

Translation from the original in Russian

“Priorbank” JSC

Consolidated financial statements

*Year ended 31 December 2020
together with the audit report of an independent audit firm*

Contents

Audit report of an independent audit firm

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Audit report of an independent audit firm on the consolidated financial statements of “Priorbank” Joint-Stock Company for the period from 1 January 2020 to 31 December 2020

To the Chairman of the Management Board
of “Priorbank” Joint-Stock Company
Mr. S.A. Kostyuchenko

To the shareholders, Supervisory Board and Audit Committee
of “Priorbank” Joint-Stock Company

Opinion

We have audited the consolidated financial statements of “Priorbank” Joint-Stock Company (JSC) and its subsidiaries (hereinafter, the “Group”), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with the Law of the Republic of Belarus On Auditing Activity, National Rules for Auditing Activities effective in the Republic of Belarus and with International Standards on Auditing (ISA). Our responsibilities under those rules and standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including international independence standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Belarus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<u>Key audit matter</u>	<u>How our audit addressed the key audit matter</u>
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<i>Estimation of allowances for expected credit losses on loans to customers in accordance with IFRS 9 Financial Instruments</i>	
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<p>The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management.</p>	<p>Our audit procedures included the analysis of the methodology for estimating the allowance for expected credit losses on loans to</p>
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<p>The identification of factors of a significant increase in credit risk, including the identification of any changes in the risk of default occurring over the remaining life of a financial instrument, as well as the estimation of probability of default and loss given default involve significant use of professional judgment and assumptions.</p>	<p>individuals and legal entities, testing of controls over the customer lending process, estimates of allowances for expected credit losses, as well as procedures to identify factors of a significant increase in credit risk and indicators of loan impairment.</p>
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<p>The use of various models and assumptions in the calculation of expected credit losses can significantly affect the level of the allowance for expected credit losses on loans to customers. Due to substantial amounts of loans to customers and an extensive use of professional judgment, the estimation of the allowance for expected credit losses is a key audit matter.</p>	<p>In respect of the assessment of the allowance for expected credit losses on loans to individuals and legal entities, we analyzed assumptions, tested input data used by the Bank, and analyzed the model for assessing the probability of default, the loss given default and macroeconomic overlay factors ratios. We verified the staging of loans by credit quality and recalculated the allowance for expected credit losses.</p>
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<p>In 2020, the Group updated its approach to customer credit risk assessment and macroeconomic parameters due to the effect of the COVID-19 pandemic.</p>	<p>Our audit procedures also included the recalculation of the allowance for individually significant loans to legal entities and loans with higher credit risk exposure. We analyzed the financial position of customers, their credit ratings, overdue and renegotiated exposures, sufficiency of collateral.</p>
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<p>The information on the allowance for expected credit losses on loans to customers and the Bank's management approach to assessing and managing credit risk are described in Notes 3, 9 and 29 to the consolidated financial statements.</p>	<p>We analyzed consistency of management's assumptions applied in calculating the allowance for expected credit losses.</p>
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Key audit matter

How our audit addressed the key audit matter

We assessed the effect of the COVID-19 pandemic on the assumptions used by management when updating the approach to customer credit risk assessment and forecasting macroeconomic indicators.

We analyzed the information related to the allowance for expected credit losses on loans, disclosed in the notes to the consolidated financial statements.

Responsibility of management and the Supervisory Board of "Priorbank" JSC for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of "Priorbank" JSC is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of the Republic of Belarus *On Auditing Activity*, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit performed in accordance with the Law of the Republic of Belarus *On Auditing Activity*, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board and the Audit Committee of "Priorbank" JSC 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 the Supervisory Board and the Audit Committee of "Priorbank" JSC 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 the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Translation from the original in Russian

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

Audit partner in charge of the engagement resulting in this independent auditor's report is P. A. Laschenko.



P.A. Laschenko
General Director
Ernst & Young LLC, FCCA



O.M. Yarmakovich
Head of Audit Department
Ernst & Young LLC, FCCA

27 April 2021

Details of the audited entity

Name: "Priorbank" Joint-Stock Company
"Priorbank" Joint-Stock Company was registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A.

Details of the audit firm

Name: Ernst & Young Limited Liability Company
Registered in the State Register of Legal Entities and Individual Entrepreneurs on 7 April 2005, Registration Number 190616051.
Member of the Audit Chamber since 26 December 2019.
Registration No. 10051 in the register of auditors, entered on 1 January 2020.
Address: 220004, Republic of Belarus, Minsk, K. Tsetkin str., 51a, 15th floor.

Translation from the original in Russian

"Priorbank" JSC

2020 IFRS consolidated financial statements

Consolidated statement of financial position

As at 31 December 2020

(thousands of Belarusian rubles)

	Notes	2020	2019
Assets			
Cash and cash equivalents	6	1,483,756	1,361,764
Trading securities	7	53,329	41,776
Amounts due from credit institutions	8	66,233	80,783
Loans to customers	9	3,544,888	3,008,139
Investment securities	11	386,786	299,802
Investment property	12	18,855	19,648
Property and equipment and right-of-use assets	13	151,434	155,050
Intangible assets	14	39,855	33,946
Current income tax assets		70	159
Deferred income tax assets	15	4,062	2,176
Other assets	17	38,178	66,433
Assets of disposal groups and non-current assets held for sale	10	186,212	277
Total assets		5,973,658	5,069,953
Liabilities			
Amounts due to credit institutions	18	221,985	181,993
Amounts due to customers	19	4,122,962	3,544,225
Amounts due to international financial institutions	20	218,064	130,831
Debt securities issued	21	56,268	54,422
Current income tax liabilities		11,261	2,912
Deferred income tax liabilities	15	39,535	32,648
Provisions	16,23	11,996	8,098
Other liabilities	17	57,986	155,335
Liabilities of disposal groups held for sale	10	179,053	-
Total liabilities		4,919,110	4,110,464
Equity			
Share capital	22	341,828	341,828
Additional paid-in capital		193	193
Foreign currency translation reserve		6,893	2,952
Retained earnings		686,654	585,438
Revaluation reserve for the net pension liability		(7,545)	(10,261)
Revaluation reserve for investment securities		143	77
Total equity attributable to shareholders of the Bank		1,028,166	920,227
Non-controlling interest		26,382	39,262
Total equity		1,054,548	959,489
Total equity and liabilities		5,973,658	5,069,953

Signed and authorized for release on behalf of the Management Board of the Bank

Sergey A. Kostyuchenko

Chairman of the Management Board

Anna V. Shloydo

Head of IFRS accounting division

27 April 2021

The accompanying notes on pages 6 – 70 are an integral part of these consolidated financial statements.

Translation from the original in Russian

"Priorbank" JSC

2020 IFRS consolidated financial statements

Consolidated statement of profit or loss

For the year ended 31 December 2020

(thousands of Belarusian rubles)

	Notes	2020	2019
Interest income calculated using the effective interest rate		312,586	294,215
Other interest income		34,752	31,753
Interest expense		(111,069)	(84,482)
Net interest income	24	236,269	241,486
Credit loss expense	16	(45,923)	(1,562)
Net interest income after credit loss expense		190,346	239,924
Fee and commission income		210,472	191,054
Fee and commission expense		(126,166)	(106,764)
Net fee and commission income	25	84,306	84,290
Net gains/(losses) from trading securities		(1,958)	49
Net gains/(losses) from foreign currencies:			
- Dealing		60,367	66,777
- Translation differences		62,497	(6,661)
Other income	26	17,626	13,742
Non-interest income		138,532	73,907
Personnel expenses	27	(102,150)	(96,590)
Depreciation, amortization and impairment	12,13,14	(34,808)	(29,420)
Other operating expenses	27	(71,583)	(66,126)
Other expenses from provisions	16	(37)	(5,004)
Non-interest expense		(208,578)	(197,140)
Profit before income tax expense		204,606	200,981
Income tax expense	15	(55,722)	(50,540)
Profit for the year		148,884	150,441
Attributable to:			
- Shareholders of the Bank		144,248	147,444
- Non-controlling interest		4,636	2,997
		148,884	150,441

The accompanying notes on pages 6 – 70 are an integral part of these consolidated financial statements.

Translation from the original in Russian

"Priorbank" JSC

2020 IFRS consolidated financial statements

Consolidated statement of comprehensive income

For the year ended 31 December 2020

(thousands of Belarusian rubles)

	Notes	2020	2019
Profit for the year		148,884	150,441
Other comprehensive income			
<i>Other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods:</i>			
Exchange differences on translation of the financial statements of a foreign subsidiary	22	6,259	(898)
Net change in the fair value of debt instruments at fair value through other comprehensive income	22	18	(72)
Income tax related to components of other comprehensive income	15	(5)	19
Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods		6,272	(951)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain/(loss) on defined pension plan	22	3,621	(5,099)
Gains/(losses) from equity instruments measured at fair value through other comprehensive income	22	70	(1)
Income tax related to components of other comprehensive income	15	(922)	1,275
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		2,769	(3,825)
Other comprehensive income for the year, net of tax		9,041	(4,776)
Total comprehensive income for the year		157,925	145,665
Attributable to:			
- Shareholders of the Bank		150,971	143,001
- Non-controlling interest		6,954	2,664
		157,925	145,665

The accompanying notes on pages 6 – 70 are an integral part of these consolidated financial statements.

Translation from the original in Russian

“Priorbank” JSC

2020 IFRS consolidated financial statements

Consolidated statement of changes in equity

For the year ended 31 December 2020

(thousands of Belarusian rubles)

	Attributable to shareholders of the Bank							Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Revaluation reserve for the net pension liability	Revaluation reserve for investment securities	Total		
At 1 January 2019	341,828	193	3,517	497,067	(6,437)	131	836,299	35,562	871,861
Profit for the year	-	-	-	147,444	-	-	147,444	2,997	150,441
Other comprehensive loss for the year	-	-	(565)	-	(3,824)	(54)	(4,443)	(333)	(4,776)
Total comprehensive income for the year	-	-	(565)	147,444	(3,824)	(54)	143,001	2,664	145,665
Dividends declared and paid to shareholders of the Bank (Note 22)	-	-	-	(59,073)	-	-	(59,073)	-	(59,073)
Disposal of non-controlling interest	-	-	-	-	-	-	-	1,036	1,036
At 31 December 2019	341,828	193	2,952	585,438	(10,261)	77	920,227	39,262	959,489
Profit for the year	-	-	-	144,248	-	-	144,248	4,636	148,884
Other comprehensive income for the year	-	-	3,941	-	2,716	66	6,723	2,318	9,041
Total comprehensive income for the year	-	-	3,941	144,248	2,716	66	150,971	6,954	157,925
Dividends (Note 22)	-	-	-	(43,032)	-	-	(43,032)	(19,834)	(62,866)
At 31 December 2020	341,828	193	6,893	686,654	(7,545)	143	1,028,166	26,382	1,054,548

The accompanying notes on pages 6 – 70 are an integral part of these consolidated financial statements.

Translation from the original in Russian

"Priorbank" JSC

2020 IFRS consolidated financial statements

Consolidated statement of cash flows

For the year ended 31 December 2020

(thousands of Belarusian rubles)

	<i>Notes</i>	<i>2020</i>	<i>2019</i>
Cash flows from operating activities			
Interest received		342,567	319,359
Interest paid		(107,944)	(81,168)
Fees and commissions received		210,964	191,366
Fees and commissions paid		(125,933)	(106,201)
Gains less losses from foreign currencies		77,437	66,182
Other income received		17,461	13,818
Personnel expenses paid		(97,236)	(94,573)
Other operating expenses paid		(71,020)	(63,711)
Cash flows from operating activities before changes in operating assets and liabilities		246,296	245,072
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(4,509)	(40,465)
Amounts due from credit institutions		(31,221)	(20,971)
Loans to customers		(99,507)	(398,501)
Other assets		5,211	(218)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		3,128	(76,417)
Amounts due to international financial institutions		52,690	71,966
Amounts due to customers		(25,879)	562,044
Other liabilities		47,994	27,287
Net cash from operating activities before income tax		194,203	369,797
Income tax paid		(41,735)	(46,482)
Net cash from operating activities		152,468	323,315
Cash flows from investing activities			
Purchase of investment securities at amortized cost		(308,865)	(6,381,925)
Proceeds from redemption of investment securities at amortized cost		168,029	6,382,689
Purchase of securities at FVOCI		(30,226)	(33,763)
Proceeds from sale of securities at FVOCI		40,568	36,291
Proceeds from sale of property and equipment and investment property		11,462	5,296
Purchase of property and equipment, intangible assets and investment property	12,13,14	(44,611)	(36,863)
Sale of subsidiaries		-	1,134
Net cash used in investing activities		(163,643)	(27,141)
Cash flows from financing activities			
Proceeds from issue of debt securities		2,451	502
Redemption of debt securities issued		(545)	(14,022)
Payments to repay lease liabilities		(2,854)	(2,571)
Dividends paid to shareholders of the Bank	22	(62,866)	(59,073)
Net cash used in financing activities	33	(63,814)	(75,164)
Effect of exchange rates changes on cash and cash equivalents		197,050	(7,923)
Net increase in cash and cash equivalents		122,061	213,087
Cash and cash equivalents, beginning		1,361,779	1,148,692
Cash and cash equivalents, ending	6, 10	1,483,840	1,361,779

The accompanying notes on pages 6 – 70 are an integral part of these consolidated financial statements.

Translation from the original in Russian

"Priorbank" JSC

Notes to the 2020 consolidated financial statements

(thousands of Belarusian rubles)

1. Principal activities

"Priorbank" Joint-Stock Company (hereinafter, "Priorbank" or the "Bank") was founded in 1989 as a public joint-stock company under the laws of the Republic of Belarus. The Bank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in July 2019. The Bank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2011.

The Bank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its head office is located in Minsk, and it has 76 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (jointly referred to as the "Group"). The list of consolidated subsidiaries is disclosed in Note 2. The Bank's legal address is 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A.

As at 31 December 2020 and 2019, Priorbank had the following shareholding structure:

Shareholders	2020 %	2019 %
Raiffeisen CIS Region Holding GmbH	87.74	87.74
State Property Committee of the Republic of Belarus	6.31	6.31
Individuals	4.84	4.83
Other	1.11	1.12
Total	100.00	100.00

Raiffeisen Bank International AG is the ultimate parent company of the Group, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

2. Basis of preparation

General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements in accordance with Belarusian accounting and reporting legislation and related instructions. These consolidated financial statements are based on the statutory financial statements and accounting records of the Bank and its subsidiaries, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention except as disclosed in the summary of accounting policies. For example, trading securities, securities available for sale and derivatives have been measured at fair value.

