. These estimates are based on a number of assumptions and may differ from actual results, which will lead to changes in the allowance in the future.

The estimation of the allowance for expected credit losses (ECL) for financial assets measured at amortized cost and fair value through other comprehensive income requires the use of complex models and significant assumptions about the future economic conditions and credit behavior of the counterparty.

The Bank makes judgments when assessing whether the counterparty's credit risk has increased significantly, predicting the future economic situation, and selecting the appropriate model for estimating expected credit losses.

Fair value of financial instruments. If the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be determined based on prices in an active market, it is determined using various valuation models that include mathematical models. The inputs for such models are determined based on the observed market, if possible; otherwise, judgment must be applied to determine fair value.

Deferred tax assets. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences which reduce the tax base can be utilized. Significant management judgments are required to determine the amount of deferred tax assets that can be reported, based on the likely timing and level of future taxable profit, as well as future tax planning strategies.

Useful lives of property and equipment. The Bank analyzes the useful lives of property and equipment at least at the end of each financial year. If expectations differ from previously made estimates, the changes are measured as changes in the accounting estimates. These estimates may have a significant impact on the book value of property and equipment and depreciation recognized in the statement of profit or loss.

Impairment of non-financial assets. Book value of non-financial assets of the Bank, excluding deferred tax assets, is reviewed at each reporting date to determine signs of impairment. If there are any such signs of impairment, the cost of recovering the asset is estimated. The cost of recovering other non-financial asset is the highest value of its fair value less the cost of selling and the cost of its use. In estimating the cost of use, the expected future cash flows are discounted to the present value, using a pre-tax discount rate that reflects the current market estimate of the time value of money and risks specific to the asset. For an asset that does not generate cash flows independently of other assets, the cost of recovery is determined for the cash-generating unit to which the asset relates.

Initial recognition of operations with related parties. In the normal course of business, the Bank carries out operations with related parties. In the absence of an active market, professional judgment is used to determine whether operations have been carried out at market or non-market interest rates. The basis for the judgment is the pricing of similar types of operations with unrelated parties and the analysis of the effective interest rate. The terms for operations with related parties are presented in Note 27.

5. TRANSITION TO NEW OR REVISED STANDARDS AND INTERPRETATIONS

For the first time, the Bank has applied certain amendments to standards that are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and impact of each amendment is described below:

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases - Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases.

The accounting treatment for the lessor under IFRS 16 remains almost unchanged compared to IAS 17. Lessors will continue to classify leases as operating or finance leases using the same classification principles as in IAS 17. Therefore, the application of IFRS 16 did not have an impact on the accounting of lease agreements in which the Bank is the lessor.

The Bank applied IFRS 16 for the first time on 1 January 2019 using a modified retrospective application method. According to this method, the standard is applied retrospectively with the recognition of the total effect of its first-time adoption at the date of first-time adoption. Upon transition to this standard the Bank has applied a practical simplification that allows, at the date of initial application, to apply the standard only to agreements that were previously identified as leases under IAS 17 and IFRIC 4. The Bank has also decided to use the recognition exemption for lease agreements that have a lease term of no more than 12 months at the start of the lease and that do not contain a purchase option (short-term lease), as well as lease agreements in which the underlying asset has a low value (low-value asset lease).

The Bank has lease agreements for various items of property and equipment. Prior to applying IFRS 16, the Bank classified each lease agreement (in which it was a lessee) at the commencement date as a finance lease or an operating lease. A lease agreement was classified as a finance lease if substantially all the risks and rewards of ownership of the leased asset were transferred to the Bank; otherwise, the lease agreement was classified as an operating lease. The finance lease is capitalized at the beginning date of the lease at the fair value of the leased property, or, if less, at the present value of the minimum lease payments. Lease payments were distributed between interest and a reduction in the lease liability. In the case of operating leases, the value of the leased property was not capitalized, and lease payments were recognized as lease expenses in profit or loss on a straight-line basis over the lease term. All advance lease payments and accrued lease payments were recognized as" Other assets" and "Other liabilities", respectively.

As a result of applying IFRS 16, the Bank has adopted a single approach to the recognition and measurement of all lease agreements other than short-term leases and leases of low-value assets. The Bank has applied special transitional requirements and practical simplifications provided for in the standard.

Leases previously classified as finance leases

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

Leases previously classified as operating leases

For leases previously classified as operating leases, other than short-term leases and leases of low-value assets, the Bank recognized right-of-use assets and lease liabilities. Right-of-use assets under most lease agreements were measured at their book value as if the standard had always been applied, except for the use of an additional borrowing rate at the date of first-time adoption. In some leases, right-of-use assets were recognized at an amount equal to the lease liabilities, adjusted for the amounts of advance payments or accrued expenses that were previously recognized. Lease liabilities were recognized at present value of remaining lease payments discounted using the additional borrowing rate at the date of first-time adoption.

The Bank has also made use of available practical simplifications, with the result being that the Bank:

- used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- used as an alternative to checking for impairment an analysis of the onerous nature of lease agreements immediately prior to the date of first-time adoption;
- applied an exemption from recognition for short-term leases to leases that expire within 12 months from the date of first-time adoption;
- eliminated initial direct costs from measuring the right-of-use asset at the date of first-time adoption;
- used retrospective judgments in determining the lease term if the contract contained an option to extend or terminate the lease.

Based on the aforementioned, as at 1 January 2019:

- "Right-of-use assets" in the amount of 3,129 thousand rubles were recognized and presented as part of "Property and equipment";
- additional lease liabilities in the amount of 3,129 thousand BYN were recognized (included in "Other liabilities").

A number of new standards and interpretations have been published that are mandatory for annual periods beginning on or after 1 January 2020 and that the Bank has not yet adopted ahead of schedule. IFRS 17 Insurance Contracts (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which allowed companies to apply existing accounting practices for insurance contracts, making it difficult for investors to compare the financial results of otherwise similar insurance companies. IFRS 17 is a single, principle-based accounting standard for all types of insurance contracts, including reinsurance contracts held by the insurer. According to this standard, recognition and measurement of group insurance contracts should be based on (i) the present value of future cash flows (the cash flows upon the completion of contracts), risk adjusted, taking into account all available information about cash flows on the contracts, the relevant observable market data to which is added (if the value is owed) or from which is subtracted (if cost is an asset) (ii) the amount of retained earnings for the group of contracts (service margin for contracts). Insurers will reflect profit from a group of insurance contracts for the period during which they provide insurance coverage, and as they become risk-free. If a group of contracts is or becomes unprofitable, the organization will immediately reflect the loss. The Bank is currently assessing the impact of the new standard on its financial statements.

Definition of a Business - Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of the annual reporting period beginning on or after 1 January 2020). These amendments change the definition of a business. A business consists of inputs and significant processes that together form the ability to create outputs. The new guidance includes a system to determine whether there is an input and a significant process, including for companies in the early stages of development that have not yet received an output.

If there is no output, an organized labor force must be present in order for the entity to be considered a business. The definition of the term "output" is narrowed to focus on the goods and services provided to customers, on generating investment income and other income, while excluding results in the form of reduced costs and other economic benefits. In addition, it is no longer necessary to assess whether market participants are able to replace missing elements or integrate acquired activities and assets. An organization can apply a "concentration test". Acquired assets will not be considered a business if virtually all of the fair value of the gross assets acquired is concentrated in a single asset (or a group of similar assets).

The amendments are forward-looking and the Bank will apply them and assess their impact from 1 January 2020. Definition of Material - Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of materiality and the application of this concept by including recommendations on the definition that were previously presented in other IFRS standards. In addition, the explanations of this definition have been improved. The amendments also ensure consistency in the use of the definition of materiality in all IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence 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. The Bank is currently assessing the impact of the amendments on its financial statements. Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IAS Board). These amendments eliminate inconsistencies between the requirements of IFRS 10 and IAS 28 relating to the sale or contribution of assets to an associate or joint venture by an investor. The main consequence of applying the amendments is that profit or loss is recognized in full if the transaction relates to a business. If the assets are not a business, even if the assets are owned by a subsidiary, only part of the profit or loss is recognized. The Bank is currently assessing the impact of the amendments on its financial statements. Amendments to 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 contains a new chapter on measurement, recommendations for reporting financial results, improved definitions and recommendations (in particular, the definition of liabilities), and explanations on important issues such as the role of management, prudence, and measurement uncertainty in the preparation of financial statements. Interest Rate Benchmark Reform - amendments to IFRS 9, IFRS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The need to implement these amendments was caused by the replacement of interest rate benchmarks, such as LIBOR and other interbank rates (IBORs). The amendments provide temporary relief from applying special hedge accounting requirements for transactions that are directly affected by the IBOR reform. Cash flow hedge accounting under IFRS 9 and IAS 39 requires that future hedged cash flows are highly probable. Where these cash flows depend on IBOR rates, the exemption provided for by the amendment requires the entity to assume that the interest rate on the hedged cash flows will not change as a result of the reform. Both IFRS 9 and IAS 39 provide a forward-looking assessment of hedge accounting. Currently, there are assumptions that cash flows at IBOR and IBOR replacement rates will be generally equivalent. According to the amendments, an entity can assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedging risk are based will not change as a result of the IBOR reform. The IBOR reform may also result in the hedging going beyond the 80-125% range required by the retrospective test in accordance with IAS 39. Therefore, IAS 39 has been amended to make an exclusion in the retrospective effectiveness test in such a way that the hedge does not stop during the period of uncertainty associated with IBOR, just because the retrospective effectiveness is outside this range.

However, other requirements for hedge accounting, including forward-looking valuation, still need to be met. In some hedges, the hedged position or hedged risk is an IBOR risk component that is not specified in the contract. In order to apply hedge accounting, both IFRS 9 and IAS 39 require that the designated risk component be separately identifiable and reliably measured.

