

Translation from the original in Russian

# **“Priorbank” JSC**

## **Consolidated financial statements**

*Year ended 31 December 2019*

*together with the audit report of an independent audit firm*

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### 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 2019 to 31 December 2019**

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 2019, 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 2019, 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’ *Code of Ethics for Professional Accountants* (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.

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### **Key audit matters**

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

#### **Key audit matter**

#### **How our audit addressed the key audit matter**

### ***Estimation of allowances for expected credit losses on loans to customers in accordance with IFRS 9 Financial Instruments***

The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management.

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.

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.

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 28 to the consolidated financial statements.

Our audit procedures included the analysis of the methodology for estimating the allowance for expected credit losses on loans to 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.

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.

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.

We analyzed consistency of management's assumptions applied in calculating the allowance for expected credit losses.

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



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### ***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.

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- ▶ 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 our independence, and where applicable, related safeguards.

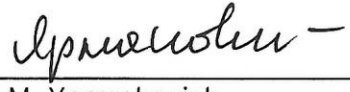
From the matters communicated with the Supervisory Board and the Audit Committee of "Priorbank" JSC, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters 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.



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



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

23 April 2020

### **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

2019 IFRS consolidated financial statements

**Consolidated statement of financial position**

**As at 31 December 2019**

(thousands of Belarusian rubles)

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>			
Cash and cash equivalents	6	1,361,764	1,148,689
Trading securities	7	41,776	-
Amounts due from credit institutions	8	80,783	61,602
Loans to customers	9	3,008,139	2,657,347
Investment securities	10	299,802	306,989
Investment property	11	19,648	11,840
Property and equipment	12	155,050	156,550
Intangible assets	13	33,946	33,385
Current income tax assets		159	296
Deferred income tax assets	14	2,176	2,731
Other assets	16	66,710	63,606
<b>Total assets</b>		<b>5,069,953</b>	<b>4,443,035</b>
<b>Liabilities</b>			
Amounts due to credit institutions	17	181,993	261,725
Amounts due to customers	18	3,544,225	3,028,889
Amounts due to international financial institutions	19	130,831	60,406
Debt securities issued	20	54,422	68,025
Current income tax liabilities		2,912	297
Deferred income tax liabilities	14	32,648	33,191
Provisions	15, 22	8,098	2,111
Other liabilities	16	155,335	116,530
<b>Total liabilities</b>		<b>4,110,464</b>	<b>3,571,174</b>
<b>Equity</b>			
Share capital	21	341,828	341,828
Additional paid-in capital		193	193
Foreign currency translation reserve		2,952	3,517
Retained earnings		585,438	497,067
Revaluation reserve for the net pension liability		(10,261)	(6,437)
Revaluation reserve for investment securities		77	131
<b>Total equity attributable to shareholders of the Bank</b>		<b>920,227</b>	<b>836,299</b>
Non-controlling interest		39,262	35,562
<b>Total equity</b>		<b>959,489</b>	<b>871,861</b>
<b>Total equity and liabilities</b>		<b>5,069,953</b>	<b>4,443,035</b>

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

Sergey A. Kostyuchenko



Chairman of the Management Board

23 April 2020

The accompanying notes on pages 6-74 are an integral part of these consolidated financial statements.

Translation from the original in Russian

"Priorbank" JSC

2019 IFRS consolidated financial statements

**Consolidated statement of profit or loss**

**For the year ended 31 December 2019**

(thousands of Belarusian rubles)