These consolidated financial statements are presented in thousands of Belarusian rubles ("BYN thousand"), unless otherwise indicated.

Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in 2020, many governments, including the Government of the Republic of Belarus, have introduced various measures to combat the outbreak, including travel restrictions and mask mandate. These measures have affected the global supply chain, demand for goods and services, as well as the overall scale of business activity. It is expected that the pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

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Notes to the 2020 consolidated financial statements

(thousands of Belarusian rubles)

2. Basis of preparation (continued)

Effect of the COVID-19 pandemic (continued)

Support measures have been introduced by the Government of the Republic of Belarus to counter the economic downturn caused by the COVID-19 pandemic. These measures include, among others, payment holidays and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and to help customers avoid liquidity shortages as a result of the COVID-19 containment measures.

The Group continues to assess the effect of the pandemic and changes in economic conditions on its activities, financial position and financial results.

Reclassifications

The following reclassification has been made to 2019 balances to conform to the 2020 presentation:

	<i>As previously reported</i>	<i>Reclassification</i>	<i>As adjusted</i>
Assets of disposal groups and non-current assets held for sale	–	277	277
Other assets	66,710	(277)	66,433

Subsidiaries

The consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Ownership, %</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2020</i>	<i>2019</i>				
Unitary Enterprise “PriortransAgro”	100	100	Belarus	June 1991	Agriculture	June 1991
Unitary Enterprise “Dom Office 2000”	100	100	Belarus	February 2001	Construction	February 2001
“Priorlife” JLLC	100	100	Belarus	April 2001	Insurance	April 2001
“Raiffeisen Leasing” JLLC	70	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-Leasing Litauen UAB	90	-	Lithuania	December 2019	Leasing	September 2020
Raiffeisen-Leasing Lithuania UAB	-	90	Lithuania	January 2011	Leasing	January 2011
“Insurance broker “Studiya Strakhovaniya” LLC	100	100	Belarus	September 2014	Insurance	September 2014
“Extrusion Technologies” LLC	89	100	Belarus	November 2017	Manufacturing	November 2017
“Estate Management” LLC	100	100	Belarus	May 2018	Real estate management	May 2018

In December 2019, the Supervisory Board of the Bank decided to make a non-monetary contribution of BYN 4,939.6 thousand to the share capital of “Extrusion Technologies” LLC. The amendment to the Charter was registered on 17 February 2020.

In September 2020, Raiffeisen-Leasing Lithuania, UAB was reorganized. A new legal entity Raiffeisen-Leasing Litauen, UAB was incorporated as a result of the reorganization. The former legal entity Raiffeisen-Leasing Lithuania, UAB continued to exist but was excluded from the Group.

(thousands of Belarusian rubles)

3. Summary of accounting policies

Changes in accounting policies

The Group has early adopted Amendment to IFRS 16: *Covid-19-related Rent Concessions*, which provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. No other standard, interpretation or amendment that has been issued but is not yet effective was early adopted by the Group.

Several other amendments effective since 1 January 2020 were applied but do not have an impact on the consolidated financial statements of the Group.

Basis of consolidation

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

- ▶ Power over the investee (i.e. rights that give it the current ability to direct the relevant activities of the investee)
- ▶ Exposure, or rights, to variable returns from its involvement with the investee
- ▶ The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- ▶ The contractual arrangement(s) with the other vote holders of the investee
- ▶ Rights arising from other contractual arrangements
- ▶ The Group's voting rights and potential voting rights.

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

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

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

Fair value measurement

The Group measures financial instruments recorded at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) at fair value at each reporting date.

The 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. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability, or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date, i.e. the date that the Group commits to purchase the asset or the liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities under a contract that requires delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model used to manage the instruments. Financial instruments are initially measured at fair value, including transaction costs, except when financial assets and financial liabilities are measured at FVPL.

Measurement categories of financial assets and liabilities

The Group classifies all its financial assets based on the business model used to manage the assets and the asset's contractual terms, measured at either:

- ▶ Amortized cost
- ▶ FVOCI
- ▶ FVPL.

The Group classifies and measures its derivative and trading instruments at FVPL. The Group may designate financial instruments as at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investment securities measured at amortized cost

The Group measures amounts due from credit institutions, loans to customers, and other financial investments at amortized cost, only when the following two conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- ▶ The contractual terms of the financial asset provide for the receipt on specified dates of cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- ▶ The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If after the initial recognition the cash flows are realized in a way different from the Group's expectations, the Group does not change the classification of the remaining financial assets held within this business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

"Solely payments of principal and interest on the principal amount outstanding" test (SPPI test)

As a second step of its classification process the Group assesses the contractual terms of a financial asset to identify whether they meet the SPPI test.

"Principal" for the purpose of this test is defined as the fair value of a financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

The Group measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains or losses arising due to changes in the fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Expected credit losses (ECL) on debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which continue to be measured at fair value. Instead, an amount equal to the allowance for expected losses that would be accrued if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other income when the right to the dividend has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the consolidated financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized, less cumulative amortization recognized in the consolidated statement of profit or loss, and ECL allowance.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these commitments are in the scope of the ECL requirements.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Reclassification of financial assets and liabilities

The Group does not reclassify financial assets after their initial recognition, apart from exceptional cases, when the Group changes its business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify its financial assets or liabilities in 2019.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB (excluding obligatory reserves) and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss within net gains from foreign currencies, translation differences position.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions, amounts due to customers, amounts due to international financial institutions, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated statement of profit or loss when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in the consolidated statement of profit or loss.

Leases

i. Group as a lessee

The Group applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use asset is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment testing.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Leases (continued)

Lease liabilities

At the commencement of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in in-substance fixed lease payments or a change in the assessment of the option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below BYN 12 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Significant judgment in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has an option under some of its leases to lease the assets for an additional term of three to five years. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive to exercise the renewal option. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

ii. Operating — Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Lease income arising is accounted for on a straight-line basis over the lease term and is included in revenue in the consolidated statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as lease income. Contingent lease payments are recognized as revenue in the period in which they are received.

iii. Finance – Group as a lessor

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

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Offsetting of financial assets

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default, and
- ▶ The event of insolvency or bankruptcy of an entity or any of its counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and agreeing new loan conditions.

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:

- ▶ A change in the currency of a loan
- ▶ A change in the counterparty
- ▶ Whether the modification is such that the instrument no longer meets the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group recognizes gains or losses from the modification that are recorded within interest income calculated using the effective interest rate method in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Group also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as a result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest must be made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position where:

- ▶ The rights to receive cash flows from the asset have expired.
- ▶ The Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement, and
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied to the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus applicable to the Group companies operating in the Republic of Belarus, including the representative office of Raiffeisen-leasing Lithuania UAB. Current income tax of the subsidiary Raiffeisen-leasing Lithuania UAB is calculated and paid in accordance with the applicable legislation of Lithuania.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax assets and liabilities are recognized on the level of each of the Group's companies. Assets of one company of the Group may not be offset against the liabilities of the other Group company.

Belarus also has various operating taxes, which are assessed on the Group's activities. These taxes are recognized within other operating expenses in the consolidated statement of profit or loss.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

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, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

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

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

	<u>Years</u>
Buildings	25-50
Furniture, fixtures and other	5-10

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

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

Investment property

Investment property is a building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business.

Investment property is recognized at cost, including transaction costs.

Earned rental income is recorded within other income in the consolidated statement of profit or loss.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified as property and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Buildings	50-100

Intangible assets

Intangible assets include computer software and other intangible assets.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, as adjusted for hyperinflation.

The useful lives of intangible assets are finite. Intangible assets with finite lives are amortized over the useful economic lives of 4 to 6 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Assets classified as held for sale

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

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

The Group measures an asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. The Group recognizes an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell if events or changes in circumstances indicate that their carrying amount may be impaired. Assets held for sale are disclosed in Note 10.

Inventories

Inventories include property transferred to the Group as a repayment of loans, as well as blocks of apartments and construction-in-progress owned by the Group. Inventories are recorded at the lower of cost and net realizable value.

Impairment, reversal and realization of inventories are recognized in other income or other expenses of the Group.

Provisions

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

Retirement and other employee benefit obligations

The Group participates in the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Group operates a defined benefit plan through its wholly owned subsidiary "Priorlife" JLLC, which provides eligible employees with retirement benefits upon reaching the retirement age of 63 for men and 58 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in the consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the statement of comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Retirement and other employee benefit obligations (continued)

Past services costs are recognized in profit or loss on the earlier of:

- ▶ The date of the plan amendment or curtailment, and
- ▶ The date that the Group recognizes restructuring-related costs.

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities.

The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated statement of profit or loss as personnel expenses:

- ▶ Service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan
- ▶ Net interest gains or losses.

Share capital

Share capital

Ordinary shares and preferred shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are recognized at cost adjusted for hyperinflation.

Dividends

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

Fiduciary assets

Fiduciary assets are not reported in the consolidated financial statements, as they are not owned by the Group.

Segment reporting

The Group's segment reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized in the consolidated financial statements:

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Interest income and expense

The Group calculates interest income on debt financial assets measured at amortized cost or FVOCI, applying the effective interest rate to the gross carrying amount of financial assets, except for credit-impaired assets. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as interest income or expense.

When a financial asset becomes credit-impaired, the Group calculates interest income by applying the effective interest rate to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest income by calculating the credit-adjusted effective interest rate and applying that rate to the amortized cost of the financial asset. The credit-adjusted effective interest rate is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

The interest income for all financial assets at FVPL is recognized with the use of a contractual interest rate in "Other interest income" in the consolidated statement of profit or loss.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income can be divided into the following two categories:

- ▶ *Fee and commission income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- ▶ *Fee and commission income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Dividend income

Income is recognized when the Group's right to receive the payment is established.

(thousands of Belarusian rubles)

3. Summary of accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Group’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of profit or loss as “Net gains from foreign currencies – translation differences.” Non-monetary items that are measured in terms of actual cost in a foreign currency are translated using the exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates as at 31 December 2020 and 2019 were 2.5789 Belarusian rubles and 2.1036 Belarusian rubles to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Belarusian rubles at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss.

Standards issued but not yet effective

The new standards, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these new standards, amendments and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:

- Separate the insurance coverage component and apply IFRS 17 to it
- Apply other applicable standards (such as IFRS 9, IFRS 15 *Revenue from Contracts with Customers* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) to the other components.

Loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder’s obligation created by the contract: issuers of such loans – e.g. a loan with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.

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3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on the date it first applies IFRS 17.

The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which it will first apply the amendment and does not expect this will result in a material impact on its consolidated financial statements.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* (IBOR reform Phase 2) to address the accounting issues which arise upon the replacement of an IBOR with an RFR.

These amendments include a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of the interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The Group will apply IBOR reform Phase 2 from 1 January 2021.

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Group's accounting policies, management has used its judgments and made estimates in determining the amounts recognized in the consolidated financial statements. The most significant judgments and estimates are as follows:

Losses from impairment of financial assets

The assessment of losses by all categories of financial assets requires judgment to be applied. In particular, when determining ECL and assessing a significant increase in credit risk, it is necessary to assess the amount and timing of future cash flows, and the value of collateral. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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4. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of ECL calculation models that are considered accounting judgments and estimates include:

- ▶ The Group's internal credit grading model, which assigns PDs to individual grades
- ▶ The Group's criteria for assessing if there has been a significant increase in credit risk, so allowances for impairment of financial assets should be measured on the lifetime ECL basis, and qualitative assessment
- ▶ Segmentation of financial assets when their ECL are assessed on a collective basis
- ▶ Development of ECL models, including various formulas and the choice of inputs
- ▶ Determination of interrelations between macroeconomic scenarios and economic data. For example, the interrelation between the unemployment rate and the collateral value, as well as the impact on the probability of default (PD), exposure at default (EAD), and loss given default (LGD)
- ▶ Selection of forecast macroeconomic scenarios and weighing of their probability to obtain economic inputs for ECL assessment models.

Due to the wide spread of COVID-19 and the world crisis, the Group introduced certain changes to its approach to the calculation of expected credit losses to reflect increased credit risks of entities affected by COVID-19, which resulted in the increase in the allowance by BYN 3,531 thousand. As the impact of the current situation on clients may not be clearly estimated (and separated from macroeconomic and other individual factors), the increase in the credit risk is recorded through the classification of assets subject to such risk as "Lifetime expected credit losses – not credit-impaired assets" (Stage 2 assets), with expected credit losses calculated over the entire life, respectively. Such classification is based on the analysis of the level of each client affected by COVID-19.

The allowance recognized in the consolidated statement of financial position as at 31 December 2020 was BYN 120,621 thousand (2019: BYN 77,815 thousand). More details are provided in Notes 6, 8, 9, 11 and 23.

Assessment of payment liabilities under the pension plan of "Priorlife" JLLC

A defined benefit obligation is assessed on an actuarial basis using the projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ. The sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 28.

Deferred tax assets

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Group. Further details regarding taxation issues are provided in Note 15.

5. Segment information

For management purposes, the Group identifies three operating segments based on its products and service, as follows:

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services.

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers, except for banking financial institutions.

Other – Treasury and International Department (transactions with banks) and other central functions that are not directly allocated.

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5. Segment information (continued)

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is measured differently from profit or loss in the consolidated financial statements. Income taxes are accounted for on a group basis and are not allocated to operating segments.

In 2020 and 2019, the Group had no interest income or expense from transactions with one external customer or counterparty, which would amount to 10% or more of total income and expense of each segment.

Non-current non-financial assets and deferred tax assets are related to the Republic of Belarus. Generally, all income is earned from sources in the Republic of Belarus.

The following tables present income, profit and certain asset and liability information regarding the Group's operating segments.