(in thousands of Belarusian rubles)

According to the amendments, the risk component should only be separately identified at the initial application of the hedge, and not on an ongoing basis. In the context of macro hedging, where the entity is frequently re-hedged, the exemption is applied from the initial application of hedging in relation to this hedging. Any inefficiency in hedging will continue to be included in profit and loss under both IAS 39 and IFRS 9. The amendments identified the reasons for the termination of exemptions, which include uncertainty arising from the interest rate benchamrk reform. The amendments require entities to provide investors with additional information about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the exemptions apply, any significant assumptions or judgments made in applying the exemptions, and qualitative information about how the IBOR reform affects the entity's operations and how the entity is coping with the transition process. "Classification of Liabilities as Current or Non-Current" - amendment to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrowly focused amendments only affect the presentation of liabilities in the statement of financial position. This amendment makes it clear that the classification of liabilities into current and non-current liabilities should be based solely on rights existing at the end of the reporting period. Liabilities are considered non-current if at the end of the reporting period the organization has a material right to settle it in at least 12 months. According to the recommendations, this right is no longer required to be unconditional. The intention of management to exercise the right to defer the settlement of liability to a later period does not affect the classification of liabilities. Liabilities are considered current if the condition is violated at the reporting date, even if this condition is canceled by the lender after the end of the reporting period. On the other hand, a loan is classified as non-current if the terms of the loan agreement are violated after the reporting date. Additionally, the amendments include clarification of the classification requirements for liabilities that the company can settle by converting them into share capital. Settlement is defined as the settlement of a liability in cash, other resources that provide economic benefits, or the entity's own share capital instruments. There is an exception for instruments that are convertible into share capital, but only for those instruments in which the convertible part is a component of a complex financial instrument. Unless otherwise indicated above, these new standards and interpretations are not expected to have a significant impact on the Bank's financial statements.

6. CASH AND CASH EQUIVALENTS

	31 December 2019	31 December 2018
Cash	30,137	25,460
Funds on correspondent accounts in the National Bank of the Republic of Belarus	32,660	39,723
Current account balances in other credit institutions	6,527	7,573
Less allowance for impairment	(39)	(21)
Total cash and cash equivalents	**69,285**	**72,735**

As at 31 December 2019, the Bank placed 4,907 thousand BYN (2018 - 5,049 thousand BYN) on current accounts with recognized international banks, which are the Bank's main counterparties for international settlements, in particular, the share of banks in the OECD countries accounts for about 96%, the share of CIS countries and other countries - about 4%.

The movement of the allowance for impairment of cash and cash equivalents is presented below:

	Total
Cash and cash equivalents	
Allowance for credit losses as at 01.01.2018	6
Formation of allowances	15
Allowance for credit losses as at 01.01.2019	**21**
Formation of allowances	18
Allowance for credit losses as at 01.01.2020	**39**

All cash and cash equivalents balances are classified as Stage 1.

(in thousands of Belarusian rubles)

7. DUE FROM BANKS

As at 31 December 2019 and 31 December 2018 amounts due from credit institutions included the following items:

	31 December 2019	31 December 2018
Guarantee deposits	396	664
Loans granted to banks for more than 90 days	3,400	-
Less allowance for impairment	(26)	(11)
Total amounts due from credit institutions	**3,770**	**653**

Guarantee deposits are represented by funds placed as collateral for the performance of liabilities. The Bank's ability to withdraw these deposits is limited.

The analysis of changes in the gross book value and related expected credit losses of amounts due from banks is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Due from banks					
Gross book value as at 01.01.2018	243	-	-	-	243
New issues	19,711	-	-	-	19,711
Derecognition	(19,255)	-	-	-	(19,255)
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Other changes	(35)	-	-	-	(35)
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2019	**664**	-	-	-	**664**
New issues	168,193	-	-	-	168,193
Derecognition	(164,932)	-	-	-	(164,932)
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Other changes	(129)	-	-	-	(129)
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2020	**3,796**	-	-	-	**3,796**

(in thousands of Belarusian rubles)

8. SECURITIES

Securities as at 31 December 2019 included securities measured at fair value through other comprehensive income.

Securities as at 31 December 2018 included: securities measured at fair value through profit or loss, securities measured at fair value through other comprehensive income, and securities measured at amortized cost.

Securities measured at fair value through profit or loss are presented as follows:

	31 December 2019	31 December 2018
Eurobonds of the Republic Of Belarus	-	12,091
Eurobonds of Ukraine	-	-
Shares	-	13,716
Securities measured at fair value through profit or loss	**-**	**25,807**
Allowance for impairment	-	-
Total securities recognized at fair value through profit or loss, less allowance for impairment	**-**	**25,807**

Securities measured at fair value through other comprehensive income are presented as follows:

	31 December 2019	31 December 2018
Bonds issued by the National Bank of the Republic of Belarus, including	-	21,587
transferred under repurchase transactions	-	16,733
Corporate bonds of banks	11,734	12,736
transferred under repurchase transactions	10,423	12,336
Eurobonds 2030	11,267	-
Government bonds	89,980	63,451
transferred under repurchase transactions	6,766	28,186
Securities recognized at fair value through other comprehensive income	**112,981**	**97,774**

Corporate bonds of banks as at 31 December 2019 and 31 December 2018 are securities of Belarusbank.

Securities measured at amortized cost were represented as at 01.01.2019 by Eurobonds of the Republic of Belarus with a value of 6,301 thousand BYN and an allowance for impairment of 31 thousand BYN, which are due in 2030. During 2019, these securities were transferred from securities recognized at amortized cost to securities measured at fair value through other comprehensive income. The value of these securities at the date of reclassification was 5,913 thousand BYN.

(in thousands of Belarusian rubles)

An analysis of changes in the gross book value and related expected credit losses of securities measured at fair value through other comprehensive income is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Securities measured at fair value through other comprehensive income					
Gross book value as at 01.01.2018	75,952	-	-	-	75,952
New acquisition	81,771	-	-	-	81,771
Derecognition	(66,362)	-	-	-	(66,362)
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Other changes	6,413	-	-	-	6,413
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2019	**97,774**	**-**	**-**	**-**	**97,774**
New acquisition	90,315	-	-	-	90,315
Derecognition	(73,366)	-	-	-	(73,366)
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Other changes	(1,742)	-	-	-	(1,742)
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2020	**112,981**	**-**	**-**	**-**	**112,981**

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Securities measured at fair value through other comprehensive income					
Allowance for credit losses as at 01.01.2018	367	-	-	-	367
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Formation of allowances	107	-	-	-	107
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2019	474	-	-	-	474
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Formation of allowances	78	-	-	-	78
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2020	552	-	-	-	552

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into transactions using derivative financial instruments. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities.

	2019		2018	
	Asset	Liability	Asset	Liability
Foreign exchange contracts				
Swaps - foreign Contracts	139	-	41	22
Swaps - internal contracts	-	-	3	3
Total derivative assets / liabilities	139	-	44	25

In the table above, internal contracts are defined as contracts concluded with residents of the Republic of Belarus, while foreign contracts are defined as contracts concluded with non-residents of the Republic of Belarus.

As at 31 December 2019 and 2018, the Bank had swap positions, which are contractual agreements between two parties for the exchange of amounts equal to changes in interest rates and currency exchange rates based on notional amounts.

(in thousands of Belarusian rubles)

10. LOANS TO CUSTOMERS

As at 31 December 2019 and 31 December 2018 loans to customers include the following items:

	31 December 2019	31 December 2018
Commercial lending	148,635	151,204
Consumer lending	111,192	78,742
Total loans to customers	**259,827**	**229,946**
Allowance for impairment	(10,581)	(6,963)
Total loans to customers less allowance for impairment	**249,246**	**222,983**

Based on the results of the SPPI test, all loans to customers in 2019 and 2018 were measured at amortized cost.

The analysis of changes in the gross book value and related expected credit losses on loans to corporate customers is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Loans to corporate clients					
Gross book value as at 01.01.2018	116,032	24,029	9,600	-	**149,661**
New issues	72,914	15,553	-	-	88,467
Derecognition	(71,030)	(4,917)	(22)	-	(75,969)
Transfer to 12-month credit losses (stage 1)	170	(170)	-	-	-
Transfer to lifetime credit losses (stage 2)	(3,352)	3,395	(43)	-	-
Transfer to lifetime credit losses (stage 3)	(1,511)	(4,504)	6,015	-	-
Other changes	(9,423)	243	(1,775)	-	(10,955)
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2019	**103,800**	**33,629**	**13,775**	**-**	**151,204**
New issues	76,830	12,163	42	-	89,035
Derecognition	(41,707)	(13,071)	(10)	-	(54,788)
Transfer to 12-month credit losses (stage 1)	15,633	(15,499)	(134)	-	-
Transfer to lifetime credit losses (stage 2)	-	1	(1)	-	-
Transfer to lifetime credit losses (stage 3)	(2,971)	(86)	3,057	-	-
Write-offs	-	-	(81)	-	(81)
Other changes	(32,694)	(1,148)	(2,893)	-	(36,735)
Gross book value as at 01.01.2020	**118,891**	**15,989**	**13,755**	**-**	**148,635**

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Loans to corporate clients					
Allowance for credit losses as at 01.01.2018	1,038	5	2,576	-	3,619
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	26	(26)	-	-
Transfer to lifetime credit losses (stage 3)	(17)	(4)	21	-	-
Formation / (recovery) of allowances	(48)	5	132	-	89
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2019	**973**	**32**	**2,703**	**-**	**3,708**
Transfer to 12-month credit losses (stage 1)	94	(13)	(81)	-	-
Transfer to lifetime credit losses (stage 2)	-	1	(1)	-	-
Transfer to lifetime credit losses (stage 3)	-	(15)	15	-	-
Formation / (recovery) of allowances	1,498	(5)	(617)	-	876
Write-offs	-	-	(81)	-	(81)
Other changes	-	-	27	-	27
Allowance for credit losses as at 01.01.2020	**2,565**	**-**	**1,965**	**-**	**4,530**

(in thousands of Belarusian rubles)

The analysis of changes in the gross book value and related expected credit losses on loans to retail customers is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Loans to retail customers					
Gross book value as at 01.01.2018	39,678	157	2,252	-	**42,087**
New issues	48,767	256	167	-	49,190
Derecognition	(5,768)	(10)	(89)	-	(5,867)
Transfer to 12-month credit losses (stage 1)	123	(90)	(33)	-	-
Transfer to lifetime credit losses (stage 2)	(214)	214	-	-	-
Transfer to lifetime credit losses (stage 3)	(272)	(52)	324	-	-
Other changes	(6,309)	(39)	(320)	-	(6,668)
Write-offs	-	-	-	-	-
Gross book value as at 01.01.2019	**76,005**	**436**	**2,301**	**-**	**78,742**
New issues	59,038	591	806	-	60,435
Derecognition	(12,322)	(30)	(98)	-	(12,450)
Transfer to 12-month credit losses (stage 1)	202	(163)	(39)	-	-
Transfer to lifetime credit losses (stage 2)	(809)	815	(6)	-	-
Transfer to lifetime credit losses (stage 3)	(1,296)	(215)	1,511	-	-
Other changes	(14,910)	(172)	(444)	-	(15,526)
Write-offs	-	-	(9)	-	(9)
Gross book value as at 01.01.2020	**105,908**	**1,262**	**4,022**	**-**	**111,192**