	<b>Notes</b>	<b>2019</b>	<b>2018</b>
Interest income calculated using the effective interest rate		294,215	247,188
Other interest income		31,753	27,842
Interest expense		(83,820)	(61,335)
<b>Net interest income</b>	23	<b>242,148</b>	<b>213,695</b>
Credit loss income/(expense)	15	(1,562)	12,423
<b>Net interest income after credit loss expense</b>		<b>240,586</b>	<b>226,118</b>
Fee and commission income		191,054	166,824
Fee and commission expense		(107,426)	(94,330)
<b>Net fee and commission income</b>	24	<b>83,628</b>	<b>72,494</b>
Net gains from trading securities		49	-
Net gains from foreign currencies:			
- Dealing		66,777	59,641
- Translation differences		(6,661)	5,557
Other income	25	13,742	17,207
<b>Non-interest income</b>		<b>73,907</b>	<b>82,405</b>
Personnel expenses	26	(96,590)	(87,751)
Depreciation and amortization	11,12,13	(29,420)	(24,727)
Other operating expenses	26	(66,126)	(68,251)
Other expenses from provisions	15	(5,004)	-
<b>Non-interest expense</b>		<b>(197,140)</b>	<b>(180,729)</b>
<b>Profit before income tax expense</b>		<b>200,981</b>	<b>200,288</b>
Income tax expense	14	(50,540)	(41,095)
<b>Profit for the year</b>		<b>150,441</b>	<b>159,193</b>
<b>Attributable to:</b>			
- Shareholders of the Bank		147,444	149,896
- Non-controlling interest		2,997	9,297
		<b>150,441</b>	<b>159,193</b>

The accompanying notes on pages 6-74 are an integral part of these consolidated financial statements.



Translation from the original in Russian

"Priorbank" JSC

2019 IFRS consolidated financial statements

**Consolidated statement of comprehensive income**

**For the year ended 31 December 2019**

(thousands of Belarusian rubles)

	<i>Notes</i>	<b>2019</b>	<b>2018</b>
<b>Profit for the year</b>		<b>150,441</b>	<b>159,193</b>
<b>Other comprehensive income</b>			
<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	21	(898)	830
Net change in the fair value of debt instruments at fair value through other comprehensive income	21	(72)	67
Effect of income tax	14	19	(17)
<b>Net other comprehensive income/(expense) to be reclassified to profit or loss in subsequent periods</b>		<b>(951)</b>	<b>880</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain/(loss) on defined pension plan	21	(5,099)	4,753
Gains/(losses) from equity instruments measured at fair value through other comprehensive income	21	(1)	22
Effect of income tax	14	1,275	(1,194)
<b>Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>(3,825)</b>	<b>3,581</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>(4,776)</b>	<b>4,461</b>
<b>Total comprehensive income for the year</b>		<b>145,665</b>	<b>163,654</b>
Attributable to:			
- Shareholders of the Bank		143,001	154,050
- Non-controlling interest		2,664	9,604
		<b>145,665</b>	<b>163,654</b>

The accompanying notes on pages 6-74 are an integral part of these consolidated financial statements.

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“Priorbank” JSC

2019 IFRS consolidated financial statements

**Consolidated statement of changes in equity**

**For the year ended 31 December 2019**

(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		
<b>At 1 January 2018</b>	<b>341,828</b>	<b>193</b>	<b>2,994</b>	<b>397,632</b>	<b>(10,002)</b>	<b>65</b>	<b>732,710</b>	<b>25,958</b>	<b>758,668</b>
Profit for the year	-	-	-	149,896	-	-	149,896	9,297	159,193
Other comprehensive income/(loss) for the year	-	-	523	-	3,565	66	4,154	307	4,461
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>523</b>	<b>149,896</b>	<b>3,565</b>	<b>66</b>	<b>154,050</b>	<b>9,604</b>	<b>163,654</b>
Dividends declared and paid to shareholders of the Bank (Note 21)	-	-	-	(50,461)	-	-	(50,461)	-	(50,461)
<b>At 31 December 2018</b>	<b>341,828</b>	<b>193</b>	<b>3,517</b>	<b>497,067</b>	<b>(6,437)</b>	<b>131</b>	<b>836,299</b>	<b>35,562</b>	<b>871,861</b>
Effect of applying IFRS 16 (Note 3)	-	-	-	-	-	-	-	-	-
<b>Balance at 1 January 2019 restated in accordance with IFRS 16</b>	<b>341,828</b>	<b>193</b>	<b>3,517</b>	<b>497,067</b>	<b>(6,437)</b>	<b>131</b>	<b>836,299</b>	<b>35,562</b>	<b>871,861</b>
Profit for the year	-	-	-	147,444	-	-	147,444	2,997	150,441
Other comprehensive income/(loss) for the year	-	-	(565)	-	(3,824)	(54)	(4,443)	(333)	(4,776)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(565)</b>	<b>147,444</b>	<b>(3,824)</b>	<b>(54)</b>	<b>143,001</b>	<b>2,664</b>	<b>145,665</b>
Dividends declared and paid to shareholders of the Bank (Note 21)	-	-	-	(59,073)	-	-	(59,073)	-	(59,073)
Disposal of non-controlling interest	-	-	-	-	-	-	-	1,036	1,036
<b>At 31 December 2019</b>	<b>341,828</b>	<b>193</b>	<b>2,952</b>	<b>585,438</b>	<b>(10,261)</b>	<b>77</b>	<b>920,227</b>	<b>39,262</b>	<b>959,489</b>