2020	Retail banking	Corporate banking	Other/ unallocated	Total
External income				
Interest income	131,675	191,023	24,640	347,338
Interest expense	(36,118)	(47,163)	(27,788)	(111,069)
Net interest income	95,557	143,860	(3,148)	236,269
Allowance for loan impairment	(9,660)	(28,894)	(7,369)	(45,923)
Net interest income after allowance for loan impairment	85,897	114,966	(10,517)	190,346
Net fee and commission income	26,495	61,046	(3,235)	84,306
Net gains from foreign currencies	36,816	52,360	33,688	122,864
Other non-interest income	-	-	15,668	15,668
Non-interest expense	(83,044)	(100,934)	(24,600)	(208,578)
Segment financial results	66,164	127,438	11,004	204,606
Income tax expense				(55,722)
Profit for the year				148,884
Assets and liabilities				
Segment assets	921,716	2,729,261	2,322,681	5,973,658
Total assets				5,973,658
Segment liabilities	1,827,524	2,351,706	739,880	4,919,110
Total liabilities				4,919,110
Other segment information				
Capital expenditure	3,410	1,013	30,541	34,964
Depreciation and amortization	(5,835)	(9,481)	(19,492)	(34,808)

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5. Segment information (continued)

2019	Retail banking	Corporate banking	Other/ unallocated	Total
External income				
Interest income	115,659	174,447	35,862	325,968
Interest expense	(23,804)	(24,909)	(35,769)	(84,482)
Net interest income	91,855	149,538	93	241,486
Allowance for loan impairment	3,445	(2,261)	(2,746)	(1,562)
Net interest income after allowance for loan impairment	95,300	147,277	(2,653)	239,924
Net fee and commission income	26,532	60,546	(2,788)	84,290
Net gains from foreign currencies	18,822	29,217	12,077	60,116
Other non-interest income	-	-	13,791	13,791
Non-interest expense	(79,175)	(95,294)	(22,671)	(197,140)
Segment financial results	61,479	141,746	(2,244)	200,981
Income tax expense				(50,540)
Profit for the year				150,441
Assets and liabilities				
Segment assets	906,174	2,175,978	1,987,801	5,069,953
Total assets				5,069,953
Segment liabilities	1,678,195	1,920,452	511,817	4,110,464
Total liabilities				4,110,464
Other segment information				
Capital expenditure	3,437	1,479	23,003	27,919
Depreciation and amortization	(4,915)	(6,020)	(18,485)	(29,420)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2020	2019
Cash on hand	201,687	146,774
Current accounts with credit institutions	192,879	200,470
Current accounts with the NBRB	594,120	330,035
Time deposits with credit institutions up to 90 days	495,154	424,319
Time deposits with NBRB up to 90 days	-	260,181
Total cash and cash equivalents	1,483,840	1,361,779
Reclassification to assets held for sale (Note 10)	(83)	-
Less allowance for impairment	(1)	(15)
Cash and cash equivalents	1,483,756	1,361,764

As at 31 December 2020, liquid funds were represented by short-term deposits with four foreign banks (2019: five foreign banks and the National Bank of the Republic of Belarus).

All balances of cash equivalents are allocated to Stage 1. Movements in ECL allowances for the year are as follows:

	2020	2019
Allowance for ECL at 1 January	15	3
Changes in ECL	(14)	12
Foreign exchange differences	-	-
Allowance for ECL at 31 December	1	15

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7. Trading securities

Trading securities owned by the Group comprise:

	2020	2019
Bonds of the Ministry of Finance of the Republic of Belarus	53,329	24,064
Bonds of the NBRB	–	17,712
Trading securities	53,329	41,776

Bonds are denominated in foreign currencies – US dollars and euros.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2020	2019
Obligatory reserve with the NBRB	51,079	39,561
Time deposits for more than 90 days	–	41,366
Other funds	15,160	–
Total amounts due from credit institutions	66,239	80,927
Less allowance for impairment	(6)	(144)
Amounts due from credit institutions	66,233	80,783

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

As at 31 December 2020, the Bank had time deposits with eight Belarusian banks (2019: five Belarusian banks).

Other funds include funds provided to non-resident banks as collateral in the amount of BYN 5,992 thousand, funds under two-factor factoring in the amount of BYN 1,084 thousand, and other asset transactions with non-resident banks in the amount of BYN 8,085 thousand.

Movements in ECL allowances for the year are as follows:

	2020	2019
Allowance for ECL at 1 January	144	–
Changes in ECL	1,470	144
Foreign exchange differences	30	
Reclassification to assets held for sale (Note 10)	(1,638)	–
Allowance for ECL at 31 December	6	144

9. Loans to customers

Loans to customers comprise:

	2020	2019
Corporate lending	2,035,615	1,588,524
Consumer lending	744,499	730,762
Small business lending	693,646	587,454
Residential mortgages	177,217	175,412
Total loans to customers at amortized cost	3,650,977	3,082,152
Less allowance for impairment	(106,089)	(74,013)
Loans to customers at amortized cost	3,544,888	3,008,139

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9. Loans to customers (continued)

Allowance for impairment of loans to customers

Movements in the gross carrying amount and respective ECL related to corporate lending for the year ended 31 December 2020 are as follows:

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	1,439,844	105,480	42,238	962	1,588,524
New originated or purchased assets	1,291,617	28,722	-	-	1,320,339
Assets redeemed	(1,071,956)	(156,420)	(4,255)	-	(1,232,631)
Transfers to Stage 1	31,931	(31,931)	-	-	-
Transfers to Stage 2	(268,440)	268,440	-	-	-
Transfers to Stage 3	(3,560)	-	3,560	-	-
Unwinding of discount	5,266	565	336	-	6,167
Amounts written off	-	-	(5,493)	-	(5,493)
Foreign exchange differences	315,812	37,373	5,524	-	358,709
At 31 December 2020	1,740,514	252,229	41,910	962	2,035,615

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	2,210	712	36,729	262	39,913
New originated or purchased assets	10,404	110	-	-	10,514
Assets redeemed	(1,467)	(774)	(2,716)	-	(4,957)
Transfers to Stage 1	203	(203)	-	-	-
Transfers to Stage 2	(1,881)	1,881	-	-	-
Transfers to Stage 3	(736)	-	736	-	-
Effect on period-end ECL due to transfers between stages during the period	(153)	876	1,464	-	2,187
Changes in inputs used for ECL calculations	4,033	1,116	968	-	6,117
Unwinding of discount (recorded in interest income)	-	-	249	-	249
Amounts written off	-	-	(5,493)	-	(5,493)
Foreign exchange differences	1,370	733	4,489	-	6,593
At 31 December 2020	13,983	4,451	36,426	262	55,122

Movements in the gross carrying amount and respective ECL related to small business lending for the year ended 31 December 2020 are as follows:

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	497,151	72,330	17,152	821	587,454
New originated or purchased assets	358,713	9,496	-	-	368,209
Assets redeemed	(284,029)	(45,920)	(2,413)	(106)	(332,468)
Transfers to Stage 1	29,486	(29,486)	-	-	-
Transfers to Stage 2	(90,028)	90,302	(274)	-	-
Transfers to Stage 3	(7,243)	(6,213)	13,456	-	-
Unwinding of discount	1,873	235	587	-	2,695
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(2)	-	(2)
Amounts written off	-	-	(3,160)	-	(3,160)
Foreign exchange differences	54,881	14,406	1,631	-	70,918
At 31 December 2020	560,804	105,150	26,977	715	693,646

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	3,275	1,132	14,336	821	19,564
New originated or purchased assets	3,107	137	-	-	3,244
Assets redeemed	(1,554)	(664)	(1,174)	(106)	(3,498)
Transfers to Stage 1	455	(455)	-	-	-
Transfers to Stage 2	(1,295)	1,544	(249)	-	-
Transfers to Stage 3	(150)	(122)	271	-	-
Effect on period-end ECL due to transfers between stages during the period	(305)	517	7,250	-	7,462
Changes in inputs used for ECL calculations	45	131	679	-	855
Unwinding of discount (recorded in interest income)	-	-	928	-	928
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(2)	-	(2)
Amounts written off	-	-	(3,160)	-	(3,160)
Foreign exchange differences	473	273	1,220	-	1,966
At 31 December 2020	4,051	2,493	20,099	715	27,358

Movements in the gross carrying amount and respective ECL related to consumer lending for the year ended 31 December 2020 are as follows:

<i>Consumer lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	706,880	12,558	11,324	-	730,762
New originated or purchased assets	188,105	-	-	-	188,105
Assets redeemed	(153,725)	(17,956)	(1,862)	-	(173,543)
Transfers to Stage 1	1,869	(1,731)	(138)	-	-
Transfers to Stage 2	(138,790)	139,278	(488)	-	-
Transfers to Stage 3	(8,602)	(3,124)	11,726	-	-
Unwinding of discount	(105)	(68)	-	-	(173)
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(54)	-	(54)
Amounts written off	-	-	(3,772)	-	(3,772)
Foreign exchange differences	2,774	188	212	-	3,174
At 31 December 2020	598,406	129,145	16,948	-	744,499

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

<i>Consumer lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	3,437	1,591	8,459	–	13,487
New originated or purchased assets	1,887	–	–	–	1,887
Assets redeemed	(530)	(857)	(1,011)	–	(2,398)
Transfers to Stage 1	303	(210)	(93)	–	–
Transfers to Stage 2	(1,824)	2,190	(366)	–	–
Transfers to Stage 3	(118)	(640)	758	–	–
Effect on period-end ECL due to transfers between stages during the period	(281)	3,723	7,182	–	10,624
Changes in inputs used for ECL calculations	(555)	11	987	–	443
Unwinding of discount (recorded in interest income)	–	–	607	–	607
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	(54)	–	(54)
Amounts written off	–	–	(3,772)	–	(3,772)
Foreign exchange differences	27	6	177	–	210
At 31 December 2020	2,346	5,814	12,874	–	21,034

Movements in the gross carrying amount and respective ECL related to residential mortgages for the year ended 31 December 2020 are as follows:

<i>Residential mortgages</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	173,828	834	750	–	175,412
New originated or purchased assets	18,850	–	–	–	18,850
Assets redeemed	(16,040)	(1,335)	(271)	–	(17,646)
Transfers to Stage 1	193	(141)	(52)	–	–
Transfers to Stage 2	(22,369)	22,389	(20)	–	–
Transfers to Stage 3	(3,850)	(569)	4,419	–	–
Unwinding of discount	(81)	36	20	–	(25)
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	–	–	–
Foreign exchange differences	609	17	–	–	626
At 31 December 2020	151,140	21,231	4,846	–	177,217

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

<i>Residential mortgages</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
ECL at 1 January 2020	657	9	383	–	1,049
New originated or purchased assets	156	–	–	–	156
Assets redeemed	(35)	(26)	(169)	–	(230)
Transfers to Stage 1	42	(1)	(41)	–	–
Transfers to Stage 2	(154)	163	(9)	–	–
Transfers to Stage 3	(135)	(7)	142	–	–
Effect on period-end ECL due to transfers between stages during the period	(42)	238	1,147	–	1,343
Changes in inputs used for ECL calculations	191	(1)	35	–	225
Unwinding of discount (recorded in interest income)	–	–	25	–	25
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	–	–	–
Foreign exchange differences	6	–	–	–	6
At 31 December 2020	686	375	1,514	–	2,575

Stage 2 new originated or purchased assets reflect drawdowns of open credit facilities.

Modified and restructured loans to customers

The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the changes in cash flows discounted at the original effective interest rate, the Group recognizes a gain or loss from modification to the extent that an impairment loss has not already been recorded.

Renegotiated loans and respective losses incurred by the Group are shown in the table below:

	<u>2020</u>	<u>2019</u>
Loans to customers modified during the period	195,876	50,922
Amortized cost before modification	196,437	51,647
Net loss on modification	(561)	(725)

Collateral and other credit risk enhancements

The amount and type of collateral required by the Group 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 commercial lending, charges over real estate properties, inventories and receivables
- ▶ For retail lending, mortgages over residential properties, cars, sureties.

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

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.

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9. Loans to customers (continued)

Collateral and other credit risk enhancements (continued)

The table below presents the analysis of the current fair value of collateral and credit enhancements for credit-impaired assets (Stage 3 assets). Depending on the level of collateral, ECL for some assets of Stage 3 may not be assessed individually when the expected value of collateral exceeds the LGD level, even if subsequently the value of collateral is projected using multiple economic scenarios. However, Stage 3 ECL can be higher than net exposure shown below when the future value of collateral measured using multiple economic scenarios is expected to decline.

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario				Net exposure	Associated ECL
		Cash/deposits	Property	Other*	Total collateral		
At 31 December 2020	92,358	844	13,139	2,515	16,498	75,860	71,891
Corporate lending	42,873	700	5,396	92	6,188	36,685	36,685
Small business lending	27,693	144	4,410	2,325	6,879	20,814	20,814
Consumer lending	16,945	-	-	98	98	16,847	12,878
Residential mortgages	4,847	-	3,333	-	3,333	1,514	1,514

	Maximum exposure to credit risk	Fair value of collateral held under the base scenario				Net exposure	Associated ECL
		Cash/deposits	Property	Other*	Total collateral		
At 31 December 2019	73,247	787	7,245	1,458	9,490	63,757	60,990
Corporate lending	43,200	700	5,509	-	6,209	36,991	36,991
Small business lending	17,973	87	1,369	1,360	2,816	15,157	15,157
Consumer lending	11,324	-	-	98	98	11,226	8,459
Residential mortgages	750	-	367	-	367	383	383

* Vehicles, machinery, other fixed assets, inventories and receivables.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use. The carrying amount of the assets repossessed and held as at the reporting date is as follows:

	2020	2019
Investment property	7,069	11,479
Property and equipment	38	81
Other assets	9,418	11,484
Total repossessed collateral	16,525	23,044

Concentration of loans to customers

As at 31 December 2020, the Group had a concentration of operating loans represented by BYN 805,752 thousand, or 22% of gross loan portfolio, due from the ten largest third-party borrowers (2019: BYN 656,148 thousand, or 21% of gross loan portfolio). An allowance of BYN 3,049 thousand (2019: BYN 773 thousand) was recognized against these loans.