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Loans to retail customers					
Allowance for credit losses as at 01.01.2018	224	77	1,754	-	2,055
Transfer to 12-month credit losses (stage 1)	70	(44)	(26)	-	-
Transfer to lifetime credit losses (stage 2)	(3)	3	-	-	-
Transfer to lifetime credit losses (stage 3)	(9)	(26)	35	-	-
Formation / (recovery) of allowances	976	233	(9)	-	1,200
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2019	**1,258**	**243**	**1,754**	**-**	**3,255**
Transfer to 12-month credit losses (stage 1)	126	(95)	(31)	-	-
Transfer to lifetime credit losses (stage 2)	(27)	32	(5)	-	-
Transfer to lifetime credit losses (stage 3)	(44)	(122)	166	-	-
Formation / (recovery) of allowances	905	606	1,132	-	2,643
Other changes	-	-	162	-	162
Write-offs	-	-	(9)	-	(9)
Allowance for credit losses as at 01.01.2020	**2,218**	**664**	**3,169**	**-**	**6,051**

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending – pledge of properties, inventory and trade receivables;
- for consumer lending - surety, pledge of residential real estate and vehicles;
- under finance lease agreements - there is usually no additional collateral for leased equipment.

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

(in thousands of Belarusian rubles)

Concentration of loans to customers

As at 31 December 2019 during the year, the concentration of loans issued by the Bank to the largest independent borrowers was 119,910 thousand BYN or 48% of the total loan portfolio (2018 – 123,488 thousand BYN or 55% of the total loan portfolio).

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

	31 December 2019	31 December 2018
Individuals	111,192	78,742
Trade and public catering	53,806	30,232
Manufacturing	33,546	42,957
Leasing companies	28,531	13,621
Operations with real estate	10,233	11,472
Construction	8,206	7,004
Agriculture	1,904	3,437
Individual entrepreneurs	1,652	133
Vehicles	1,593	942
Petrochemistry	-	12,444
Other	9,164	28,962
Total loans to customers	**259,827**	**229,946**
Allowance for impairment	(10,581)	(6,963)
Total loans to customers less allowance for impairment	**249,246**	**222,983**

11. LONG-TERM ASSETS HELD FOR SALE

Long-term assets held for sale are presented as follows:

	31 December 2019	31 December 2018
Property transferred to the Bank as repayment of debt	222	231
Other	93	-
Long-term assets held for sale	**315**	**231**
Allowance for impairment	(74)	(119)
Total long-term assets held for sale, less allowance for impairment	**241**	**111**

As at 31 December 2019 and 2018, assets held for sale include property transferred to the Bank for repayment of outstanding loans. Income from the sale of property transferred to the Bank to repay the debt amounted to 722 thousand BYN and 400 thousand BYN for 2019 and 2018, respectively.

Long-term assets held for sale are measured by the Bank at fair value. An independent valuation of the fair value of property transferred to the Bank for repayment of debt has resulted in an allowance for impairment. Movements in the allowance for impairment are presented below:

	2019	2018
Allowance for impairment as at 1 January	**119**	**190**
Deductions/(recoveries) to allowance for impairment during the year	(45)	(71)
Allowance for impairment as at 31 December	**74**	**119**

(in thousands of Belarusian rubles)

12. PROPERTY AND EQUIPMENT

Property and equipment are presented as follows:

	Buildings and structures	Computer equipment	Vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As at 1 January 2019	27,142	2,743	394	3,027	270	33,576
Acquisition	16	776	-	336	-	1,128
Disposal	(40)	-	-	(519)	-	(559)
As at 31 December 2019	27,118	3,519	394	2,844	270	34,145
Accumulated depreciation						
As at 1 January 2019	2,591	1,113	196	1,807	-	5,707
Accrued depreciation	498	514	30	301	-	1,343
Disposal	(20)	-	-	(429)	-	(449)
As at 31 December 2019	3,069	1,627	226	1,679	-	6,601
Residual value						
As at 1 January 2019	24,551	1,630	198	1,220	270	27,869
As at 31 December 2019	24,049	1,892	168	1,165	270	27,544

	Buildings and structures	Computer equipment	Vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As at 1 January 2018	27,175	1,774	245	2,851	267	32,312
Acquisition	-	969	149	210	3	1,331
Disposal	(33)	-	-	(34)	-	(67)
As at 31 December 2018	27,142	2,743	394	3,027	270	33,576
Accumulated depreciation						
As at 1 January 2018	2,148	770	165	1,520	-	4,603
Accrued depreciation	476	343	31	321	-	1,171
Disposal	(33)	-	-	(34)	-	(67)
As at 31 December 2018	2,591	1,113	196	1,807	-	5,707
Residual value						
As at 1 January 2018	25,027	1,004	80	1,331	267	27,709
As at 31 December 2018	24,551	1,630	198	1,220	270	27,869

(in thousands of Belarusian rubles)

13. INTANGIBLE ASSETS

Movements in items of intangible assets are presented as follows:

	2019	2018
Cost		
As at 1 January	1,922	1,798
Acquisition	2,780	254
Disposal	(70)	(130)
As at 31 December	4,632	1,922
Accumulated amortization		
As at 1 January	968	571
Amortization	392	415
Disposal	(67)	(18)
As at 31 December	1,293	968
Residual value		
As at 1 January	954	1,227
As at 31 December	3,339	954

14. TAXATION

The income tax rate for banks, other than income on government securities, was 25% in 2018. The effective income tax rate differs from the statutory income tax rate. The following is a reconciliation of income tax expenditure calculated at the statutory rate with the actual income tax expenditure:

	31 December 2019	31 December 2018
Profit before tax	1,457	3,523
Statutory tax rate	25%	25%
Theoretical expenses of income tax at the official tax rate	**364**	**881**
Non-taxable profit	(1,409)	(1,009)
Expenses that do not reduce the taxable base:		
- charity costs	-	-
- remuneration, bonuses and financial assistance to employees	-	234
- other	104	426
Effect of changes in the taxable base of property and equipment due to revaluation performed for tax purposes	-	-
Effect of other permanent differences	1,793	(179)
Non-taxable income	(385)	-
Income tax benefit	**468**	**353**
Current income tax expenses	(83)	647
Effect of deferred income tax recognized in the statement of profit or loss	551	(294)
Income tax benefit	**468**	**353**

(in thousands of Belarusian rubles)

Deferred tax assets and liabilities as at 31 December 2019 and 31 December 2018, as well as their movements for 2019 and 2018, are presented below:

Effect of temporary differences that decrease / (increase) the taxable base:	31 December 2019	Recognized (recovered) In profit or loss	Recognized (recovered) In other comprehensive income	31 December 2018	Recognized (recovered) In profit or loss	Recognized (recovered) In other comprehensive income	Effect of the application of IFRS 9	31 December 2017
Cash and cash equivalents	2,108	2,108	-	-	-	-	-	-
Derivative financial assets	(250)	(239)	-	(11)	(8)	-	-	(3)
Loans to customers	(2,882)	(768)	-	(2,114)	356	-	(918)	(1,552)
Securities	9	(88)	-	97	61	37		(1)
Property and equipment and intangible assets	1,275	(632)	-	1,907	(99)	-	-	2,006
Long-term assets held for sale	357	354	-	3	3	-	-	-
Other assets	1,796	708	-	1,088	146	-	496	446
Derivative financial liabilities	-	(6)	-	6	6	-	-	-
Due from credit institutions	(44)	119	-	(163)	(156)	-	-	(7)
Due to credit institutions	(2,710)	(2,710)	-	-	-	-	-	-
Due to customers	13	13	-	-	-	-	-	-
Other liabilities	597	590	-	7	(15)	-	116	(94)
Net tax asset / (liability)	**269**	**(551)**	**-**	**820**	**294**	**37**	**(306)**	**795**

15. OTHER ASSETS AND LIABILITIES

	31 December 2019	31 December 2018
Accrued income	2,222	2,950
Receivables	654	246
Equity interests in banks	294	294
Equity interests in commercial organizations	8	8
Allowance for impairment	(2,621)	(2,333)
Total other financial assets	**557**	**1,165**
Taxes recoverable other than income tax	1,082	58
Other prepayments	179	519
Materials	77	66
Other	171	-
Total other non-financial assets	**1,509**	**643**
Total other assets	**2,066**	**1,808**
Settlements with other creditors	2,584	409
Total financial liabilities	**2,584**	**409**
Other non-financial liabilities:		

	31 December 2019	31 December 2018
Settlements with personnel	1,030	501
Taxes payable other than income tax	335	517
Other	1,914	585
Total other non-financial liabilities	**3,279**	**1,603**
Total other liabilities	**5,863**	**2,012**

The movement of the allowance for expected credit losses of other assets for 2019 and 2018 is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Other financial assets					
Allowance for credit losses as at 01.01.2018	-	237	2,522	-	2,759
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Recovery of allowances	-	(128)	(298)	-	(426)
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2019	-	**109**	**2,224**	-	**2,333**
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Formation of allowances	-	(27)	927	-	900
Write-offs	-	-	(612)	-	(612)
Other changes	-	-	-	-	-
Allowance for credit losses as at 01.01.2020	-	**82**	**2,539**	-	**2,621**

(in thousands of Belarusian rubles)

Other assets include equity interests in banks and commercial organizations. The Bank decided to record changes in the fair value of these equity investments in other comprehensive income, as the Bank does not plan to sell these equity investments. Information on the fair value of equity investments and the amount of dividends received during the year is provided below:

	Fair value as at 31 December 2019	Dividends received in 2019
Investments in equity securities of JSC "Bank Dabrabyt"	294	7
Investments in equity securities of OJSC "Banking technology center"	8	1
Total	**302**	**8**

16. DUE TO BANKS

As at 31 December 2019 and 31 December 2018 amounts due to credit institutions include the following items:

	31 December 2019	31 December 2018
Loans and deposits	48,129	97,911
Current accounts	238	368
Total amounts due to banks	**48,367**	**98,279**

The structure of loans received from other banks, as well as deposits placed with the Bank by other financial institutions, by counterparty as at 31 December 2019 and 31 December 2018 is presented in the tables:

31 December 2019	Country of registration of the counterparty	Loans and deposits, thousand rubles	Share, %
CJSC "ABSOLUTBANK"	Republic of Belarus	11,763	24.44
CJSC "MTBank"	Republic of Belarus	11,137	23.14
CJSC "RDB-Bank"	Republic of Belarus	5,646	11.73
CJSC "Alfa-Bank"	Republic of Belarus	4,147	8.62
JSC "BSB Bank"	Republic of Belarus	2,638	5.48
"Fransabank" OJSC	Republic of Belarus	1,683	3.50
JSC "Development Bank of the Republic of Belarus"	Republic of Belarus	1,088	2.26
JSC "Belarusian Currency and Stock Exchange"	Republic of Belarus	678	1.41
Total for the Republic of Belarus		**38,780**	**80.58**
KB "AKROPOL" JSC	Russian Federation	6,825	14.18
Total for the Russian Federation		**6,825**	**14.18**
ID BANK CJSC	Armenia	2,524	5.24
Total for Armenia		**2,524**	**5.24**
Total		**48,129**	**100.00**

(in thousands of Belarusian rubles)

31 December 2018	Country of registration of the counterparty	Loans and deposits, thousand rubles	Share, %
Priorbank JSC	Republic of Belarus	34,135	34.86
CJSC “MTBank”	Republic of Belarus	10,525	10.75
R-bank JSC	Republic of Belarus	8,005	8.18
CJSC "ABSOLUTBANK"	Republic of Belarus	7,111	7.26
"Belinvestbank" JSC	Republic of Belarus	2,046	2.09
JSC "Development Bank of the Republic of Belarus"	Republic of Belarus	458	0.47
Total for the Republic of Belarus		**62,280**	**63.61**
PJSC “Transcapitalbank”	Russian Federation	7,786	7.95
KB "AKROPOL" JSC	Russian Federation	6,230	6.36
Total for the Russian Federation		**14,016**	**14.31**
ID BANK CJSC	Armenia	21,615	22.08
Total for Armenia		**21,615**	**22**
Total		**97,911**	**100.00**

The structure of loans received from other banks, as well as deposits placed with the Bank by other financial institutions, by foreign currencies as at 31 December 2019 and 31 December 2018 is presented in the tables:

31 December 2019	Amount in currency, thousand	Equivalent, thousand BYN	Share, %
USD	4,158	8,747	18.17
Euro	8,522	20,045	41.65
RUB	200,473	6,825	14.18
BYN	12,512	12,512	26.00
Total	x	**48,129**	**100.00**

31 December 2018	Amount in currency, thousand	Equivalent, thousand BYN	Share, %
USD	25,812	55,749	56.94
Euro	450,269	14,016	14.32
BYN	28,146	28,146	28.75
Total	x	**97,911**	**100.00**

(in thousands of Belarusian rubles)

17. DUE TO CUSTOMERS

As at 31 December 2019 and 31 December 2018 amounts due to customers include the following items:

	31 December 2019	31 December 2018
Time deposits	265,096	200,780
Current accounts	35,469	38,387
Total amounts due to customers	**300,565**	**239,167**

As at 31 December 2019 during the year, the amounts due to Bank's largest corporate customers amounted
to 92,073 thousand BYN or 31% (2018 – 211,542 thousand BYN (88%). Term deposits include deposits of individuals in the amount of 168,752 thousand BYN (2018: 102,595 thousand BYN). In cases when a term deposit is returned to the depositor at his request before the expiration of the term, interest on the deposit is paid in the amount corresponding to the amount of interest paid by the bank on demand deposits, unless the agreement provides for a different amount of interest.

Amounts due to customers include accounts of the following types of customers by form of ownership:

	31 December 2019	31 December 2018
Individuals	178,771	113,156
State	68,338	81,295
Private	53,456	44,716
Total amounts due to customers	**300,565**	**239,167**

Amounts due to customers include accounts of the following types of customers by type of activity:

	31 December 2019	31 December 2018
Individuals	178,771	113,156
Insurance	70,358	78,178
Commercial activity	34,288	27,433
Trade	3,974	5,319
Health care	2,634	2,054
Construction	2,338	3,075
Transport and communications	1,546	2,229
Production	1,373	1,133
Real estate	1,051	1,089
Information and computing services	794	2,548
Public organizations	658	724
Culture and art	294	1,220
Agriculture	204	153
Science and scientific services	100	29
Management and defense	9	2
Other	2,173	825
Total amounts due to customers	**300,565**	**239,167**

(in thousands of Belarusian rubles)

18. DEBT SECURITIES ISSUED

Debt securities issued by the Bank as at 31 December 2019 and 31 December 2018 are represented by the following types of bond issues:

	Currency denomination	Nominal rate	Maturity	31 December 2019
Bonds held by legal entities	BYN	9.50	12.08.2020	6,674
Total debt securities issued				**6,674**

	Currency denomination	Nominal rate	Maturity	31 December 2018
Bonds held by legal entities	BYN	9.2-10.8	12.08.2020	12,035
Total debt securities issued				**12,035**

19. SHARE CAPITAL

Movements in issued, declared and fully paid share capital are presented below:

	Total number of shares		Nominal value, BYN		Inflation adjustment	Total, thousand BYN
	Preference	Ordinary	Preference	Ordinary		
31 December 2017	18,838,294	220,310,818,106	6	66,093	87,655	153,754
31 December 2018	18,838,294	220,310,818,106	6	66,093	87,655	153,754
31 December 2019	18,838,294	220,310,818,106	6	66,093	87,655	153,754

As at 31 December 2019 and 31 December 2018, the declared and fully paid share capital, in accordance with the Bank's Charter, consisted of 220,310,818,106 common (ordinary) shares and 18,838,294 preference shares with a par value of 0.0003 BYN each (at historical cost). The nominal value of the shares of OJSC "Paritetbank" remained unchanged and equals 0,0003 BYN.

The total amount of preference shares as at 31 December 2019 and 31 December 2018 is 6 thousand BYN.

The Bank's share capital was formed from shareholders' deposits in Belarusian rubles. Shareholders are entitled to receive dividends in Belarusian rubles.

In 2019, the Bank paid dividends in the total amount of 3 thousand BYN (2018 - 3 thousand BYN).

According to the legislation of the Republic of Belarus, only undistributed and non-reserved profits in accordance with the Bank's financial statements prepared in accordance with the legislation of the Republic of Belarus can be distributed as dividends among the Bank's shareholders.

20. COMMITMENTS AND CONTINGENT LIABILITIES

Legal proceedings. Occasionally, in the course of its current activities, lawsuits against the Bank are filed with the judicial authorities. Based on its own assessment, as well as the recommendations of internal professional consultants, the Bank's management believes that the proceedings will not lead to significant losses for the Bank, and, accordingly, has not formed an allowance for losses related to these proceedings in the financial statements.

Contingent tax liabilities. Tax and other legislation of the Republic of Belarus, effective or factually entered into force at the end of the reporting period, allows for different interpretations in regard to transactions and activities of the Bank. In this regard, the interpretation of tax legislation used by the management of the Bank and the official documentation justifying tax positions can be successfully challenged by the relevant authorities. Tax periods remain open for inspection by the relevant tax authorities for payment of taxes for an indefinite period. The Bank's management believes that the tax accounting approaches used by the Bank will be accepted by the tax authorities as fully compliant with the legislation of the Republic of Belarus.

Since the tax legislation of the Republic of Belarus does not provide clear guidance on certain issues, the Bank occasionally applies an interpretation of such uncertain issues, which leads to a reduction in the overall tax rate for the Bank. Management currently believes that it is probable that the Bank's tax positions and interpretations can be confirmed, but there is a risk that an outflow of resources will be required if these tax positions and interpretations are disputed by the relevant authorities. The impact of any such contentious situations cannot be assessed with sufficient reliability, but it may be material for the financial position and/or operations of the Bank as a whole.

Capital expenditure commitments. As at 31 December 2019 and 31 December 2018, the Bank had no significant capital commitments in respect of property and equipment, software and other intangible assets.

Compliance with financial covenants. The Bank complies with financial restrictions (covenants) on the Bank's borrowings.

Credit related commitments. The main purpose of these instruments is to ensure that financial resources are provided to customers as needed. Guarantees and letters of credit, which are irrevocable liabilities of the Bank to make payments in the event of the customer's failure to fulfill its liabilities to third parties, have the same level of credit risk as loans. Letters of credit and commercial letters of credit are the Bank's written commitments to make payments on behalf of customers in agreed amount when certain conditions are met; they are collaterized with the corresponding deliveries of goods or cash and, accordingly, have lower risk level, than direct lending.

Loan commitments include the unused portion of amounts approved by management to provide funds in the form of loans, guarantees or letters of credit. With respect to credit risk on loan commitments, the Bank is potentially exposed to the risk of incurring losses equal to the total amount of unused commitments, if the unused amounts will be used. Nevertheless, the probable amount of losses is less than the total amount of unused commitments, since all the Bank's loan liabilities can be withdrawn without significant negative changes in the borrower's financial position.