The accompanying notes on pages 6-74 are an integral part of these consolidated financial statements.

**Consolidated statement of cash flows****For the year ended 31 December 2019***(thousands of Belarusian rubles)*

	<i>Notes</i>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
Interest received		319,359	268,146
Interest paid		(80,506)	(59,988)
Fees and commissions received		191,366	166,838
Fees and commissions paid		(106,863)	(94,297)
Gains less losses from foreign currencies		66,182	60,829
Other income received		13,818	12,130
Personnel expenses paid		(95,574)	(85,490)
Other operating expenses paid		(63,711)	(65,702)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>244,071</b>	<b>202,466</b>
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(40,465)	-
Amounts due from credit institutions		(20,971)	(6,648)
Loans to customers		(398,501)	(330,824)
Other assets		(218)	627
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(76,417)	(101,561)
Amounts due to international financial institutions		71,966	16,027
Amounts due to customers		562,044	616,301
Other liabilities		28,288	8,055
<b>Net cash from operating activities before income tax</b>		<b>369,797</b>	<b>404,443</b>
Income tax paid		(46,482)	(72,183)
<b>Net cash from operating activities</b>		<b>323,315</b>	<b>332,260</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities at amortized cost		(6,381,925)	(2,315,213)
Proceeds from redemption of investment securities at amortized cost		6,382,689	2,314,271
Purchase of securities at FVOCI		(33,763)	(36,282)
Proceeds from sale of securities at FVOCI		36,291	-
Proceeds from sale of property and equipment and investment property		5,296	25,671
Purchase of property and equipment, intangible assets and investment property	11,12,13	(36,863)	(40,492)
Sale of subsidiaries		1,134	-
<b>Net cash used in investing activities</b>		<b>(27,141)</b>	<b>(52,045)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		502	57,965
Redemption of debt securities issued		(14,022)	(41,712)
Payments to repay lease liabilities		(2,571)	-
Dividends paid to shareholders of the Bank		(59,073)	(50,461)
<b>Net cash used in financing activities</b>	32	<b>(75,164)</b>	<b>(34,208)</b>
Effect of exchange rates changes on cash and cash equivalents		(7,923)	44,583
<b>Net increase in cash and cash equivalents</b>		<b>213,087</b>	<b>290,590</b>
<b>Cash and cash equivalents, beginning</b>		<b>1,148,692</b>	<b>858,102</b>
<b>Cash and cash equivalents, ending</b>	6	<b>1,361,779</b>	<b>1,148,692</b>

The accompanying notes on pages 6-74 are an integral part of these consolidated financial statements.



## Translation from the original in Russian

“Priorbank” JSC

Notes to the 2019 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 August 2008 and extended in May 2013. 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 83 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 2019 and 2018, Priorbank had the following shareholding structure:

<b>Shareholders</b>	<b>2019</b> <b>%</b>	<b>2018</b> <b>%</b>
Raiffeisen CIS Region Holding GmbH	87.74	87.74
State Property Committee of the Republic of Belarus	6.31	4.62
Individuals	4.83	4.81
Other	1.12	2.83
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

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, derivative financial instruments have been measured at fair value.