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9. Loans to customers (continued)

Concentration of loans to customers (continued)

Loans have been extended to the following types of customers:

	2020	2019
Private companies	2,273,745	1,899,603
Individuals	921,716	906,174
State companies	455,516	276,375
Loans to customers	3,650,977	3,082,152

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

	2020	2019
Manufacturing, including:	1,053,052	681,505
Other manufacturing	251,470	196,683
Chemicals, rubber, plastics	235,978	85,846
Coking coal, oil products	221,806	149,705
Food, beverages, tobacco products	166,566	111,542
Wood processing	57,802	55,301
Machinery, equipment	30,595	23,126
Pharmaceutical industry	21,108	3,657
Electric equipment	19,580	15,127
Textile industry	19,246	17,259
Pulp and paper industry	18,723	14,113
Metals and metalware production	7,486	7,204
Transport facilities	2,692	1,942
Individuals	921,716	906,174
Wholesale trade	622,831	527,433
Retail trade	313,522	304,482
Transport	223,934	186,916
Mineral development and extraction	129,101	126,601
Real estate	125,380	90,313
Construction	93,929	83,219
Energy, gas, water supply	25,972	59,522
Other	141,540	115,987
Loans to customers	3,650,977	3,082,152

As at 31 December 2020, the Group applied adjustments to reflect significant uncertainty related to the potential extent and duration of economic difficulties and increased credit risk in certain industries, such as oil refining industry, textile industry, real estate and others, due to the COVID-19 pandemic.

Finance lease receivables

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2020 are analyzed below:

	Not later than 1 year	From 1 year to 5 years	Later than 5 years	Total
Investment in finance leases	161,103	233,861	128,472	523,436
Unearned future finance income on finance leases	(28,293)	(53,628)	(61,639)	(143,560)
Net investment in finance lease	132,810	180,233	66,833	379,876

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9. Loans to customers (continued)

Finance lease receivables (continued)

Finance lease receivables as at 31 December 2019 are analyzed below:

	<i>Not later than 1 year</i>	<i>From 1 year to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Investment in finance leases	131,844	191,565	91,094	414,503
Unearned future finance income on finance leases	(24,138)	(40,018)	(46,167)	(110,323)
Net investment in finance lease	107,706	151,547	44,927	304,180

10. Disposal groups and non-current assets held for sale

In 2020, management announced its plans to sell “Priorlife” JLLC and “Extrusion Technologies” LLC. The sale transactions are expected to be completed in 2021. At 31 December 2020, “Priorlife” JLLC and “Extrusion Technologies” LLC were accounted for as disposal groups held for sale.

Major categories of assets and liabilities of “Priorlife” JLLC and “Extrusion Technologies” LLC classified as held for sale at 31 December 2020 are presented below:

	<i>“Priorlife” JLLC</i>	<i>“Extrusion Technologies” LLC</i>	<i>Total</i>
Assets			
Cash and cash equivalents	83	–	83
Amounts due from credit institutions	56,887	–	56,887
Investment securities	109,814	–	109,814
Property and equipment	1,295	–	1,295
Intangible assets	1,007	–	1,007
Other assets	4,960	12,166	17,126
Assets of disposal groups and non-current assets held for sale	174,046	12,166	186,212
Current income tax liabilities	1,418	–	1,418
Deferred tax liability	57	–	57
Defined benefit plan: pension liabilities (Note 28)	37,677	–	37,677
Life insurance liabilities payable by a subsidiary	100,857	–	100,857
Pension liabilities payable by a subsidiary to third parties	35,582	–	35,582
Other liabilities	207	3,255	3,462
Liabilities of disposal groups held for sale	175,798	3,255	179,053
Net assets held for sale	(1,752)	8,911	7,159

11. Investment securities

Investment securities comprise the following:

	<i>2020</i>	<i>2019</i>
Debt securities measured at amortized cost		
Bonds of the Ministry of Finance of the Republic of Belarus	269,113	67,692
USA Federal Government Bonds	92,860	75,745
Bonds of the NBRB	–	121,814
	361,973	265,251
Less allowance for impairment	(7,553)	(549)
Debt securities measured at amortized cost	354,420	264,702
Debt securities at FVOCI		
USA Federal Government Bonds	30,908	33,760
Debt securities at FVOCI	30,908	33,760
Equity securities at FVOCI	1,458	1,340

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11. Investment securities (continued)

Movements in the gross carrying amount and related allowances for ECL on debt securities measured at amortized cost are presented below:

<i>Debt securities measured at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	265,251	-	-	265,251
New originated or purchased assets	308,865	-	-	308,865
Assets redeemed	(168,029)	-	-	(168,029)
Unwinding of discount (recorded in interest income)	(97)	-	-	(97)
Foreign exchange differences	68,959	-	-	68,959
Reclassification to assets held for sale (Note 10)	(112,976)	-	-	(112,976)
At 31 December 2020	361,973	-	-	361,973

<i>Debt securities measured at amortized cost</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Allowance for ECL at 1 January 2020	549	-	-	549
New originated or purchased assets	9,369	-	-	9,369
Assets redeemed	(341)	-	-	(341)
Changes to models and inputs used for ECL calculations	1,191	-	-	1,191
Foreign exchange differences	(53)	-	-	(53)
Reclassification to assets held for sale (Note 10)	(3,162)	-	-	(3,162)
At 31 December 2020	7,553	-	-	7,553

Movements in the gross carrying amount of debt securities measured at FVOCI are as follows:

<i>Debt securities at FVOCI</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount at 1 January 2020	33,760	-	-	33,760
New originated or purchased assets	30,178	-	-	30,178
Assets redeemed	(40,480)	-	-	(40,480)
Unwinding of discount (recorded in interest income)	(9)	-	-	(9)
Foreign exchange differences	7,459	-	-	7,459
At 31 December 2020	30,908	-	-	30,908

The Group at its discretion designated certain investments in equity instruments previously classified as available for sale as investments in equity instruments at FVOCI based on the fact that they are not held for trading. Such investments primarily include mandatory investments in the capital of stock exchanges and clearing companies and investments arising from debt securities received by the Group in exchange for debt repayment.

In 2020, the Group received dividends on equity instruments at FVOCI in the amount of BYN 100 thousand (2019: BYN 0 thousand), which were recognized within other income in the consolidated statement of comprehensive income.

As at 31 December 2020, the Group has investment securities in the form of USA Federal Government Bonds of BYN 123,768 thousand (2019: BYN 0 thousand) pledged as collateral under the pledge agreement with the European Bank for Reconstruction and Development and the International Finance Corporation.

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12. Investment property

Investment property represents buildings and equipment received as a repayment of bad debt and transferred under operating leases.

The movements in investment property are as follows:

	2020	2019
Cost		
At 1 January	20,283	12,230
Additions	455	6,828
Disposals	(5,689)	(3,058)
Transfer from property and equipment	2,862	4,283
Transfer from other assets	1,764	–
At 31 December	19,675	20,283
Accumulated depreciation		
At 1 January	(635)	(390)
Depreciation charge	(216)	(225)
Depreciation of disposed items	31	6
Transfer from property and equipment	–	(26)
At 31 December	(820)	(635)
Net book value		
At 1 January	19,648	11,840
At 31 December	18,855	19,648
	2020	2019
Rental income from investment property	923	569
Direct operating expenses on investment property that generates rental income	(537)	(379)
	386	190

The Group is not subject to any contractual liabilities to buy, construct, develop, repair, maintain or improve any items of investment property.

As at 31 December 2020, the Group has investment property pledged as collateral under general agreement on the cooperation in the course of financing small and medium-sized enterprises with Development Bank of the Republic of Belarus OJSC with historical cost of BYN 2,060 thousand (2019: BYN 2,334 thousand).

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13. Property and equipment and right-of-use assets

The movements in property and equipment and right-of-use assets were as follows:

	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Right-of-use assets</i>	<i>Total</i>
Cost				
At 31 December 2019	114,909	142,302	5,516	262,727
Additions	10,971	14,013	3,187	28,171
Disposals	(5,599)	(7,322)	-	(12,921)
Transfer to investment property	(2,862)	-	-	(2,862)
Reclassification to assets held for sale (Note 10)	(1,252)	(79)	-	(1,331)
At 31 December 2020	116,167	148,914	8,703	273,784
Accumulated depreciation				
At 31 December 2019	(28,067)	(77,294)	(2,316)	(107,677)
Depreciation charge	(3,000)	(14,862)	(2,644)	(20,506)
Disposals	3,045	4,860	-	7,905
Impairment	(2,108)	-	-	(2,108)
Reclassification to assets held for sale (Note 10)	13	23	-	36
At 31 December 2020	(30,117)	(87,273)	(4,960)	(122,350)
Net book value				
At 31 December 2019	86,842	65,008	3,200	155,050
At 31 December 2020	86,050	61,641	3,743	151,434
Cost				
At 31 January 2018	118,707	136,061	4,261	259,029
Additions	4,190	14,151	1,255	19,596
Disposals	(3,705)	(7,910)	-	(11,615)
Transfer to investment property	(4,283)	-	-	(4,283)
At 31 December 2019	114,909	142,302	5,516	262,727
Accumulated depreciation				
At 31 December 2018	(27,896)	(70,322)	-	(98,218)
Depreciation charge	(2,305)	(13,441)	(2,316)	(18,062)
Disposals	2,108	6,469	-	8,577
Transfer to investment property	26	-	-	26
At 31 December 2019	(28,067)	(77,294)	(2,316)	(107,677)
Net book value				
At 31 December 2018	90,811	65,739	-	156,550
At 31 December 2019	86,842	65,008	3,200	155,050

As at 31 December 2020, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYN 35,997 thousand (2019: BYN 31,825 thousand).

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14. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost			
At 31 December 2019	96,369	819	97,188
Additions	19,122	50	19,172
Disposals	(2,263)	(31)	(2,294)
Reclassification to assets held for sale (Note 10)	(1,549)	(353)	(1,902)
At 31 December 2020	111,679	485	112,164
Accumulated amortization			
At 31 December 2019	(63,012)	(230)	(63,242)
Amortization charge	(11,888)	(90)	(11,978)
Disposals	1,989	27	2,016
Reclassification to assets held for sale (Note 10)	839	56	895
At 31 December 2020	(72,072)	(237)	(72,309)
Net book value			
At 31 December 2019	33,357	589	33,946
At 31 December 2020	39,607	248	39,855
	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
Cost			
At 31 December 2018	84,752	743	85,495
Additions	11,618	76	11,694
Disposals	(1)	-	(1)
At 31 December 2019	96,369	819	97,188
Accumulated amortization			
At 31 December 2018	(51,959)	(151)	(52,110)
Amortization charge	(11,054)	(79)	(11,133)
Disposals	1	-	1
At 31 December 2019	(63,012)	(230)	(63,242)
Net book value			
At 31 December 2018	32,793	592	33,385
At 31 December 2019	33,357	589	33,946

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15. Taxation

The corporate income tax expense comprises:

	2020	2019
Current tax charge	51,591	49,234
Deferred tax charge – origination and reversal of temporary differences	5,058	12
Including: deferred tax recognized in other comprehensive income	(927)	1,294
Income tax expense	55,722	50,540

	2020	2019
Net gains/(losses) on debt instruments measured at FVOCI	5	(19)
Actuarial gain/(loss) on defined pension plan	922	(1,275)
Income tax recognized in other comprehensive income	927	(1,294)

Belarusian legal entities must file individual tax returns. In 2020 and 2019, the income tax rate for banks was 25%. In 2020 and 2019, the income tax rate for the Bank’s subsidiaries in the Republic of Belarus was 18%. In 2020 and 2019, the income tax rate for the foreign subsidiary in the Republic of Lithuania was 15%.

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

	2020	2019
Profit before tax	204,606	200,981
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	51,152	50,245
Tax exemption for operations with securities	(1,723)	(5,113)
Tax exemption for expenses related to supporting agricultural enterprises	–	(2,392)
Other tax exemptions	(4,262)	(4,497)
Income of subsidiaries taxed at different rates	(3,036)	(1,058)
Non-deductible expenses:		
- salaries and related expenses	5,174	3,904
- insurance	2,410	2,256
- provisions	953	3,228
- disposal of property and equipment	935	1,322
- charity	487	246
- depreciation and amortization	155	156
- maintenance and repairs	110	134
- consulting, advertising and representative expenses	85	94
- taxes other than income tax	30	24
- other	789	1,327
Change in deferred tax assets not recognized in the statement of financial position	1,521	–
Reversal of statutory revaluation of property and equipment	942	664
Income tax expense	55,722	50,540

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15. Taxation (continued)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>1 January 2019</i>	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	<i>2019</i>	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	<i>2020</i>
Tax effect of deductible temporary differences							
Property and equipment	5,238	(632)	-	4,606	(576)	-	4,030
Loans to customers	1,653	(561)	-	1,092	3,651	-	4,743
Other provisions	66	12	-	78	57	-	135
Other assets	931	(133)	-	798	1,352	-	2,150
Other liabilities	3,921	396	1,275	5,592	(1,800)	(922)	2,870
Deferred tax assets, gross	11,809	(918)	1,275	12,166	2,684	(922)	13,928
Deferred tax assets not recognized in the statement of financial position	-	-	-	-	(1,521)	-	(1,521)
Deferred tax asset offset against deferred tax liability	(9,078)	363	(1,275)	(9,990)	723	922	(8,345)
Total deferred tax assets	2,731	(555)	-	2,176	1,886	-	4,062
Tax effect of taxable temporary differences							
Allowance for loan impairment	(33,920)	(747)	-	(34,667)	(7,627)	-	(42,294)
Amounts due to credit institutions	(75)	55	-	(20)	(5)	-	(25)
Other provisions	(6,266)	442	-	(5,824)	2,344	-	(3,480)
Investment securities	(19)	(36)	19	(36)	(12)	(5)	(53)
Loans to customers	-	-	-	-	(99)	-	(99)
Investments in subsidiaries	(1,904)	-	-	(1,904)	2	-	(1,902)
Other assets	(85)	(102)	-	(187)	117	-	(70)
Other liabilities	-	-	-	-	(14)	-	(14)
Deferred tax liability	(42,269)	(388)	19	(42,638)	(5,294)	(5)	(47,937)
Deferred tax asset offset against deferred tax liability	9,078	(363)	1,275	9,990	(723)	(922)	8,345
Reclassification to assets held for sale (Note 10)	-	-	-	-	57	-	57
Total deferred tax liabilities	(33,191)	(751)	1,294	(32,648)	(5,960)	(927)	(39,535)
Deferred tax liabilities, net	(30,460)	(1,306)	1,294	(30,472)	(4,074)	(927)	(35,473)

Income tax expense in the statement of profit or loss includes deferred tax expense of “Priorlife” JLLC, for which the respective deferred tax liability was reclassified to liabilities of disposal groups held for sale.