(in thousands of Belarusian rubles)

As at 31 December 2019 and 31 December 2018 commitments and contingent liabilities include the following items:

	31 December 2019	31 December 2018
Commitments and contingent liabilities		
Loan commitments	42,701	21,004
Guarantees	4,746	7,426
Letters of credit	141	7,576
Less allowance	(322)	(199)
Total commitments and contingent liabilities (before collateral deduction)	**47,266**	**35,807**
Less: deposits held as collateral	(385)	(664)
Total commitments and contingent liabilities	**46,881**	**35,143**

The movement of the allowance for impairment of contingent liabilities is presented below:

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Commitments and contingent liabilities					
Allowance for credit losses as at 01.01.2019	**158**	**33**	**8**	**-**	**199**
Transfer to 12-month credit losses (stage 1)	1	(1)	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	(1)	(1)	2	-	-
Formation / (recovery) of allowances	142	(22)	3	-	123
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2020	**300**	**9**	**13**	**-**	**322**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total
Commitments and contingent liabilities					
Allowance for credit losses as at 01.01.2018	**472**	**-**	**2**	**-**	**474**
Transfer to 12-month credit losses (stage 1)	-	-	-	-	-
Transfer to lifetime credit losses (stage 2)	-	-	-	-	-
Transfer to lifetime credit losses (stage 3)	-	-	-	-	-
Formation / (recovery) of allowances	(314)	37	2	-	(275)
Write-offs	-	-	-	-	-
Allowance for credit losses as at 01.01.2019	**158**	**37**	**4**	**-**	**199**

(in thousands of Belarusian rubles)

21. NET COMMISSION INCOME

Net commission income includes the following items:

	31 December 2019	31 December 2018
Settlement operations	5,766	4,745
Foreign currency transactions	33	44
Commission income	**5,799**	**4,789**
Settlement operations	1,281	860
Foreign currency transactions	35	28
Other operations	616	361
Commission expenses	**1,932**	**1,249**
Net commission income	**3,867**	**3,540**

Other commission expenses include expenses on operations with securities in the amount of 124 thousand BYN (for 2018 – 178 thousand BYN), expenses for cash reinforcement operations in the amount of 215 thousand BYN (for 2018 - 97 thousand BYN), for other operations - 277 thousand BYN (for 2017 – 83 thousand BYN).

22. OTHER INCOME

Other income includes the following items:

	31 December 2019	31 December 2018
Revenue from debts previously written off	1,266	2,195
Operating lease income	1,282	731
Income from sale of other assets	760	808
Fines, penalties, other received	488	1,015
Dividends	14	8
Total other income	**3,810**	**4,757**

23. NON-INTEREST EXPENSES

Non-interest expenses include the following items:

	31 December 2019	31 December 2018
Salary and bonuses	10,386	7,438
Social security contributions	3,389	2,377
Personnel expenses	**13,775**	**9,815**
Legal, audit and consulting services	1,594	1,535
Services of the automated system of interbank settlements	1,281	1,541
Cost of software maintenance	1,158	1,105
Expenses from disposal of other property	905	397
Deductions to the Individuals' Deposit Guarantee Fund	890	565
Marketing and advertising	835	1,024
Operating taxes	821	1,042
Security services	606	586
Repair and maintenance of property and equipment	504	391
Communications services	479	402

(in thousands of Belarusian rubles)

	31 December 2019	31 December 2018
Utility services	457	475
Operating expenses	354	273
Charity	281	-
Office supplies	207	90
Business travel and related expenses	186	148
Maintenance and lease of premises	156	996
Transportation expenses	136	116
Deductions to the PTUO of JSC "Paritetbank"	125	123
Expenses from disposal of property and equipment and intangible assets	26	118
Expenses from disposal of investment property	-	96
Other	1,358	836
Other operating expenses	**12, 359**	**11,859**

24. RISK MANAGEMENT

Introduction

Risks are inherent in the activities of the Bank. The Bank manages risks through a continuous process of identification, evaluation and monitoring, as well as through the establishment of risk limits and other internal control measures. The risk management process is crucial to maintaining a stable profitability of the Bank, and each individual employee of the Bank is responsible for the risks associated with its responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, which in turn is divided into trading risk and non-trading risk. The Bank is also exposed to operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. Such risks are controlled by the Bank during a strategic planning process.

Risk management structure

The Supervisory Board is generally responsible for identifying and controlling risks, but there are also separate independent bodies that are responsible for managing and controlling risks.

Supervisory Board

The Supervisory Board is responsible for the overall approach to risk management, as well as for approving the risk management strategy and principles.

Risk Committee

The functions of the Risk Committee, headed by an Independent Director, include monitoring the implementation of the risk management strategy and the implementation of decisions of the Bank's Supervisory Board in relation to the Bank's risk profile and risk tolerance, evaluating the effectiveness of the Bank's risk management system, and comprehensively addressing issues related to the analysis of major banking risks and developing a policy for their management.

Audit Committee

The functions of the Audit Committee, headed by an Independent Director, include overall management and organization of the internal control system, the internal audit service of the Bank, as well as the selection and organization of interaction with audit organizations.

Management Board

The Management Board is responsible for developing the risk management strategy and policy and implementing the principles, concepts, policies and risk limits. The Management Board is responsible for significant risk management issues and monitors the implementation of relevant decisions made in relation to risks.

Financial Committee

The task of the Financial Committee is to implement a unified financial policy of the Bank in the management of financial resources, aimed at a systematic growth of its income, improving the efficiency of using financial resources.

Credit Committee

The Committee is responsible for comprehensive credit risk management and coordinates the activities of the Bank's divisions in the field of credit risk management in order to achieve an optimal balance of credit risks and profitability.

Bank Risk Control Department

The Department provides quantitative and qualitative assessment of bank risks, analytical and methodological support for the process of risk analysis and management, and provides information to the Bank's management bodies about the level of risks taken.

Bank Treasury

The Treasury is responsible for managing the Bank's assets and liabilities, as well as the overall financial structure. The Treasury is also primarily responsible for the Bank's liquidity risk and financing risk.

Internal Audit

The Bank's risk management processes are audited annually by the Audit Department, which verifies both the adequacy of procedures and the Bank's compliance with these procedures. The Audit Department discusses the results of its audits with the management and submits its conclusions and recommendations to the Audit Committee and the Supervisory Board of the Bank.

Risk measurement and reporting systems

The Bank's risks are assessed using various tools: scenario methods that allow determining the level of risk in different scenarios, client risk assessment, stress testing, and others.

Risk monitoring and control is mainly based on the limits set by the Bank. These limits reflect the business strategy and market conditions in which the Bank operates, as well as the level of risk that the Bank is prepared to accept. In addition, the Bank monitors and evaluates its overall ability to bear risks when calculating capital adequacy and other economic standards.

Information received on all types of activities is analyzed and processed for the purpose of analysis, control and early detection of risks. This information is provided with explanations to the Supervisory Board, the Management Board, as well as to the Risk Committee, Financial and Credit committees (as far as their competence is concerned). The reports contain information about the total amount of credit risk, liquidity indicators, operational and currency risks, and changes in the risk level. The appropriateness of the allowance for credit losses is assessed on a monthly basis. Quarterly, the Supervisory Board receives a report on the Bank's implementation of the Strategic development plan, which contains information on the implementation of volume indicators and financial results.

Risk reduction

As part of its overall risk management, the Bank uses the system of measures and limits stipulated by local statutory requirements to manage exposures resulting from changes in interest rates, foreign currencies, equity price, credit risks, and positions on forecast transactions. The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to changes in conditions affecting a particular industry or geographical location. In order to avoid excessive concentrations of risk, the Bank's policies and procedures include special principles aimed at maintaining a diversified portfolio. The established credit risk concentrations are monitored and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur losses due to the failure of its customers or counterparties to fulfill their contract liabilities.

Credit risk control in relation to borrowers (with the exception of counterparty banks) includes the following procedures:

- monitoring of credit instruments issued by the corresponding structural units of the Bank;
- classification of assets and contingent liabilities, and creation of special allowances for covering possible losses in relation to assets and contingent liabilities;
- control over customers' fulfilment of conditions upon credit and similar agreements.

Control of the accepted credit risk level in relation to amounts placed within banks acting as counterparties to the Bank includes the following:

- analysis of negative financial and non-financial information while applying previously set limits (performed by the Bank Risk Control Department);
- regular and subsequent control over compliance with the limits (sub-limits) set for counterparty banks.

The results of analysis serve as a basis for developing suggestions to units working with customers with regard to recommended parameters for customers attracted for credit services. Additional parameters limiting portfolio concentration of the Bank can be developed based on the analysis of the portfolio.

All activities performed by credit units of the Bank in the course of monitoring of current loans are aimed at identifying problems at the earliest stage possible.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

The Bank receives collateral and guarantees from legal entities and individuals in relation to most loans, however, a certain part of lending is attributable to loans to individuals in regard to which obtaining collateral or guarantee is impracticable. Such risks are monitored on a regular basis.

The maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their book values.

(in thousands of Belarusian rubles)

Where financial instruments are recorded at fair value, the book value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

The maximum amount of credit risk is equal to the book value of financial assets.

Credit-related commitments risks

The Bank provides its customers with the opportunity to receive guarantees, which may require the Bank to make payments on behalf of customers. These payments are collected from customers based on the terms of the guarantee. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Credit quality on loans to corporate clients

The Bank applies the system of internal rating assessment of the financial condition of corporate clients to determine the credit rating. In accordance with this system, the ratings have the following characteristics:

Rating	Brief characteristic
A.	The client has a stable financial position and is able to service the debt
B	The client has an acceptable financial position and is able to service the debt in the short term
C	The client has a weak financial position, but with a balanced flow is able to service the debt
D	The client has a weak financial position and an unsatisfactory balance sheet structure
E	Default

The table below provides an analysis of credit quality by class of financial assets for items related to loans to legal entities measured at amortized cost, in the consolidated statement of financial position, by credit ratings based on the internal credit rating system.

	Unexpired Rating					Overdue	Total 31 December 2019
	A	B	C	D	E		
Loans to corporate clients	4,218	21,122	83,084	-	-	40,211	**148,635**

	Unexpired Rating					Overdue	Total 31 December 2018
	A	B	C	D	E		
Loans to corporate clients	10,319	71,819	45,266	3,070	-	20,730	**151,204**

The table below provides an analysis of credit quality by class of financial assets for items related to loans to legal entities measured at amortized cost, in the consolidated statement of financial position, by stages of impairment by credit ratings based on the internal credit rating system.