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

## Translation from the original in Russian

“Priorbank” JSC

Notes to the 2019 consolidated financial statements

(thousands of Belarusian rubles)

### 2. Basis of preparation (continued)

#### 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>2019</i>	<i>2018</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 Lithuania UAB	90	90	Lithuania	January 2011	Leasing	January 2011
Insurance broker Studiya Strakhovaniya LLC	100	100	Belarus	September 2014 November	Insurance	September 2014 November
Extrusion Technologies LLC	75	100	Belarus	2017 May	Manufacturing Real estate	2017 May
Estate Management LLC	100	100	Belarus	2018	management	2018

In October 2019, the Supervisory Board of the Bank decided to dispose of a 25% interest in the share capital of Extrusion Technologies LLC. The change was registered in the Unified State Register of Legal Entities on 27 November 2019.

### 3. Summary of accounting policies

#### Changes in accounting policies

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

##### *IFRS 16 Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify all leases using the same classification principles as in IAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, IFRS 16 did not have an impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application on 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and leases for which the underlying asset is of low value (low-value assets).

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

The effect of adoption of IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

	<b>2019</b>
<b>Assets</b>	
Property and equipment	4,261
<b>Total assets</b>	<u>4,261</u>
<b>Liabilities</b>	
Other liabilities	4,261
<b>Total liabilities</b>	<u>4,261</u>

(a) *Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as a lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise, it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of minimum lease payments. Lease payments were apportioned between interest and the reduction in the lease liability. In an operating lease, the leased property was not capitalized and lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized in other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 have been applied to these leases since 1 January 2019.

Leases previously classified as operating leases

The Group recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Right-of-use assets for most leases were measured at their carrying amounts as if the standard had always been applied, apart from the use of the incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.



(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

The Group also applied the available practical expedients, as a result of which it:

- ▶ Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- ▶ Analyzed onerous lease agreements immediately before the date of initial application as an alternative to review for impairment
- ▶ Applied the short-term leases recognition exemption to leases with a lease term that ends within 12 months from the date of initial application
- ▶ Excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application
- ▶ Used hindsight in determining the lease term where the contract contained an option to extend or terminate the lease

Based on the foregoing, as at 1 January 2019:

- ▶ Right-of-use assets of BYN 4,261 thousand were recognized and included in property and equipment.
- ▶ Additional lease liabilities of BYN 4,261 thousand were recognized and included in other liabilities.

Lease liabilities as at 1 January 2019 can be reconciled to operating lease commitments as at 31 December 2018 as follows:

<b>Operating lease commitments at 31 December 2018</b>	<b>4,368</b>
Weighted average incremental borrowing rate at 1 January 2019	2.1%
<b>Discounted operating lease commitments at 1 January 2019</b>	<b>4,281</b>
<i>Less:</i>	
Commitments relating to leases of low-value assets	20
<b>Lease liabilities at 1 January 2019</b>	<b>4,261</b>

(b) Summary of new accounting policies

Set out below are the summarized new accounting policies of the Group used upon adoption of IFRS 16, which have been applied since the date of initial application.

*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)

#### Changes in accounting policies (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).

##### Amounts recognized in the consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of cash flows

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and their movements during the period.

	<b>Right-of-use assets</b>		<b>Lease liabilities</b>
	<b>Buildings</b>	<b>Total</b>	
<b>At 1 January 2019</b>	<b>4,261</b>	<b>4,261</b>	<b>4,261</b>
Additions	1,255	1,255	1,255
Depreciation expense	(2,316)	(2,316)	–
Interest expense	–	–	84
Payments	–	–	(2,571)
<b>At 31 December 2019</b>	<b>3,200</b>	<b>3,200</b>	<b>3,029</b>

For the year ended 31 December 2019, the Bank recognized expenses from short-term leases and leases of low-value assets of BYN 64 thousand and BYN 550 thousand, respectively.