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16. Credit loss expense and other expenses from provisions

The table below shows allowances for ECL on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2020:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	6	14	-	-	-	14
Amounts due from credit institutions	8	(1,470)				(1,470)
Loans to customers	9	(9,610)	(8,677)	(12,974)	106	(31,155)
Debt securities measured at amortized cost	11	(10,219)	-	-	-	(10,219)
Credit-related commitments	23	(1,952)	(935)	(206)	-	(3,093)
Total (allowance)/reversal of allowance for credit losses		(23,237)	(9,612)	(13,180)	106	(45,923)

The table below shows allowances for ECL on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2019:

	Notes	Stage 1	Stage 2	Stage 3	POCI	Total
Cash and cash equivalents	6	(12)	-	-	-	(12)
Amounts due from credit institutions	8	(144)				(144)
Loans to customers	9	3,395	114	(5,773)	(179)	(2,443)
Debt securities measured at amortized cost	11	2,028	-	-	-	2,028
Credit-related commitments	23	(679)	(45)	(267)	-	(991)
Total (allowance)/reversal of allowance for credit losses		4,588	69	(6,040)	(179)	(1,562)

In 2020, the Group received BYN 2,763 thousand that were written off earlier as bad debt (2019: BYN 2,772 thousand). This amount relates to loans to corporate customers in the amount of BYN 472 thousand (2019: BYN 365 thousand) and loans to individuals in the amount of BYN 2,291 thousand (2019: BYN 2,407 thousand) and is recognized directly in allowance for credit losses of the consolidated statement of profit or loss.

Expenses from other provisions are presented as follows:

	Other provisions
At 1 January 2019	-
Charge	5,004
Write-off	-
At 31 December 2019	5,004
Charge	37
Write-off	(17)
At 31 December 2020	5,024

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17. Other assets and liabilities

Other assets comprise:

	<u>2020</u>	<u>2019</u>
Other financial assets		
Accrued fines and fees and commissions receivable	2,826	2,825
Derivative financial assets	339	259
	<u>3,165</u>	<u>3,084</u>
Other non-financial assets		
Prepayments	17,402	12,901
VAT and other prepaid taxes other than income tax	1,992	12,278
Assets to be transferred under finance lease agreements	1,546	1,332
Property received as a repayment of loans	1,467	11,484
Insurance payments of a subsidiary	-	6,832
Blocks of apartments owned by the Bank	-	3,394
Other non-financial assets	12,606	15,128
	<u>35,013</u>	<u>63,349</u>
Total other assets	<u>38,178</u>	<u>66,433</u>

Other liabilities comprise:

	<u>2020</u>	<u>2019</u>
Other financial liabilities		
Salaries and bonuses payable	12,885	10,802
Derivative financial liabilities	11,541	650
Trade and other payables	5,784	5,630
Lease liability	4,441	3,029
Defined benefit plan: pension liabilities (Notes 10, 28)	-	38,591
Life insurance liabilities payable by a subsidiary	-	57,061
Pension liabilities payable by a subsidiary to third parties	-	18,870
Other financial liabilities	17,927	16,470
	<u>52,578</u>	<u>151,103</u>
Other non-financial liabilities		
Tax liabilities (taxes other than income tax)	1,794	2,750
Other non-financial liabilities	3,614	1,482
	<u>5,408</u>	<u>4,232</u>
Total other liabilities	<u>57,986</u>	<u>155,335</u>

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>2020</u>	<u>2019</u>
Current accounts	23,018	23,798
Time deposits and loans	198,967	158,195
Amounts due to credit institutions	<u>221,985</u>	<u>181,993</u>

As at 31 December 2020, time deposits and loans included amounts payable to the bank from RBI Group comprising BYN 133,971 thousand (2019: BYN 55,178 thousand).

EUR-denominated contracts and USD-denominated contracts bore interest rates of 1.58%-1.76% and 4.56%, respectively (2019: EUR-denominated and USD-denominated contracts bore interest rates of 2.73% and 6.33%, respectively).

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19. Amounts due to customers

Amounts due to customers comprise:

	2020	2019
Time deposits	1,033,535	1,220,232
Current accounts	3,089,427	2,323,993
Amounts due to customers	4,122,962	3,544,225
Held as collateral against letters of credit	8,932	5,926
Held as collateral against guarantees	4,736	3,121

As at 31 December 2020, amounts due to customers of BYN 205,104 thousand, or 8% of the total amounts due to customers, were due to the five largest third-party customers (2019: BYN 272,727 thousand, or 8%).

Included in time deposits are deposits of individuals of BYN 526,390 thousand (31 December 2019: BYN 585,977 thousand).

In accordance with the laws of the Republic of Belarus, time and conditional deposit agreements are classified as follows:

- ▶ Irrevocable agreements - agreements that do not provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement
- ▶ Revocable agreements - agreements that provide for repayment of the deposit prior to maturity or circumstances (event) or absence of circumstances (event) determined in the agreement upon demand of a depositor.

The depositor has right to claim the repayment of the deposit under the time revocable or conditional revocable deposit agreement prior to its maturity or prior to circumstances (event) or absence of circumstances (event) determined in the agreement. The Bank must repay the deposit within the timeframe and in accordance with the procedure stipulated by the time revocable or conditional revocable deposit agreement. The depositor has no right to claim early repayment of deposit under the time irrevocable and conditional irrevocable deposit agreements. Deposits under such agreements can be early repaid only with the Bank’s consent.

As at 31 December 2020, irrevocable deposits of individuals amounted to BYN 280,966 thousand, or 53% of the time deposits of individuals (31 December 2019: BYN 275,493 thousand, or 47%).

Amounts due to customers include accounts of the following types of customers:

	2020	2019
Private companies	2,272,153	1,847,482
Individuals	1,827,524	1,678,195
State companies and budgetary organizations	23,285	18,548
Amounts due to customers	4,122,962	3,544,225

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19. Amounts due to customers (continued)

An analysis of customer accounts by economic sector is as follows:

	<u>2020</u>	<u>2019</u>
Individuals	1,827,524	1,678,195
Manufacturing:	602,452	460,938
Machinery, equipment	100,839	90,385
Chemicals, rubber, plastics	87,898	70,737
Electric equipment	64,287	54,856
Wood processing	59,935	28,593
Food, beverages, tobacco products	57,091	43,877
Coking coal, oil products	23,743	11,250
Textile industry	19,145	12,830
Transport facilities	15,573	25,431
Pharmaceutical industry	8,644	5,936
Base metals production	5,439	24,361
Pulp and paper industry	2,886	13,556
Other manufacturing	156,972	79,126
Wholesale trade	523,595	328,951
Information and communications	423,636	458,604
Construction	146,942	114,356
Professional, research and technical activities	111,846	119,001
Real estate	89,808	65,033
Transport	82,618	64,393
Retail trade	64,232	57,203
Other	250,309	197,551
Amounts due to customers	<u>4,122,962</u>	<u>3,544,225</u>

20. Amounts due to international credit institutions

Amounts due to international credit institutions consist of the following:

	<u>2020</u>	<u>2019</u>
Amounts due to the European Bank for Reconstruction and Development (EBRD)	186,533	130,831
Amounts due to the European Investment Bank (EIB)	31,531	-
Amounts due to international financial institutions	<u>218,064</u>	<u>130,831</u>

21. Debt securities issued

As at 31 December 2020 and 2019, debt securities issued were represented by BYN-denominated non-documentary bonds maturing in 2023-2028. The bonds bear a floating interest rate linked to the NBRB refinancing rate.

22. Equity

The information on shares authorized, fully paid and outstanding is as follows:

	<u>Number of shares</u>		<u>Nominal value</u>		<u>Inflation adjustment</u>	<u>Total</u>
	<u>Preferred</u>	<u>Ordinary</u>	<u>Preferred</u>	<u>Ordinary</u>		
31 December 2019 and 2020	10,000	123,058,441	7	86,141	255,680	341,828

The par value of ordinary and preferred shares is BYN 0.70 per share. All authorized shares have been issued and fully paid.

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22. Equity (continued)

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors or its cost. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank’s Charter. In the event of the Bank’s liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Group’s shareholders based on the financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2020, the Group’s non-distributable reserves totaled BYN 254,263 thousand (2019: BYN 208,241 thousand). As at 31 December 2020, the Bank’s share in the non-distributable reserves of its subsidiaries totaled BYN 3,415 thousand (2019: BYN 3,204 thousand).

During the shareholders’ meeting held in April 2020, “Raiffeisen Leasing” JLLC, a subsidiary, declared dividends from profit of 2015-18 in the amount of BYN 66,175 thousand, of which 95%, or BYN 62,866 thousand is attributable to Raiffeisen Leasing International GmbH, and 5%, or BYN 3,309 thousand, is attributable to “Priorbank” JSC. The dividends were paid. At 31 December 2020, the non-controlling interest comprises the respective share of Raiffeisen Leasing International GmbH in net assets of “Raiffeisen Leasing” JLLC. The respective adjustment due to the disproportionate distribution of dividends was recorded within the Group’s retained earnings.

Movements in other capital items

Movements in other capital items were as follows:

	<i>Foreign currency translation reserve</i>	<i>Revaluation reserve for investment securities</i>	<i>Revaluation reserve for the net pension liability</i>	<i>Total</i>
At 1 January 2019	3,517	131	(6,437)	(2,789)
Exchange differences on translation of the financial statements of a foreign subsidiary	(565)	-	-	(565)
Revaluation of defined pension plans	-	-	(5,099)	(5,099)
Net change in the fair value of debt instruments at FVOCI	-	(72)	-	(72)
Net change in the fair value of equity instruments at FVOCI	-	(1)	-	(1)
Tax effect of net gains on debt and equity instruments at FVOCI and revaluation of defined pension plans	-	19	1,275	1,294
At 31 December 2019	2,952	77	(10,261)	(7,232)
Exchange differences on translation of the financial statements of a foreign subsidiary	3,941	-	-	3,941
Revaluation of defined pension plans	-	-	(3,621)	3,621
Net change in the fair value of debt instruments at FVOCI	-	18	-	18
Net change in the fair value of equity instruments at FVOCI	-	70	-	70
Tax effect of net gains on debt and equity instruments at FVOCI and revaluation of defined pension plans	-	(22)	(905)	(927)
At 31 December 2020	6,893	143	(7,545)	(509)

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22. Equity (continued)

Movements in other capital items (continued)

Foreign currency translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Revaluation reserve for investment securities

This reserve is used to record changes in the fair value of financial assets at FVOCI.

Revaluation reserve for the net pension liability

This reserve is used to record changes in actuarial calculations for the reporting period.

23. Commitments and contingencies

Operating environment

As an emerging market, the Republic of Belarus does not possess a well-developed business and regulatory infrastructure that would generally exist in more mature market economies. The Belarusian economy continues to display characteristics typical of an economy in transition. These characteristics include low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls, which cause the national currency to be illiquid outside of Belarus. The stability of the Belarusian economy is largely dependent upon the progress of reforms and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2020, Belarus experienced an economic downturn caused by the spread of the COVID-19 pandemic and political instability in the second half of the year. In 2020, GDP dropped by 0.9% year-on-year. At the end of the year, the state budget was implemented with a deficit for the first time in 7 years (BYN 1.9 billion or more than 1% of GDP). During 2020, the Republic of Belarus continued to increase its government debt. As at 1 January 2021, government debt totaled BYN 57.8 billion, which is BYN 13 billion more than at the beginning of the year. As at 1 January 2021, external government debt amounted to USD 18.6 billion, showing a year-on-year increase by USD 1.4 billion or 8.4% (taking into account translation differences).

The National Bank and the Government of the Republic of Belarus were focused on the stabilization of the financial market. Before 1 July 2020, the NBRB decreased key interest rates. The refinancing rate decreased from 9% to 7.75%, the rates applicable to permanently available and bilateral transactions performed to maintain current bank liquidity decreased from 10% to 8.75%; the rate on overnight deposits decreased from 8% to 6.75%.

In the face of economic shocks, the National Bank of the Republic of Belarus followed a tight monetary policy to keep the low inflation level which amounted to 7.47% in December 2020 (4.7% in December 2019). In August 2020, the National Bank of the Republic of Belarus adopted a decision to suspend permanently available transactions performed to maintain and withdraw liquidity, which was extended till 13 October 2020 and further till 19 January 2021. In January 2021, this decision was extended till 18 May 2021. The banks' liquidity was maintained through credit auctions.

In 2020, gold and foreign currency reserves of the Republic of Belarus decreased by USD 1.9 billion or 20.5% (2019: increased by USD 2.2 billion, or 31.2%) and at 1 January 2021, amounted to USD 7,468.5 million. In 2020, the BYN value to the foreign currency basket decreased by 14.18% (2019: decreased by 2.74%) as follows: the EUR/BYN exchange rate increased by 34.67% (2019: 4.89%), the USD/BYN exchange rate increased by 22.59% (2019: 2.6%), the RUB/BYN exchange rate increased by 2.44% (2019: decreased by 9.36%).

In September 2020, S&P Global Ratings agency changed the country outlook to negative and confirmed the B credit rating.

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23. Commitments and contingencies (continued)

Operating environment (continued)

Unlike other countries, the Government of the Republic of Belarus did not introduce any official isolation measures after the COVID-19 outbreak, although citizens were asked to minimize social contacts. In November 2020, the mandatory use of masks in public places was introduced. The daily number of confirmed cases of COVID-19 was growing in the second half of the year, however, by the end of the year the number became stable.

While management of the Group believes it is taking appropriate measures to support the sustainability of its business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and the financial position of the Group and its counterparties. The degree of such impact on the Group's consolidated financial statements is not currently determinable.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations of the Group. As at 31 December 2020 and 31 December 2019, there were neither significant claims, nor litigations against the Group.

The Group uses the same credit control and risk management policies in undertaking credit-related commitments as it does for operations recorded in the consolidated statement of financial position.

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

As at 31 December 2020, management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency control and customs regulations, continue to evolve. Legislation and regulations are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are usual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review for a period of five calendar years immediately preceding the year of review, and the expired period of the current calendar year. Under certain circumstances, reviews may cover longer periods. As a result, additional taxes, penalties and interest may be assessed by the supervisory authorities.

It is not practical to determine the amount of unasserted claims that may arise from any unfavorable circumstances, if any.