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total 31 December 2019
Loans to corporate clients					
A	4,218	-	-	-	**4,218**
B	21,984	-	-	-	**21,984**
C	91,038	15,932	-	-	**106,970**
D	1,652	57	-	-	**1,709**
E	-	-	13,754	-	**13,754**
Total gross book value of loans to corporate clients	**118,892**	**15,989**	**13,754**	-	**148,635**
Allowance for credit losses	(2,565)	-	(1,965)	-	**(4,530)**
Total loans to corporate customers	**116,327**	**15,989**	**11,789**	-	**144,105**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total 31 December 2019
Loans to retail customers					
Not past due	102,529	-	-	-	**102,529**
1-30 days	3,379	-	-	-	**3,379**
31-60 days	-	834	-	-	**834**
61-90 days	-	428	-	-	**428**
More than 90 days	-	-	4,022	-	**4,022**
Total gross book value of loans to retail clients	**105,908**	**1,262**	**4,022**	-	**111,192**
Allowance for credit losses	(2,219)	(664)	(3,168)	-	**(6,051)**
Total loans to retail customers	**103,689**	**598**	**854**	-	**105,141**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total 31 December 2018
Loans to corporate clients					
A	10,319	-	-	-	10,319
B	71,821	-	-	-	71,821
C	16,461	33,629	-	-	50,090
D	5,199	-	-	-	5,199
E	-	-	13,775	-	13,775
Total gross book value of loans to corporate clients	**103,800**	**33,629**	**13,775**		**151,204**
Allowance for credit losses	(973)	(32)	(2,703)		(3,708)

(in thousands of Belarusian rubles)

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total 31 December 2018
Total loans to corporate customers	**102,827**	**33,597**	**11,072**		**147,496**

	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (Stage 2)	Lifetime expected credit losses (Stage 3)	Acquired or issued impaired assets	Total 31 December 2018
Loans to retail customers					
Not past due	74,434	-	-	-	74,434
1-30 days	1,571	-	-	-	1,571
31-60 days	-	320	-	-	320
61-90 days	-	116	-	-	116
More than 90 days	-	-	2,301	-	2,301
Total gross book value of loans to retail clients	**76,005**	**436**	**2,301**	-	**78,742**
Allowance for credit losses	(1,258)	(243)	(1,754)	-	(3,255)
Total loans to retail customers	**74,747**	**193**	**547**	-	**75,487**

Credit quality per class of financial assets

The table below presents an analysis of credit quality for funds placed in financial institutions, based on ratings assigned by the International rating agency Moody's.

	A1	B3	Rating not assigned	Total 31 December 2019
Due from banks	84	3,400	312	**3,796**

	B1	B3	Rating not assigned	Total 31 December 2018
Due from banks	50	100	514	**664**

(in thousands of Belarusian rubles)

Geographic concentration

The concentration of financial assets and liabilities of the Bank by geographic concentration is as follows:

	31 December 2019				31 December 2018			
	Belarus	**OECD countries**	**CIS countries and others**	**Total**	**Belarus**	**OECD countries**	**CIS countries and others**	**Total**
Cash and cash equivalents	64,379	4,696	210	**69,285**	67,702	4,379	654	**72,735**
Due from banks	3,474	295	1	**3,770**	90	216	347	**653**
Obligatory provisions in the National Bank	3,259	-	-	**3,259**	4,106	-	-	**4,106**
Derivative financial assets	139	-	-	**139**	44	-	-	**44**
Loans to customers	242,574	-	6,672	**249,246**	208,936	-	14,047	**222,983**
Securities	112,981	-	-	**112,981**	116,135	-	13,716	**129,851**
Other financial assets	557	-	-	**557**	1,165	-	-	**1,165**
Total financial assets	**427,363**	**4,991**	**6,883**	**439,237**	**398,178**	**4,595**	**28,764**	**431,537**
Due to banks	38,830	-	9,537	**48,367**	62,638	-	35,641	**98,279**
Derivative financial liabilities	-	-	-	**-**	25	-	-	**25**
Due to customers	299,530	352	683	**300,565**	234,434	1,514	3,219	**239,167**
Debt securities issued	6,674	-	-	**6,674**	12,035	-	-	**12,035**
Other financial liabilities	2,584	-	-	**2,584**	409	-	-	**409**
Total financial liabilities	**347,618**	**352**	**10,220**	**358,190**	**309,541**	**1,514**	**38,860**	**349,915**
Net position on financial assets and liabilities	**79,745**	**4,639**	**(3,337)**	**81,047**	**88,637**	**3,081**	**(10,096)**	**81,622**

Liquidity risk

Liquidity risk is the risk that the Bank will not be able to meet its liabilities for payments upon their maturity under normal or unforeseen conditions. In order to limit this risk, management has made various sources of financing available in addition to the existing minimum amount of bank deposits. Management also manages assets based on liquidity and monitors future cash flows and liquidity on a daily basis.

This process involves estimating the expected cash flows and the availability of high grade collateral which could be used to obtain additional financing if necessary.

The Bank has a portfolio of diverse, high-demand assets that can be quickly sold for cash in the event of an unforeseen interruption of cash inflows, and has entered into credit line agreements that it can use to meet its cash needs.

In addition, the Bank has placed a cash deposit (obligatory provision) with the National Bank of the Republic of Belarus, the amount of which depends on the level of raising customer deposits. The table below presents the financial liabilities of the Bank as at 31 December 2018 and 31 December 2017 by remaining maturities, based on contractual undiscounted liabilities. Commitments that are payable on short notice shall be treated as if the claim for repayment had been made at the earliest possible date. However, the Bank expects that the majority of clients will not demand repayment at the earliest date on which the Bank will be required to make the corresponding payment, and therefore the table does not reflect the expected cash flows calculated by the Bank on the basis of information on demand of deposits for past periods.

(in thousands of Belarusian rubles)

31 December 2019:	Value recorded in the statement of financial position	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Due to banks	48,367	35,620	12,630	840	391	49,481
Derivative financial liabilities	-	-	-	-	-	-
Due to customers	300,565	96,439	125,038	92,548	-	314,025
Debt securities issued	6,674	6,699	-	-	-	6,699
Other financial liabilities	2,584	2,584	-	-	-	2,584
Commitments and contingent liabilities	46,881	46,881	-	-	-	46,881
Total undiscounted financial liabilities	**405,071**	**188,223**	**137,668**	**93,388**	**391**	**419,670**

31 December 2018:	Value recorded in the statement of financial position	Less than 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Due to banks	98,279	78,283	19,106	544	-	97,933
Derivative financial liabilities	25	25	-	-	-	25
Due to customers	239,167	70,800	78,370	94,803	-	243,973
Debt securities issued	12,035	486	953	12,826	-	14,265
Other financial liabilities	409	409	-	-	-	409
Commitments and contingent liabilities	35,144	35,144	-	-	-	35,144
Total undiscounted financial liabilities	**385,059**	**185,147**	**98,429**	**108,173**	**-**	**391,749**

The Bank expects that not all commitments or contingent liabilities will need to be fulfilled before they expire.

The maturity analysis does not reflect the historical stability of funds in current accounts that have traditionally been returned over a longer period than indicated in the tables above. These balances are included in the tables in amounts due in "less than 3 months".

Debt securities issued are represented by the Bank's bonds with a maturity date of 12.08.2020.

Market risk

Market risk is the risk that the fair value of future cash flows on financial instruments will fluctuate due to changes in market parameters such as interest rates, exchange rates and prices on equity instruments. Market risk is managed and controlled using various methods of the sensitivity analysis. Except for currency positions, the Bank does not have significant concentrations of market risk.

Stock risk

Stock risk is the risk of changes in the value of equity financial instruments. The Bank is exposed to stock risk as a result of changes in stock exchange quotations available in the Bank's trading portfolio.

(in thousands of Belarusian rubles)

Below is an analysis of the sensitivity of the Bank's capital to changes in quotations for the year:

	as at 31 December 2019		as at 31 December 2018	
	Increase in quotations by 10.0%	Decrease in quotations by 10.0%	Increase in quotations by 10.0%	Decrease in quotations by 10.0%
Securities - equity financial instruments	-	-	1,372	(1,372)

Market risk - non-trading portfolio

Interest rate risk.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The following table demonstrates the sensitivity to possible changes in interest rates, with all other variables held constant, of the Bank's statement of comprehensive income.

The sensitivity of the statement of comprehensive income is the effect of estimated changes in interest rates on net interest income for one year based on non-trading financial assets and financial liabilities with a floating interest rate, as well as financial instruments recognized at fair value available at 31 December 2019 and 31 December 2018.

Increase in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of capital 2019
500	1,531	1,148
Decrease in basis points 2019	Sensitivity of net interest income 2019	Sensitivity of capital 2019
(500)	(1,531)	(1,148)

Increase in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of capital 2018
500	3,174	2,381

Decrease in basis points 2018	Sensitivity of net interest income 2018	Sensitivity of capital 2018
(500)	(3,174)	(2,381)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in exchange rates. The management set limits on foreign currency positions based on the requirements of the National Bank of the Republic of Belarus. Positions are tracked by the Bank Risk Control Department on a daily basis.

(in thousands of Belarusian rubles)

Information on the Bank's currency risk level as at 31 December 2019 and 31 December 2018 is provided below:

	BYN	1 USD = 2.1085	1 EUR= 2.3637	100 RUB= 3.3982	Other curren-cies	31 December 2019 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	43,699	11,032	6,601	7,787	166	69,285
Derivative financial assets	139	-	-	-	-	139
Due from banks	3,473	296	1	-	-	3,770
Obligatory provisions in the National Bank	3,259	-	-	-	-	3,259
Securities held for sale	11,734	84,671	16,376	-	-	112,981
Securities recognized at fair value through profit or loss	-	-	-	-	-	-
Loans to customers	146,631	10,690	83,622	8,303	-	249,246
Other financial assets	557	-	-	-	-	557
TOTAL FINANCIAL ASSETS	**209,492**	**106,889**	**106,600**	**16,090**	**166**	**439,237**
FINANCIAL LIABILITIES:						
Due to banks	12,513	8,929	20,100	6,825	-	48,367
Derivative financial liabilities	-	-	-	-	-	-
Due to customers	116,720	142,073	20,093	21,679	-	300,565
Debt securities issued	6,674	-	-	-	-	6,674
Other financial liabilities	2,584	-	-	-	-	2,584
TOTAL FINANCIAL LIABILITIES	**138,491**	**151,002**	**40,193**	**28,504**	**-**	**358,190**
TOTAL CURRENCY POSITION	**71,001**	**(44,113)**	**66,407**	**(12,414)**	**166**	**81,047**
Requirements for spot transactions	942	57,770	-	8,973	-	67,685
Liabilities under spot transactions	-	-	67,537	-	-	67,537
NET POSITION FOR SPOT TRANSACTIONS	**942**	**57,770**	**(67,537)**	**8,973**	**-**	**148**
TOTAL CURRENCY POSITION	**71,943**	**13,657**	**(1,130)**	**(3,441)**	**166**	**81,195**