Taxes are accrued and settled in accordance with the tax legislation of the Republic of Belarus. As at 31 December 2020, the Group's management believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

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23. Commitments and contingencies (continued)

Operating environment (continued)

Financial commitments and contingencies

As at 31 December 2020, the Group's financial commitments and contingencies comprised the following:

	<u>2020</u>	<u>2019</u>
Credit-related commitments		
Undrawn loan commitments	871,655	994,740
Letters of credit	105,523	59,039
Financial guarantees	199,375	153,750
Commitments and contingencies	<u>1,176,553</u>	<u>1,207,529</u>
Provision for ECL on credit-related commitments	(6,972)	(3,094)
Other provisions	(5,024)	(5,004)
Deposits held as collateral against letters of credit and guarantees (Note 19)	(13,668)	(9,047)

The movements in provision for ECL for the year ended 31 December 2020 were as follows:

Credit-related commitments	Stage 1	Stage 2	Stage 3	Total
Provision for ECL at 1 January 2020	2,712	104	278	3,094
New commitments	8,084	-	-	8,084
Amounts paid	(3,966)	(1,051)	(2)	(5,019)
Expired commitments	(404)	(132)	(53)	(589)
Transfers to Stage 1	17	(14)	(3)	-
Transfers to Stage 2	(1,770)	1,770	-	-
Transfers to Stage 3	(1)	(12)	13	-
Effect on period-end ECL due to transfers between stages during the period	(9)	362	264	617
Foreign exchange differences	481	304	-	785
At 31 December 2020	<u>5,144</u>	<u>1,331</u>	<u>497</u>	<u>6,972</u>

The movements in provision for ECL for the year ended 31 December 2019 were as follows:

Credit-related commitments	Stage 1	Stage 2	Stage 3	Total
Provision for ECL at 1 January 2019	2,041	59	11	2,111
New commitments	3,277	10	-	3,287
Amounts paid	(2,502)	(59)	(10)	(2,571)
Expired commitments	(41)	(1)	-	(42)
Transfers to Stage 1	13	(13)	-	-
Transfers to Stage 2	(58)	58	-	-
Effect on period-end ECL due to transfers between stages during the period	(10)	50	277	317
Foreign exchange differences	(8)	-	-	(8)
At 31 December 2019	<u>2,712</u>	<u>104</u>	<u>278</u>	<u>3,094</u>

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24. Net interest income

Net interest income comprises:

	<u>2020</u>	<u>2019</u>
Financial assets at amortized cost	311,976	293,252
Cash equivalents	9,584	12,808
Amounts due from credit institutions	1,048	681
Loans to customers	290,629	257,624
Investment securities	10,715	22,139
Financial assets at FVOCI	610	963
Investment securities	610	963
Interest income calculated using the effective interest rate	312,586	294,215
Trading securities	1,789	573
Finance lease	32,963	31,180
Other interest income	34,752	31,753
Total interest income	347,338	325,968
Amounts due to NBRB	(3,092)	-
Amounts due to customers	(83,002)	(58,110)
Amounts due to credit institutions	(9,148)	(8,117)
Debt securities issued	(8,521)	(14,262)
Amounts due to international financial institutions	(7,306)	(3,993)
Interest expense	(111,069)	(84,482)
Net interest income	236,269	241,486

25. Net fee and commission income

Net fee and commission income comprises:

	<u>2020</u>	<u>2019</u>
Settlement operations	201,078	183,424
Guarantees and letters of credit	6,753	6,392
Currency conversion operations	19	26
Other	2,622	1,212
Fee and commission income	210,472	191,054
Settlement operations	(113,635)	(95,953)
Guarantees	(3,778)	(3,899)
Agency services	(2,534)	(3,053)
Currency conversion operations	(272)	(185)
Operations with securities	(209)	(96)
Other	(5,738)	(3,578)
Fee and commission expense	(126,166)	(106,764)
Net fee and commission income	84,306	84,290

26. Other income

Other income comprises:

	<u>2020</u>	<u>2019</u>
Income from agriculture services	8,431	6,675
Income from operating lease	2,244	1,156
Income from sale of property and equipment and investment property	895	174
Income from dividends	100	-
Other	5,956	5,737
Total other income	17,626	13,742

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27. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2020	2019
Salaries and bonuses	68,946	67,142
Social security costs	26,150	22,885
Retirement benefits (Note 28)	5,577	4,782
Other employment taxes	1,477	1,781
Personnel expenses	102,150	96,590
Software expenses	15,248	12,322
Deposit insurance fees	10,911	9,202
Occupancy and rent	9,306	9,729
Marketing and advertising	6,865	5,667
Legal and consultancy	6,046	5,402
Plastic cards operations	4,391	3,556
Taxes other than income tax	2,897	3,427
Office supplies	2,026	1,822
Communications	1,818	1,680
Transportation expenses	1,285	1,635
Repair and maintenance of equipment	1,098	1,090
Representation expenses	887	606
Inventory sale costs	557	1,074
Personnel training	500	986
Loss on disposal of property and equipment and intangible assets	385	968
Security	246	283
Business travel and related expenses	183	1,068
Other	6,934	5,609
Other operating expenses	71,583	66,126

28. Post-employment benefits

Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

Liability according to a defined benefit plan is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

Net benefit expense (recognized within personnel expenses)

	2020	2019
Current service cost	2,238	1,855
Interest cost on benefit obligation	3,044	2,838
Past service cost	295	89
Net benefit expense (Note 27)	5,577	4,782

Retirement benefit liability

	2020	2019
Retirement benefit liability (Note 17)	(37,677)	(38,591)

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28. Post-employment benefits (continued)

Defined benefit plan (continued)

Changes in value of the defined benefit obligation

	2020	2019
Opening defined benefit plan obligation	38,591	32,491
Current service cost	2,238	1,855
Interest expense	3,044	2,838
Increase in obligations due to changes in pension plan terms	295	89
Actuarial gains arising from changes in demographic assumptions	(102)	(98)
Actuarial gains/losses arising from changes in finance assumptions	(8,532)	4,561
Current regulating amendments	5,013	636
Benefits paid	(2,870)	(3,781)
Closing defined benefit obligation	37,677	38,591

Changes in plan obligations

	2020	2019
Opening plan obligation	(38,591)	(32,491)
Net benefit expense	(5,577)	(4,782)
Revaluation of defined benefit plans recognized in other comprehensive income	3,621	(5,099)
Benefits paid	2,870	3,781
Closing plan obligation	(37,677)	(38,591)

The principal assumptions used in determining pension obligations for the Bank’s plan are shown below:

	2020	2019
Discount rate	6.05%	4.23%
Future inflation rate	6.01%	7.46%

In 2019 and 2020, all settlements (excluding settlements on periodic lifelong benefits to retired personnel) were made in euro using the basic amounts denominated in euro and the respective parameters (discount rate, salary growth rate, yield on accounts) related to the amounts denominated in euro.

The average term of defined benefit plan obligations at the end of the reporting period was 10 years (2019: 13.7 years).

The best estimate of the amounts of the employer’s contributions to be paid in the annual period, after the estimation date amounted to BYN 1,577 thousand (2019: BYN 1,109 thousand).

Sensitivity analysis

	Changes in assumptions	Effect on the benefit obligation for 2020	Effect on the benefit obligation for 2019
Discount rate	+/-1 pp	3,558	5,092
Future inflation rate	+/-1 pp	1,060	1,686
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+/-0.5 pp	73	159

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29. Risk management

Introduction

The Group has an effective risk management system developed according to the Belarusian legislation, international requirements and standards that incorporates managing credit, market, operating and liquidity risks.

Key elements of the Group's risk management system are organizational structure, combination of authority and responsibility of officials, risk management methods and procedures that define processes of identification and assessment of material types of risks, their monitoring, limiting and control.

The effective organizational structure of risk management system complies with the organizational and functional structure, nature and scope of the Group's activity, excludes conflict of interest and segregates risk management duties between the following collegial bodies and business units:

- ▶ *The Supervisory Board* bears general responsibility for risk identification and control. The Supervisory Board determines key directions for development and effective functioning of the risk management system, approves the Group's strategic development plan, capital and risk management strategy and controls their implementation.
- ▶ *The Bank's Management Board* determines goals and objectives of risk management and arranges thereunder an effective risk management system, including through optimal segregation and delegation of duties in the course of risk management process, controlling compliance with the limits and authority of the Group's officials, taking measures to mitigate (reduce) risks.
- ▶ *Risk Committee, Credit Committee, Financial Committee, and Problem Loans Committee* have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk management issues and manage and control implementation of risk-related decisions.
- ▶ *The risk management units* are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.
- ▶ *The Bank Treasury* is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the liquidity and funding risks of the Bank.
- ▶ *Audit Committee* is responsible for overall management and effective functioning of internal control system and internal audit function of the Group.
- ▶ *Internal Audit*: the risk management processes throughout the Group are audited annually by the Audit Function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The findings and recommendations of assessments are reported to the Audit Committee.

Risk measurement and reporting systems

Monitoring and control of all material risks are performed based on both quantitative and qualitative methods. Major focus is put on risk concentration arising from uneven allocation of debt. Risk concentration is managed through established limits. The Group assesses risks at the stage of preliminary and subsequent control and determines authorities responsible for risk management. The Group develops and regularly revises local regulations that cover risk assessment and management.

Credit risk is managed by the Group's risk management unit separately from each customer segment by developing credit policies together with business units, developing standardized credit products, performing independent financial analysis of enterprises and market analysis for corporate customers, independent assessment of risks for each individual customer limit, establishing requirements for the amount and structure of respective collateral, controlling compliance with the limits and established terms of financing. In order to ensure high quality of the credit portfolio, the Group constantly improves its system for early identification of problem customers, further develops the policy for prevention of misconduct related to loan transactions with major focus on prevention and identification of misconduct, regularly analyzes its exposure to credit risk by stress-testing credit risk level.

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29. Risk management (continued)

Introduction (continued)

Interest rate risk management and control is based on various methods of sensitivity analysis, stress-testing and assessment of the effect of changes in interest rates on the Group's income. The Group also controls currency risk through limiting positions according to local and international standards, performs monitoring for the purpose of assessment of the effect of crisis event on the currency market on the Group's activity through stress-testing.

The Group manages assets and liabilities based on key principles of liquidity management, measures, monitors and controls financial flows on a daily basis. In order to measure its actual requirement in liquid funds, the Group monitors liquidity using the gap analysis, liquidity ratio method and stress-testing. As part of improvement of the risk management system, the Group introduced the process for monitoring and managing new liquidity ratios suggested in Basel III.

For the purpose of quality and effective operating risk management, the Group identifies and registers operating incidents, constantly monitors key operating risk indicators, annually assesses operating risk and performs scenario analysis. The Group constantly improves corporate culture for understanding the operating risk and methods to prevent operating losses.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks early. This information is presented and explained to the Supervisory Board. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loans Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Risk Committee and the Executive Committee receive a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As requested by all relevant subdivision throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular meetings are held with Risk Committee, Credit Committee, Financial Committee and Problem Loans Committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, changes in credit risk, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks (see below for more details).

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 Group's performance to developments affecting a particular industry or geographic region.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

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29. Risk management (continued)

Credit risk (continued)

Where appropriate and in the case of most loans, the Group obtains collateral. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers letters of credit/guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit/guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated 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 carrying amounts.

If the financial instruments are recorded at fair value, the carrying amount 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.

More details on the maximum exposure to credit risk for each class of financial instruments are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is described in Note 9.

Impairment assessment

The Group calculates ECL on the basis of several probability-weighted scenarios to assess expected cash shortfalls, which are discounted using the EIR or its approximate value. A cash shortfall is the difference between the cash flows that are due under the contract and the cash flows that an entity expects to receive. The mechanics of ECL calculations are outlined below and the key elements are as follows:

Probability of default (PD) *Probability of default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the asset has not been previously derecognized and is still in the portfolio.

Exposure at default (EAD) *Exposure at default* is an estimate of the exposure at default at a certain future date, adjusted to reflect its changes expected after the reporting date, including payments of interest or principal amount due under a contract or otherwise, expected repayment of loans issued and interest accrued on overdue payments. For the off-balance sheet items (guarantees issued, letters of credit, undrawn credit lines), the total amount of risk equals the amount of risk prior to the application of the credit conversion factor (CCF). The credit conversion factor represents the share of the current unused amount that will be used during the default period (applicable to off-balance sheet items).

Loss given default (LGD) *Loss given default* is an estimate of the loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

The estimated provision for ECL is calculated based on credit losses that are expected during the asset lifetime (the lifetime expected credit losses or lifetime ECL), if there has been a significant increase in credit risk since the initial recognition, otherwise the estimated provision is calculated in the amount equal to 12-month expected credit losses (12-month ECL). 12-month ECL are part of lifetime ECL and represent ECL arising from defaults on a financial instrument possible to occur within 12 months after the reporting date. Both lifetime and 12-month ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying basic portfolio of financial instruments.

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29. Risk management (continued)

Credit risk (continued)

The Group approved the policy concerning a significant increase in credit risk associated with a financial instrument since its initial recognition by analyzing the changes in the risk of default occurring over the remaining life of the financial instrument. Under this policy, the Group classifies loans into three categories and purchased or originated credit impaired assets.

Stage 1:	Includes financial instruments, for which there has been no indication of a significant increase in credit risk since initial recognition. 12-month ECL are recognized for such assets, with interest income being calculated based on the assets' gross carrying amount.
Stage 2:	Includes financial instruments, for which there has been an indication of a significant increase in credit risk since initial recognition, and no objective evidence of impairment exists. Lifetime ECL are recognized for such assets, with interest income still being calculated based on the assets' gross carrying amount.
Stage 3:	Includes financial assets with identified objective evidence of impairment at the reporting date. Lifetime ECL are recognized for such assets, with interest income being calculated based on the assets' book value taking into account the effect of discounting of expected cash flows on loans.
POCI assets:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired at initial recognition. POCI assets are recorded at fair value at initial recognition, with interest income being subsequently recognized based on the credit-adjusted effective interest rate. An ECL allowance is recognized or reversed only to the extent that there is a subsequent change in expected credit losses.

Default determining process

Default is recognized, if any of the following events occurs:

- 1) It is unlikely that the borrower repays its loan to the Group from main sources; or
- 2) Amounts payable to the Group under any material obligation related to loan are overdue by more than 90 days

Internal rating and PD estimation process

To assess the credit risk in practical terms, the Group applies the approach based on internal ratings, i.e. ratings that are calculated by the group itself. Based on the asset class, various risk classification procedures (rating and scoring models) are used.