	BYN	1 USD = 1.1598	1 EUR= 2.4734	100 RUB= 3.1128	Other curren-cies	31 December 2018 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	47,662	11,534	9,429	4,075	35	72,735
Derivative financial assets	44	-	-	-	-	44
Due from banks	89	327	236	-	1	653
Obligatory provisions in the National Bank	4,106	-	-	-	-	4,106
Securities	12,736	97,767	5,632	13,716	-	129,851
Loans to customers	116,291	29,971	62,067	14,654	-	222,983
Other financial assets	1,165	-	-	-	-	1,165
TOTAL FINANCIAL ASSETS	**182,093**	**139,599**	**77,364**	**32,445**	**36**	**431,537**
FINANCIAL LIABILITIES:						
Due to banks	28,162	56,099	2	14,016	-	98,279
Derivative financial liabilities	25	-	-	-	-	25

(in thousands of Belarusian rubles)

	BYN	1 USD = 1.1598	1 EUR= 2.4734	100 RUB= 3.1128	Other curren-cies	31 December 2018
Due to customers	64,535	119,868	43,684	11,080	-	239,167
Debt securities issued	12,035	-	-	-	-	12,035
Other financial liabilities	409	-	-	-	-	409
TOTAL FINANCIAL LIABILITIES	**105,166**	**175,967**	**43,686**	**25,096**	**-**	**349,915**
OPEN CURRENCY POSITION	**76,927**	**(36,368)**	**33,678**	**7,349**	**36**	**81,622**
Requirements for spot transactions	-	39,293	-	-	-	39,293
Liabilities under spot transactions	-	-	33,020	8,233	-	41,253
NET POSITION FOR SPOT TRANSACTIONS	**-**	**39,293**	**(33,020)**	**(8,233)**	**-**	**(1,960)**
TOTAL CURRENCY POSITION	**76,927**	**2,925**	**658**	**(884)**	**36**	**79,662**

The following table presents the currencies in which the Bank has significant positions as at 31 December 2019 and 31 December 2018 for non-trading monetary assets and liabilities, as well as projected cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble in the statement of comprehensive income (due to the presence of non-trading monetary assets and liabilities, the fair value of which is sensitive to changes in the exchange rate) while all other variables remain unchanged. The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in the statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

	as at 31 December 2019		**as at 31 December 2018**	
	BYR/USD	BYR/USD	BYR/USD	BYR/USD
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	1,143	(1,143)	292	(292)
Effect on equity	1,143	(1,143)	292	(292)

	as at 31 December 2019		**as at 31 December 2018**	
	BYR/EUR	BYR/EUR	BYR/EUR	BYR/EUR
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	(113)	113	66	(66)
Effect on equity	(113)	113	66	(66)

	as at 31 December 2019		**as at 31 December 2018**	
	BYR/RUB	BYR/RUB	BYR/RUB	BYR/RUB
	10.0%	-10.0%	10.0%	-10.0%
Effect on profit after tax	(344)	344	66	(66)
Effect on equity	(344)	344	66	(66)

(in thousands of Belarusian rubles)

Commodity risk

Commodity risk reflects the amount of possible losses of the Bank related to changes in the cost of goods. The Bank considers movable property received in repayment of debt on credit operations, as well as property intended for sale, to be subject to commodity risk. As at 31 December 2019 and 31 December 2018, the value of this property was 315 thousand BYN and 137 thousand BYN, and the amount of commodity risk as at 31 December 2018 and 31 December 2017, respectively, was 57 thousand BYN and 25 thousand BYN.

Operational risk

Operational risk is the risk arising from system failure, personnel errors, fraud or the actions of external factors. When the control system ceases to function, operational risks can harm reputation, have legal consequences or result in financial losses. The Bank cannot assume that all operational risks have been eliminated, but the Bank can manage such risks using a control system and by monitoring and responding appropriately to potential risks. The control system provides for effective separation of responsibilities, access rights, approval and reconciliation procedures, staff training, as well as valuation procedures, including internal audit.

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchical structure of valuation methods to determine and disclose information about the fair value of financial instruments:

- Level 1: quotes (unadjusted) in active markets for identical assets or liabilities;
- Level 2: valuation models where all inputs that have a significant impact on the reported amount of fair value are based, directly or indirectly, on market observable information;
- Level 3: valuation models that use inputs that have a significant impact on the reported amount of fair value that are not based on market observable information.

The table below provide the analysis of financial instruments recorded at fair value by the level of the hierarchy of sources of fair value:

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	139	-	139
Securities	-	112,981	-	112,981
	-	113,120	-	113,120

31 December 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Derivative financial liabilities	-	25	-	25
	-	25	-	25

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	44	-	44
Securities	25,807	97,774	-	123,581
	25,807	97,818	-	123,625

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities				
Derivative financial liabilities	-	25	-	25
	-	25	-	25

(in thousands of Belarusian rubles)

Financial instruments recognized at fair value

The following is a description of the determination of fair value for financial instruments which are recognized at fair value using valuation models. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation model with market observable inputs are mainly interest and currency swaps. The most commonly used valuation models include swap models that use present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivatives, the value of which is determined using valuation models that use significant inputs that are not observable in the market, are primarily long-term currency swaps with the National Bank of the Republic of Belarus. The cost of such derivatives is determined using the discounted cash flow model. This model combines various assumptions that are not observed in the market, including the volatility of market rates.

A comparison of the book value and fair value by class of financial instruments of the Bank that are recorded in the financial statements is presented below.

	Book value as at 31 December 2019	Fair value as at 31 December 2019	Book value as at 31 December 2018	Fair value as at 31 December 2018
Financial assets				
Cash and cash equivalents	69,285	69,285	72,735	72,735
Derivative financial assets	139	139	44	44
Due from credit institutions	7,029	7,029	4,759	4,759
Loans to customers	249,246	254,148	222,983	231,205
Securities	112,981	112,981	129,851	129,851
Other financial assets	557	557	1,165	1,165
Financial liabilities				
Due to credit institutions	48,367	48,367	98,279	98,279
Derivative financial liabilities	-	-	25	25
Due to customers	300,565	301,614	239,167	239,833
Debt securities issued	6,674	6,674	12,035	12,035
Other financial liabilities	2,584	2,584	409	409

Financial assets and liabilities, fair value of which approximates their book value

For financial assets and financial liabilities that are liquid or have a short-term maturity (less than three months) it is assumed that their book value approximates their fair value. This assumption also applies to demand deposits, savings accounts without a specific maturity and financial instruments with a floating rate.

Fixed-rate financial instruments

The fair value of fixed-rate financial assets and liabilities that are recognized at amortized cost is measured by comparing the market interest rates at the time of initial recognition of these instruments with the current market rates for similar financial instruments.

(in thousands of Belarusian rubles)

The estimated fair value of fixed-rate deposits is calculated based on discounted cash flows using the current money market interest rate for debt instruments with similar credit risk characteristics and maturities.

26. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below presents an analysis of assets and liabilities by expected maturities as at 31 December 2019.

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	W/o fixed maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	69,285	-	-	-	-	69,285
Due from banks	-	3,770	-	-	-	3,770
Obligatory provisions in the National Bank	-	-	-	-	3,259	3,259
Derivative financial assets	139	-	-	-	-	139
Loans to customers	4,630	53,501	178,037	7,753	5,325	249,246
Securities held for sale	1,298	22,621	42,274	46,788	-	112,981
Securities recognized at fair value through profit or loss	-	-	-	-	-	-
Other financial assets	557	-	-	-	-	557
TOTAL FINANCIAL ASSETS	**75,909**	**79,892**	**220,311**	**54,541**	**8,584**	**439,237**
FINANCIAL LIABILITIES:						
Due to banks	36,238	11,041	697	391	-	48,367
Derivative financial liabilities	-	-	-	-	-	-
Due to customers	88,414	120,607	91,544	-	-	300,565
Debt securities issued	6,674	-	-	-	-	6,674
Other financial liabilities	2,584	-	-	-	-	2,584
TOTAL FINANCIAL LIABILITIES	**133,910**	**131,648**	**92,241**	**391**	**-**	**358,190**
OPEN BALANCE SHEET POSITION	**(58,001)**	**(51,756)**	**128,070**	**54,150**	**8,584**	**81,047**

The table below presents an analysis of assets and liabilities by expected maturities as at 31 December 2018:

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	W/o fixed maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	72,735	-	-	-	-	72,735
Due from banks	436	-	-	217	-	653
Obligatory provisions in the National Bank	-	-	-	-	4,106	4,106
Derivative financial assets	44	-	-	-	-	44
Loans to customers	32,429	111,824	75,561	3,169	-	222,983
Securities	11,914	10,963	36,909	56,349	13,716	129,851
Other financial assets	1,165	-	-	-	-	1,165

(in thousands of Belarusian rubles)

TOTAL FINANCIAL ASSETS	**118,723**	**122,787**	**112,470**	**59,735**	**17,822**	**431,537**
FINANCIAL LIABILITIES:						
Due to banks	79,240	18,581	458	-	-	98,279
Derivative financial liabilities	25	-	-	-	-	25
Due to customers	123,120	76,121	39,926	-	-	239,167
Debt securities issued	-	-	12,035	-	-	12,035
Other financial liabilities	409	-	-	-	-	409
TOTAL FINANCIAL LIABILITIES	**202,794**	**94,702**	**52,419**	**-**	**-**	**349,915**
OPEN BALANCE SHEET POSITION	**(84,071)**	**28,085**	**60,051**	**59,735**	**17,822**	**81,622**

A significant imbalance in the positions "less than 3 months" and "from 3 to 12 months" is caused by the fact that a significant part of customer accounts are classified in the category "on demand and less than a year". The Bank's management believes that, despite the significant share of amounts due to customers classified as "on demand", the diversification of such amounts by the number and type of depositors, as well as the experience gained by the Bank, indicate that these amounts form a long-term and stable source of financing for the Bank's activities. The Bank's management believes that the Bank will be able to raise the necessary amount of funds in the interbank market for potential payments of deposits to customers. In other categories, the Bank has a positive net liquidity gap.

Overlap and/or controlled mismatch between the maturity terms and interest rates on assets and liabilities is a fundamental factor for the success of management of the Bank. In banks, as a rule, there is no complete overlap on these positions, as transactions often have uncertain maturity dates and different nature. The mismatch of these positions potentially increases the profitability of the activity, and at the same time increases the risk of losses. The maturity of assets and liabilities and the ability to replace interest liabilities at an acceptable cost as they mature are important factors for assessing the Bank's liquidity and risks in the event of changes in interest rates and exchange rates.

27. RELATED PARTY DISCLOSURES

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

Related parties may enter into transactions that would not take place between unrelated parties. The prices and terms of such transactions may differ from the prices and terms of transactions between unrelated parties.

The Republic of Belarus controls the activities of the Bank through state bodies, as well as directly and indirectly controls and exerts significant influence on a significant number of enterprises (collectively referred to as "state-related enterprises"). The Bank performs banking operations with these enterprises, including providing loans, raising deposits, cash and settlement operations, currency exchange operations, providing guarantees, as well as operations with securities and derivatives. Operations with state-related enterprises constitute a significant part of the Bank's operations.

(in thousands of Belarusian rubles)

Transaction volumes and balances on operations with related parties at the end of the reporting period, as well as the corresponding amounts of expenses and income for the year, are presented below:

	2019			2018		
	Shareholders. Republic of Belarus	**Key management personnel**	**Other related**	**Shareholders. Republic of Belarus**	**Key management personnel**	**Other related**
Cash and cash equivalents	-	-	35,923	-	-	45,709
Due from credit institutions	-	-	7,308	-	-	4,106
Loans as at 1 January	-	173	72,765	-	125	76,330
Loans not repaid as at 31 December	-	222	123,915	-	173	72,765
Less: allowance for impairment as at 31 December	-	(2)	(4,120)	-	-	(707)
Loans not repaid as at 31 December, less allowance	-	220	119,795	-	172	72,059
Securities	-	-	-	-	-	116,135
Due to customers as at 1 January	-	412	116,825	-	362	40,008
Due to customers as at 31 December	-	107	14,767	-	412	116,825
Due to credit institutions	-		-	-	-	458
Commitments and guarantees issued	-	1,739	35,178	-	162	6,243
Less allowance for impairment	-	-	(11,305)	-	-	(77)
Contract liabilities and guarantees issued less allowance for impairment	-	1,739	23,873	-	162	6,165
Interest income	-	2	578	-	14	5,121
Interest expenses	-	1	320	-	5	1,530
Net commission income	-	-	-	-	-	-
Other income	-	-	-	-	-	-
Other operating expenses	-	-	-	-	-	-

Remuneration to key management personnel includes the following items:

	2019	2018
Salaries and other short-term employee benefits	2,421	1,269
Social security contributions	823	431
Total remuneration to the key management personnel	**3,244**	**1,700**

28. SEGMENT ANALYSIS

Operating segments are components of the company that carry out financial and economic activities, allowing to make a profit or providing for the occurrence of expenses, the results of which operating activities are regularly reviewed by the operational decision maker and for which separate financial information is available. The operational decision maker may be a person or group of persons involved in the allocation of resources and evaluation of the Bank's performance. The Bank's Management Board is responsible for making operational decisions.

(a) Description of products and services that generate revenue for the reporting segments

The Bank's operations are organized in the main business segments:

– Retail banking operations - include the provision of retail banking services, provision of services to individual customers for opening and maintaining current accounts, accepting deposits, providing retail investment products, services for storage of valuables, servicing debit and credit cards, consumer and mortgage lending.

– Corporate banking operations - this segment includes servicing current and settlement accounts of organizations, raising deposits, overdrafts and other types of lending, operations with foreign currency and derivative financial instruments.

(b) Factors used by management to determine reporting segments

The Bank's segments are strategic business units focused on various clients. They are managed separately because each business unit needs its own marketing strategies and service levels, and each business unit is based on different business processes and decision-making processes.

(c) Measurement of profit or loss, assets and liabilities of operating segments

The person responsible for making operational decisions analyzes the financial information prepared in accordance with the requirements of the Belarusian accounting standards and updated to take into account the internal reporting requirements. This financial information differs in some respects from IFRS:

(i) Financial information is not restated in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies";

(ii) An allowance for loan portfolio impairment is recognized based on the banking legislation of the Republic of Belarus and available information, instead of the "expected loss" model prescribed in IFRS 9;

(iii) Changes in the fair value of available-for-sale securities are recorded in segment profit or loss, rather than in other comprehensive income;

(iv) Income taxes are not allocated to segments;

(v) Commission income on lending operations is recognized immediately instead of in future periods using the effective interest rate method;

(vi) resources are normally redistributed among segments using internal interest rates. These rates are determined on the basis of basic market interest rates, contractual maturity of loansand observed actual maturity of client balances.

The person responsible for making operational decisions assesses the performance of each segment based on profit before tax.

(in thousands of Belarusian rubles)

(d) Information on the profit or loss, assets and liabilities of the reporting segments is presented below:

	Investment block	Corporate block	Retail block	General bank block	31 December 2019
Interest income	6,681	12,475	15,324	-	34,480
Interest expenses	(3,729)	(7,890)	(5,035)	-	(16,654)
Net interest income	2,952	4,585	10,289	-	17,826
Allowance for loan impairment	-	(861)	(2,658)	-	(3,519)
Net commission income	88	2,162	1,617	-	3,867
Net income from securities transactions	3,423	-	-	-	3,423
Net income from foreign currency transactions					
- trade transactions	7,174	-	-	-	7,174
- revaluation of currency items	(1,324)	-	-	-	(1,324)

	Investment block	Corporate block	Retail block	General bank block	31 December 2019
Net income from transactions with derivative financial instruments	(12)	-	-	-	(12)
Other income	14	1,291	226	2,279	3,810
Personnel expenses	-	-	-	(13,775)	(13,775)
Depreciation and amortization	-	-	-	(2,594)	(2,594)
Other operating expenses	(409)	(127)	(3,108)	(8,715)	(12,359)
Other income/(expenses) from impairment and allowance creation	(80)	(350)	(116)	(511)	(1,057)
Segment financial result	11,823	6,700	6,250	(23,316)	1,457
Income tax expenses	-	-	-	(468)	(468)
Net profit/(loss)	11,823	6,700	6,250	(23,784)	989

	Investment block	Corporate block	Retail block	General bank block	31 December 2018
Interest income	7,706	11,851	8,761	-	28,318
Interest expenses	(4,349)	(4,043)	(2,293)	-	(10,685)
Net interest income	3,357	7,808	6,468	-	17,633
Allowance for loan impairment	-	2,690	(4,183)	-	(1,493)
Net commission income	(115)	1,559	2,096	-	3,540
Net income from securities transactions	(1,705)	-	-	-	(1,705)
Net income from foreign currency transactions					
- trade transactions	(2,968)	-	6,370	-	3,402
- revaluation of currency items	7,416	-	(6,364)	-	1,052
Net income from transactions with derivative financial instruments	(15)	-	-	-	(15)
Other income	8	3,273	31	1,445	4,757
Personnel expenses	-	-	-	(9,815)	(9,815)
Depreciation and amortization	-	-	-	(1,601)	(1,601)
Other operating expenses	(3)	(222)	(2,008)	(9,626)	(11,859)
Other income/(expenses) from impairment and allowance creation	(199)	206	(24)	(356)	(373)
Segment financial result	5,776	15,314	2,386	(19,953)	3,523

(in thousands of Belarusian rubles)

	Investment block	Corporate block	Retail block	General bank block	31 December 2018
Income tax expenses	-	-	-	(353)	(353)
Net profit/(loss)	5,776	15,314	2,386	(20,306)	3,170

29. CHANGES IN LIABILITIES RELATED TO FINANCING ACTIVITIES

Changes in financial liabilities related to financing activities for 2018 and 2017 are presented as follows:

	Debt securities issued	Total liabilities from financing activities
Book value as at 31 December 2017	**1,436**	**1,436**
Acquisition	53,920	53,920
Repayment	(43,576)	(43,576)
Interest paid	(780)	(780)
Interest accrued	939	939
Foreign exchange differences	96	96
Book value as at 31 December 2018	**12,035**	**12,035**
Acquisition	77,162	77,162
Repayment	(81,600)	(81,600)
Interest paid	(2,243)	(2,243)
Interest accrued	1,320	1,320
Book value as at 31 December 2019	**6,674**	**6,674**

30. CAPITAL ADEQUACY

The main regulatory body of the banking system is the National Bank of the Republic of Belarus, which establishes and controls the Bank's capital adequacy.

In order to maintain capital management requirements, the National Bank of the Republic of Belarus requires maintaining the ratio of the Bank's total capital to the total amount of assets measured by the risk level. The ratio is calculated based on financial statements prepared in accordance with National financial reporting standards. The risk level is determined in accordance with the credit risk ratios of the National Bank of the Republic of Belarus, specific to individual asset classes. As at 31 December 2019, the Bank's regulatory capital is 101,874 thousand BYN, main capital is 89,790 thousand BYN. The regulatory capital adequacy ratio as at 31 December 2019 was 28% (with the standard being 10%), the main capital adequacy ratio – 21% (with the standard being 4.5%).

According to the legislation, the minimum amount of regulatory capital for a bank must not be less than 57,410 thousand BYN as at 31 December 2019.

As at 31 December 2019 and 2018, the Bank has met the aforementioned capital requirements.

31. EVENTS AFTER THE REPORTING DATE

The date of approval of the financial statements for issue coincides with the date of its signing.

For the period from 01.01.2020 to 10.06.2020, there was a significant change in economic conditions. The US dollar rose by 12.8%, the Euro rose by 13.3%, and the Russian ruble rose by 1.8 %. In accordance with the decision of the regular annual general meeting of shareholders of the Bank, dividends were declared based on the results of the Bank's work for 2019 on common (ordinary) shares in the amount of 0.00 Belarusian rubles per share, and on preferred shares – 0.000048 Belarusian rubles per share.

In 2020, the COVID-19 virus (Coronavirus) spread around the world. Its negative impact on the global economy has increased. Management believes that the outbreak of the COVID-19 virus is a non-adjusting event after the reporting date. A quantitative assessment of the possible impact of the COVID-19 virus on the Bank's operations is practically impossible due to the fact that the situation has not yet been completed and it is impossible to predict further developments.

Chairman of the Management Board I. Katibnikov

Chief Accountant E. Scriba

Date of signing: 16 June 2020