The Group uses the following rating models to assess the credit risk associated with non-retail assets:

1. *Corporate* is applied to corporate counterparties.
2. *Small and medium business*: to small and medium-sized business entities.
3. *Financial institutions*: to all types of financial institutions, other than insurance companies.
4. *Sovereign state organizations*: to central governments and organizations related to the non-commercial public sector of countries.
5. *Local and regional authorities*: to government bodies (at the regional level) and local government bodies, as well as related non-profit organizations of the public sector.

All rating models of non-retail assets are developed by the parent bank. These models are centralized and used by the whole Group. The Group calculates ratings with the use specialized software. The Group's head office assigns ratings under models applicable to corporate customers, small-sized business entities, local and regional authorities.

Rating instruments are constantly analyzed and revised, where necessary. The Group regularly verifies rating models used and assesses their project capacity.

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29. Risk management (continued)

Credit risk (continued)

The process of assigning ratings to the Group's customers/counterparties under Financial Institutions, Sovereign State Organizations models is centralized and performed by the parent bank's analysts. Local credit analysts are also directly involved in the analysis of local customers and their rating assessment by preparing analytical tables and analytical reports to assign ratings. The parent bank's analysts review the prepared local analysis, then perform the scoring and assign the rating.

The process of assigning ratings to sovereign state organizations is passed to the respective parent bank's divisions. The bank's local analysts assign ratings to customers under Local and Regional Authorities model.

Estimates with respect to retail customers are applied automatically in the electronic system for processing applications.

Rating model for corporate customers and financial institutions divides the creditworthiness into 10 classes (9 non-default class and 1 default class), and each class (except for the default one) has three additional categories, A, B and C (25 non-default categories and 1 default category in total). Small and Medium Business rating model comprises seven main classes, three of which have three additional categories each. The professional judgment applicable to any counterparty is based on the analysis of financial data and on the expert examination performed by the credit analysts. Under some rating models the counterparties are assessed by comparison with available data from external sources as well as with the use of behavior description of the customer. The rating scale for retail assets is based on the scoring model.

The Group uses the following levels of internal credit rating:

<i>Internal grade</i>	<i>Retail customers (PD)</i>	<i>Corporate customers, SME customers and financial institutions</i>	<i>Sovereign state organizations, local and regional authorities</i>
High	–	1A – 3C	A1 – B3
Standard	<8.00%	4A – 7C	B4 – B5
Sub-standard	<100%	8A – 9C	C
Impaired	100%	10	D

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the customer's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loans, the Group assesses the possible default events within 12 months for the calculation of the 12 month-ECL. For Stage 2, Stage 3 and POCI financial assets, the EAD is considered for events over the lifetime of the instruments.

The Group determines the EAD by modeling the range of possible outcomes in case of default at various moments of time that corresponds to multiple scenarios. Then, depending on the Group's model results, each economic scenario is assigned PD under IFRS 9.

The Group offers its corporate and retail customers various overdrafts and credit cards, which can be withdrawn by the Group and/or the Group may reduce the limits upon one day notice. The Group does not limit the exposure to risk of credit losses by the contractual term to file the notification and instead calculates the ECL for the period that represents the Group's expectations with respect to the customer's behavior, probability of default and future measures to reduce the credit risk taken by the Group, which can provide for reducing or terminating loan facilities. The interest rate used to discount ECL on credit cards is based on the average effective interest rate, which is expected to be applied during the period of exposure to risk. This assessment takes into consideration many loans that are repaid in full every month and therefore, are interest-free.

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29. Risk management (continued)

Credit risk (continued)

Loss given default

In the event of corporate lending, LGD is assessed at least once in three months by client managers, revised and approved by the Group's credit risk department.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates include the expected EAD as compared to the amounts expected to be recovered or realized as a result of the sale of collateral held.

The Group classifies its retail loans into homogeneous groups based on key characteristics relevant for the assessment of future cash flows. For this purpose, historical loss data is used and a wide range of characteristics attributable to transactions (e.g., type of product, type of collateral) and the borrower's characteristics are considered.

Where required, new data and forward-looking economic scenarios are used to determine the LGD level under IFRS 9 for each group of financial instruments. When assessing the forward-looking information, the expected results are based on multiple scenarios. Major inputs include, for example, changes in the value of collateral, including housing prices in case of mortgage loans, prices for goods, payment status or other indicators of loss on the group of instruments.

The LGD levels are assessed for all Stage 1, 2, and 3 and POCI assets. Inputs for such LGD levels are assessed and, where possible, are adjusted by testing based on historical data with regard to the latest recoveries. This is repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Group performs an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition. Moreover, the assessment is performed on the basis of qualitative and quantitative information:

- ▶ Quantitative assessment is performed on the basis of the change in the risk of default occurring over the expected life of the financial instrument, for example, the instrument is transferred from 12-month expected credit losses to the lifetime expected credit losses - not impaired, if the estimated probability of default increases more than by 250%.
- ▶ Qualitative assessment: The number of factors is important for the assessment of the significant increase in credit risk (information on overdue amounts, significant changes in the expected performance and behavior of the borrower and other significant changes).

As at the transition date, the Group recognized lifetime ECL on loans with no credit rating at the date of initial recognition, since the analysis of whether a significant increase in credit risk has occurred since initial recognition would have required unreasonably excessive costs or efforts.

Loans are transferred from Stage 1 to Stage 2 if the following factors are in place:

- ▶ Overdue more than 30 days
- ▶ Early warning indicators of the increase in credit risk (corporate borrowers)
- ▶ Necessity to change previously agreed terms of a loan agreement to create more favorable conditions for the customer due to his inability to perform current obligations caused by the customer's financial position
- ▶ Full or partial refinancing of current debt that would be required, if the customer experienced financial difficulties
- ▶ The customer had no rating as at the reporting date
- ▶ Assets, for which the default was not determined, in case that the default is determined for other customer's loans (for the retail portfolio).

When estimating ECL on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

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29. Risk management (continued)

Credit risk (continued)

Forward-looking information and multiple economic scenarios

When determining the impairment amount, the Group uses forward-looking information based on macroeconomic models that results in the direct adjustment of probability of default. As the Group does not know for certain about the realization of these macroeconomic parameters in future, it is impossible to calculate the scenario due to the uncertainty factors.

The Group uses three scenarios: basic, optimistic and pessimistic. When performing calculations, the significance given to the latter two scenarios is 25%, while the significance of the basic scenario is 50%.

With respect to each scenario, the input data for the macroeconomic model include the values of the respective macroeconomic variables that are subsequently used to adjust the corresponding input parameters:

- ▶ GDP growth rates
- ▶ Unemployment rate
- ▶ Growth of consumer prices
- ▶ Foreign exchange rates.

The inputs and models used to calculate ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, sometimes qualitative adjustments are made or temporary adjustments are applied if such differences are significant.

The tables show the values of the key forward-looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations. Data for the Subsequent Years column are long-term average indicators and, therefore, are identical for all scenarios as at 31 December 2020.

Key factors	ECL scenario	Assigned probability, %	2021	2022	2023
GDP growth, %	Optimistic	25%	3.3	3.4	2.9
	Basic	50%	1.5	2.0	2.0
	Pessimistic	25%	-2.0	-0.6	0.3
USD/BYN exchange rate	Optimistic	25%	2.53	2.79	2.98
	Basic	50%	2.94	3.10	3.19
	Pessimistic	25%	3.67	3.65	3.55
EUR/BYN exchange rate	Optimistic	25%	2.63	3.11	3.47
	Basic	50%	3.51	3.77	3.92
	Pessimistic	25%	4.27	4.34	4.30
Growth of consumer prices, %	Optimistic	25%	4.0	4.3	4.9
	Basic	50%	6.2	6.0	6.0
	Pessimistic	25%	18.8	15.5	12.3
Unemployment rate, %	Optimistic	25%	3.2	3.0	3.4
	Basic	50%	4.5	4.0	4.0
	Pessimistic	25%	6.3	5.3	4.9

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29. Risk management (continued)

Credit risk (continued)

Credit quality by class of financial asset

The credit quality of financial assets is managed by the Group via an internal credit rating system, as described above. The analysis of the credit quality by class of assets for loan-related line items of the consolidated statement of financial position based on the Group's credit rating system is shown in the table below.

31 December 2020	Notes		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	651,870	630,283	-	-	1,282,153
Amounts due from credit institutions	8	Stage 1	-	66,239	-	-	66,239
Loans to customers at amortized cost:	9						
- Corporate lending		Stage 1	67	1,674,453	65,994	-	1,740,514
		Stage 2	-	194,248	57,981	-	252,229
		Stage 3	-	-	-	41,910	41,910
		POCI	-	-	-	962	962
- Small business lending		Stage 1	18,243	522,247	20,314	-	560,804
		Stage 2	136	70,061	34,953	-	105,150
		Stage 3	-	-	-	26,977	26,977
		POCI	-	-	-	715	715
- Consumer lending		Stage 1	-	586,313	12,093	-	598,406
		Stage 2	-	118,769	10,376	-	129,145
		Stage 3	-	-	-	16,948	16,948
- Mortgage lending		Stage 1	-	151,140	-	-	151,140
		Stage 2	-	-	21,231	-	21,231
		Stage 3	-	-	-	4,846	4,846
Debt investment securities:	11						
- measured at FVOCI		Stage 1	30,908	-	-	-	30,908
- measured at amortized cost		Stage 1	361,973	-	-	-	361,973
Credit-related commitments		Stage 1	1,331	984,633	5,689	-	991,653
	23	Stage 2	-	171,376	12,656	-	184,032
		Stage 3	-	-	-	868	868
Total			1,064,528	5,169,762	241,287	93,226	6,568,803

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29. Risk management (continued)

Credit risk (continued)

31 December 2019	Notes	High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	576,068	638,937	-	-	1,215,005
Amounts due from credit institutions	8	-	80,927	-	-	80,927
Loans to customers at amortized cost:	9					
- Corporate lending						
	Stage 1	58,810	1,265,467	115,567	-	1,439,844
	Stage 2	-	41,092	64,388	-	105,480
	Stage 3	-	-	-	42,238	42,238
	POCI	-	-	-	962	962
- Small business lending						
	Stage 1	-	448,079	49,072	-	497,151
	Stage 2	-	36,630	35,700	-	72,330
	Stage 3	-	-	-	17,152	17,152
	POCI	-	-	-	821	821
- Consumer lending						
	Stage 1	-	677,543	29,337	-	706,880
	Stage 2	-	2,472	10,086	-	12,558
	Stage 3	-	-	-	11,324	11,324
- Mortgage lending						
	Stage 1	-	173,828	-	-	173,828
	Stage 2	-	-	834	-	834
	Stage 3	-	-	-	750	750
Debt investment securities:	11					
- measured at FVOCI	Stage 1	33,760	-	-	-	33,760
- measured at amortized cost	Stage 1	265,251	-	-	-	265,251
Credit-related commitments						
	23	48,139	1,115,362	17,319	-	1,180,820
	Stage 2	-	19,812	6,467	-	26,279
	Stage 3	-	-	-	430	430
Total		982,028	4,500,149	328,770	73,667	5,884,624

See Note 9 for more details on the allowance for impairment of loans to customers.

Financial guarantees, letters of credit and loan commitments are tested for impairment and a provision for expected credit losses is calculated in a similar manner as for loans.

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29. Risk management (continued)

Credit risk (continued)

Geographical risk concentration

The geographical concentration of the Group’s financial assets and liabilities is set out below:

	2020				2019			
	Belarus	OECD	CIS and other foreign banks	Total	Belarus	OECD	CIS and other foreign banks	Total
Assets								
Cash and cash equivalents	790,205	643,355	50,196	1,483,756	764,481	559,561	37,722	1,361,764
Trading securities	53,329	–	–	53,329	41,776	–	–	41,776
Amounts due from credit institutions	51,079	13,215	1,939	66,233	80,783	–	–	80,783
Loans to customers	3,542,174	2,714	–	3,544,888	3,006,306	1,833	–	3,008,139
Investment securities	293,926	92,860	–	386,786	190,297	109,505	–	299,802
Other assets	3,124	21	20	3,165	2,888	168	28	3,084
	4,733,837	752,165	52,155	5,538,157	4,086,531	671,067	37,750	4,795,348
Liabilities								
Amounts due to credit institutions	5,878	209,682	6,425	221,985	60,726	65,484	55,783	181,993
Amounts due to customers	3,919,600	80,361	123,001	4,122,962	3,367,326	77,148	99,751	3,544,225
Amounts due to international credit institutions	–	218,064	–	218,064	–	130,831	–	130,831
Debt securities issued	56,268	–	–	56,268	54,422	–	–	54,422
Other liabilities	41,169	10,364	1,045	52,578	150,482	602	19	151,103
	4,022,915	518,471	130,471	4,671,857	3,632,956	274,065	155,553	4,062,574
Net position	710,922	233,964	(78,316)	866,300	453,575	397,002	(117,803)	732,774

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral, which could be used to secure additional funding, if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on net liquidity assets and liabilities established by the NBRB. As at 31 December, these ratios were as follows:

	<i>NBRB required minimum ratio value</i>	2020	2019
Liquidity coverage ratio	100.0%	122.1%	156.6%
Net stable funding ratio	100.0%	145.9%	147.7%

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29. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Repayments that are subject to notice, are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay, and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities At 31 December 2020	On demand	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to credit institutions	23,018	35,938	10,926	146,732	25,075	241,689
Derivative financial instruments:						
- Contractual amounts payable	-	485,409	190,458	-	-	675,867
- Contractual amounts receivable	-	(479,935)	(184,394)	-	-	(664,329)
Amounts due to customers	3,089,427	890,706	117,554	37,505	221	4,135,413
Amounts due to international financial institutions	16,864	19,880	28,354	161,418	7,165	233,681
Debt securities issued	-	881	2,692	14,994	64,531	83,098
Other liabilities	1,233	725	48,771	1,951	-	52,680
Total undiscounted financial liabilities	3,130,542	953,604	214,361	362,600	96,992	4,758,099

Financial liabilities At 31 December 2019	On demand	Less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Amounts due to credit institutions	23,798	59,197	33,315	71,632	7,737	195,679
Derivative financial instruments:						
- Contractual amounts payable	-	331,557	2,418	-	-	333,975
- Contractual amounts receivable	-	(331,323)	(2,518)	-	-	(333,841)
Amounts due to customers	2,323,993	694,817	346,644	205,669	227	3,571,350
Amounts due to international financial institutions	2,198	6,490	19,027	118,706	-	146,421
Debt securities issued	-	992	3,030	20,969	61,944	86,935
Other liabilities	1,281	388	33,550	115,884	-	151,103
Total undiscounted financial liabilities	2,351,270	762,118	435,466	532,860	69,908	4,151,622

The table below shows the contractual maturity of the Bank's commitments and contingencies.

	Less than 3 months	3 to 12 months	1 year to 5 years	Over 5 years	Total
2020	927,144	150,508	98,902	-	1,176,554
2019	1,047,680	85,391	72,843	1,615	1,207,529

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than it is indicated in the tables above. These balances are included in amounts due on demand in the tables above.

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29. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The exposures to market risk are managed and monitored using different sensitivity analysis techniques. Except for foreign currency positions, the Group has no significant concentration of market risk.

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 a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of profit or loss.

The sensitivity of the statement of profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the non-fixed rate non-trading financial assets and financial liabilities held at 31 December 2020 and 2019.

Currency	Increase in basis points 2020	Sensitivity of net interest income 2020
BYN	+50 b.p.	1,992
EUR	+50 b.p.	1,043
USD	+50 b.p.	584
Currency	Decrease in basis points 2020	Sensitivity of net interest income 2020
BYN	-50 b.p.	(1,992)
EUR	-50 b.p.	(1,043)
USD	-50 b.p.	(584)
Currency	Increase in basis points 2019	Sensitivity of net interest income 2019
BYN	+50 b.p.	2,620
EUR	+50 b.p.	2,173
USD	+50 b.p.	920
Currency	Decrease in basis points 2019	Sensitivity of net interest income 2019
BYN	-50 b.p.	(2,620)
EUR	-50 b.p.	(2,173)
USD	-50 b.p.	(920)

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29. Risk management (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the NBRB regulations. Positions are monitored on a daily basis.

The table below indicates the currencies to which the Group had significant exposure as at 31 December 2020 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Belarusian ruble, with all other variables held constant on the consolidated statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on the equity does not differ from the effect on the consolidated statement of profit or loss. All other variables are held constant. A negative amount in the table reflects a potential net reduction in the statement of profit or loss or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate in %, 2020</i>	<i>Effect on profit before tax, 2020</i>	<i>Change in currency rate in %, 2019</i>	<i>Effect on profit before tax, 2019</i>
USD	25.00	10,063	9.00	1,441
USD	-10.00	(4,025)	-9.00	(1,441)
EUR	25.00	(3,576)	9.00	2,034
EUR	-10.00	1,430	-9.00	(2,034)

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgage loans when interest rates fall.

Due to the fact that the Group does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Group believes that the Group is not exposed to the prepayment risk.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks but through a control framework and by monitoring and responding to potential risks the Group is able to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

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30. Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not recorded at fair value in the consolidated statement of financial position. The table does not include fair values of non-financial assets and non-financial liabilities.

	<i>Carrying amount 2020</i>	<i>Fair value 2020</i>	<i>Unrecognized gain/(loss) 2020</i>	<i>Carrying amount 2019</i>	<i>Fair value 2019</i>	<i>Unrecognized gain/(loss) 2019</i>
Financial assets						
Cash and cash equivalents	1,483,756	1,483,756	-	1,361,764	1,361,764	-
Amounts due from credit institutions	66,233	66,233	-	80,783	80,783	-
Loans to customers	3,544,888	3,533,591	(11,297)	3,008,139	2,996,602	(11,537)
Investment securities – debt securities at amortized cost	354,420	347,063	(7,357)	264,702	267,887	3,185
Other financial assets	2,826	2,826	-	2,825	2,825	-
Financial liabilities						
Amounts due to credit institutions	221,985	221,985	-	181,993	181,993	-
Amounts due to customers	4,122,962	4,117,103	5,859	3,544,225	3,539,739	4,486
Amounts due to international financial institutions	218,064	218,064	-	130,831	130,831	-
Debt securities issued	56,268	56,268	-	54,422	54,422	-
Other financial liabilities	41,037	41,037	-	150,453	150,453	-
Total unrecognized change in unrealized fair value			<u>(12,795)</u>			<u>(3,866)</u>

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30. Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and cash equivalents	201,604	1,282,152	–	1,483,756
Amounts due from credit institutions	–	66,233	–	66,233
Loans to customers	–	–	3,533,591	3,533,591
Investment securities – debt securities at amortized cost	–	347,063	–	347,063
Other financial assets	–	–	2,826	2,826
	201,604	1,695,448	3,536,417	5,433,469
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	221,985	221,985
Amounts due to customers	–	–	4,117,103	4,117,103
Amounts due to international financial institutions	–	–	218,064	218,064
Debt securities issued	–	56,268	–	56,268
Other financial liabilities	–	–	41,037	41,037
	–	56,268	4,598,189	4,654,457
31 December 2019				
	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash and cash equivalents	146,774	1,214,990	–	1,361,764
Amounts due from credit institutions	–	80,783	–	80,783
Loans to customers	–	–	2,996,602	2,996,602
Investment securities – debt securities at amortized cost	–	267,887	–	267,887
Other financial assets	–	–	2,825	2,825
	146,774	1,563,660	2,999,427	4,709,861
Financial liabilities for which fair values are disclosed				
Amounts due to credit institutions	–	–	181,993	181,993
Amounts due to customers	–	–	3,539,739	3,539,739
Amounts due to international financial institutions	–	–	130,831	130,831
Debt securities issued	–	54,422	–	54,422
Other financial liabilities	–	–	150,453	150,453
	–	54,422	4,003,016	4,057,438

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

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid and have a floating rate or a short-term maturity (less than three months), it is assumed that their carrying amounts approximate their fair values. This assumption is also applied to demand deposits and savings accounts without specific maturity.

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30. Fair value of financial instruments (continued)

Fixed rate financial instruments

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

Financial instruments recorded at fair value

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Trading securities	–	53,329	–	53,329
Derivative financial assets	–	89	250	339
Equity securities at FVOCI	–	235	1,223	1,458
Debt securities at FVOCI	30,908	–	–	30,908
	30,908	53,653	1,473	86,034
Financial liabilities				
Derivative financial liabilities	–	11,409	132	11,541
	–	11,409	132	11,541
31 December 2019				
Financial assets				
Trading securities	–	41,776	–	41,776
Derivative financial assets	–	203	56	259
Equity securities at FVOCI	–	166	1,174	1,340
Debt securities at FVOCI	33,760	–	–	33,760
	33,760	42,145	1,230	77,135
Financial liabilities				
Derivative financial liabilities	–	615	35	650
	–	615	35	650

Financial instruments carried at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group’s estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. Methods used by the Group to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

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30. Fair value of financial instruments (continued)

Movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value:

	<i>At 1 January 2020</i>	<i>Gain/(loss) recorded in profit or loss on “Translation differences” position</i>	<i>Settlements</i>	<i>At 31 December 2020</i>
Financial assets				
Derivative financial instruments	56	250	(56)	250
Equity securities at FVOCI	1,174	49	-	1,223
Total Level 3 financial assets	1,230	299	(56)	1,473
Financial liabilities				
Derivative financial instruments	(35)	(132)	35	(132)
Total Level 3 financial liabilities	(35)	(132)	35	(132)

Gains or losses on Level 3 financial instruments included in profit or loss for the period comprise:

	<i>2020</i>			<i>2019</i>		
	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>
Gains recorded in the statement of profit or loss	(21)	167	146	130	21	151

Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 instruments:

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>	<i>Carrying amount</i>	<i>Effect of reasonably possible alternative assumptions</i>
Financial assets				
Derivative financial instruments	250	6	56	1
Financial liabilities				
Derivative financial instruments	(132)	2	(35)	3

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows: the Group adjusted the interest rate used to measure discounted cash flows in Belarusian rubles. The adjustment decreased the interest rate by 100 b.p. (2019: 100 b.p.).

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31. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 29 “Risk management” for the Group’s contractual undiscounted repayment obligations.

	2020			2019		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	1,483,756	–	1,483,756	1,361,764	–	1,361,764
Trading securities	540	52,789	53,329	17,936	23,840	41,776
Amounts due from credit institutions	66,233	–	66,233	72,247	8,536	80,783
Loans to customers	2,179,612	1,365,276	3,544,888	1,606,176	1,401,963	3,008,139
Investment securities	4,444	382,342	386,786	171,846	127,956	299,802
Investment property	216	18,639	18,855	225	19,423	19,648
Property and equipment	20,247	131,187	151,434	19,715	135,335	155,050
Intangible assets	12,410	27,445	39,855	12,083	21,863	33,946
Deferred income tax assets	–	4,062	4,062	–	2,176	2,176
Current income tax assets	70	–	70	159	–	159
Other assets	38,036	142	38,178	65,748	685	66,433
Assets of disposal groups and non-current assets held for sale	186,212	–	186,212	277	–	277
Total assets	3,991,776	1,981,882	5,973,658	3,328,176	1,741,777	5,069,953
Amounts due to credit institutions	64,690	157,295	221,985	109,543	72,450	181,993
Amounts due to customers	3,538,464	584,498	4,122,962	2,905,302	638,923	3,544,225
Amounts due to international financial institutions	57,717	160,347	218,064	28,146	102,685	130,831
Debt securities issued	3	56,265	56,268	63	54,359	54,422
Current income tax liabilities	11,261	–	11,261	2,912	–	2,912
Deferred income tax liabilities	–	39,535	39,535	–	32,648	32,648
Provisions	11,996	–	11,996	8,098	–	8,098
Other liabilities	55,468	2,518	57,986	39,070	116,265	155,335
Liabilities of disposal groups held for sale	179,053	–	179,053	–	–	–
Total liabilities	3,918,652	1,000,458	4,919,110	3,093,134	1,017,330	4,110,464
Net position	73,124	981,424	1,054,548	235,042	724,447	959,489

32. Related party transactions

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 relationship, not merely the legal form.

Related parties may enter into transactions, which unrelated parties might not. Transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG (RBI), banks under common control), and the key management personnel of the Group.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Group, owning 100% of shares of the Group’s principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

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32. Related party transactions (continued)

The outstanding balances of related party transactions at the end of the reporting period are as follows:

	2020			2019		
	RBI	Banks under common control	Key management personnel	RBI	Banks under common control	Key management personnel
Cash and cash equivalents at 31 December	11,949	1,695	-	8,605	1,407	-
Loans at 1 January	-	-	287	-	-	230
Loans issued during the year	-	-	358	-	-	202
Loans repaid during the year	-	-	(305)	-	-	(145)
Loans outstanding at 31 December	-	-	340	-	-	287
Deposits at 1 January	55,178	51,316	3,363	114,558	-	5,293
Foreign exchange differences	25,619	-	572	(4,116)	1,704	(1,201)
Deposits received during the year	53,174	-	2,200	-	49,612	2,119
Deposits repaid during the year	-	(51,316)	(6,079)	(55,264)	-	(2,848)
Deposits at 31 December	133,971	-	56	55,178	51,316	3,363
Settlement and current accounts at 31 December	1,537	2,398	600	244	3,137	2,731
Commitments and guarantees issued	-	-	-	-	-	-
Commitments and guarantees received	158	189	-	-	-	-

Income and expense arising from related party transactions are as follows:

	For the year ended 31 December					
	2020			2019		
	RBI	Banks under common control	Key management personnel	RBI	Banks under common control	Key management personnel
Interest income	-	1	34	12	2	29
Interest expense	(3,277)	(365)	(10)	(3,674)	(280)	(42)
Net gains/(losses) from foreign currencies	3,077	(2,302)	-	7,555	(2,784)	-
Fee and commission income	105	208	4	83	168	6
Fee and commission expense	(6,610)	(66)	(2)	(4,199)	(63)	(2)
Personnel expenses	-	-	(3,522)	-	-	(3,341)
Other operating expenses	(6,102)	-	-	(5,094)	-	-

Compensation to key management personnel comprises the following:

	2020	2019
Salaries and other short-term benefits	2,986	2,874
Defined benefit plan	311	242
Social security costs	225	225
Total compensation to key management personnel	3,522	3,341

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33. Changes in liabilities arising from financing activities

	<i>Notes</i>	<i>Debt securities issued</i>	<i>Lease liability</i>	<i>Total liabilities arising from financing activities</i>
Carrying amount at 31 December 2018		68,025	4,261	72,286
Proceeds from issue		502	–	502
Repaid		(14,022)	(2,571)	(16,593)
Non-cash transactions		–	1,255	1,255
Other		(83)	84	1
Carrying amount at 31 December 2019		54,422	3,029	57,451
Proceeds from issue		2,451	–	2,451
Repaid		(545)	(2,854)	(3,399)
Foreign exchange differences		–	1,050	1,050
Non-cash transactions		–	3,187	3,187
Other		(60)	29	(31)
Carrying amount at 31 December 2020	17, 21	56,268	4,441	60,709

The “Other” line includes the effect of accrued but not yet paid interest on debt securities issued and lease liabilities. The Group classifies interest paid as cash flows from operating activities.

34. Capital adequacy

Capital management

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group’s capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

During the past year, the Group complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the level of risks taken. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue equity securities. No changes were made in the capital management objectives, policies, or processes from the previous years.

Capital adequacy ratio under 1988 Basel Capital Accord

The Group’s capital adequacy ratio, computed in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2020 and 2019, comprised:

	<i>2020</i>	<i>2019</i>
Tier 1 capital	1,035,568	930,411
Total equity	1,035,568	930,411
Risk-weighted assets	4,749,272	3,936,925
Tier 1 capital adequacy ratio (minimum value of 4%)	21.80%	23.63%
Total capital ratio (minimum value of 8%)	21.80%	23.63%

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35. Events after the reporting period

In February 2021, a transaction was completed for the sale of a subsidiary, "Extrusion Technologies" LLC, which was reported as a disposal group held for sale.

On 21 April 2021, the National Bank of the Republic of Belarus increased the refinancing rate from 7.75% to 8.5%.

At the shareholders' meeting held in March 2021, the Bank declared dividends based on the 2020 annual financial statements on preferred shares: BYN 0.35 per one share. The dividends were paid in the amount of BYN 3,500.