In 2019, the total cash outflow related to leases amounted to BYN 3,185 thousand (2018: BYN 3,033 thousand).

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### 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 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.

#### *IFRIC 23 Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes* and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. In particular, the interpretation addresses the following issues:

- ▶ Whether an entity considers uncertain tax treatments separately
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities
- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▶ How an entity considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, and applies the approach that better predicts the resolution of the uncertainty.

Upon adoption of the interpretation, the Group considered whether it had any uncertain tax treatments, particularly those relating to transfer pricing. Tax filings of the Group and its subsidiaries in different jurisdictions include transfer pricing deductions; therefore, tax authorities may challenge these tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. This interpretation had no impact on the Group's consolidated financial statements.

#### *Amendments to IFRS 9 — Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments had no effect on the Group's consolidated financial statements.



(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### *Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity also has to determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during 2019.

##### *Amendments to IAS 28 — Long-Term Interests in Associates and Joint Ventures*

The amendments clarify that an entity should apply IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarify that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements of the Group as the Group does not have any long-term interests in its associates or joint ventures.

#### **Annual improvements 2015-17 Cycle**

##### *IFRS 3 Business Combinations*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity should apply those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Changes in accounting policies (continued)

##### *IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that in such cases the previously held interests in that joint operation are not remeasured.

An entity should apply those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

##### *IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity must recognize income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognized the originating past operations or events.

An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019. Early application is permitted. On initial application, an entity must apply these amendments to income tax consequences of dividends recognized on or after the commencement date of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no effect on the Group's consolidated financial statements.

##### *IAS 23 Borrowing Costs*

The amendments clarify that an entity should treat as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity should apply those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity should apply those amendments to annual reporting periods beginning on or after 1 January 2019. Early application is permitted.

Since the Group's current practice is in line with these amendments, they had no effect on the Group's consolidated financial statements.

#### **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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Basis of consolidation (continued)

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) and non-financial assets, such as investment property, 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

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 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 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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Fair value measurement (continued)

For assets and liabilities that are recognized in the 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.

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.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets and liabilities (continued)

##### *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.

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.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Financial assets and liabilities (continued)

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 and 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 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 – under IAS 37 (before 1 January 2018) – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 (from 1 January 2018) – an 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, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The Group occasionally issues loan commitments at below market interest rates. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

##### *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.



(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### 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.

#### 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.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### 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.

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.

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(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### Taxation (continued)

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.

#### 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 asset's 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

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### 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.

#### 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.

#### 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.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### 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.

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.

(thousands of Belarusian rubles)

### 3. Summary of accounting policies (continued)

#### 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:

##### *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.



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### 3. Summary of accounting policies (continued)

#### Recognition of income and expenses (continued)

► *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.

#### 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 2019 and 2018 were 2.1036 Belarusian rubles and 2.1598 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 consolidated 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. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model supplemented by:

- Certain modifications related to insurance contracts with direct participation features (variable compensation method)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

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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 2021, 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. In 2019, the Group will continue to assess the possible effect of IFRS 17 on its consolidated financial statements.

##### *Amendments to IFRS 3 Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of their first application, the Group will not be affected by these amendments on the date of transition.

##### *Amendments to IAS 1 and IAS 8: Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of material across the standards and to clarify certain aspects of the definition. The new definition states that ‘Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material are not expected to have any significant impact on the Group’s consolidated financial statements.

##### *Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7*

The amendments to IFRS 9, IAS 39 and IFRS 7 include a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. As a result of the interest rate benchmark reform, there may be uncertainties about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. This may lead to uncertainty over whether a forecast transaction is probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments become effective on 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have any material impact on the Group’s consolidated financial statements.

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#### 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:

##### **Expected credit losses from impairment of financial assets**

The assessment of losses under IFRS 9 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.

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

The allowance recognized in the consolidated statement of financial position as at 31 December 2019 was BYN 77,815 thousand (2018: BYN 106,030 thousand). More details are provided in Notes 6, 8, 9, 10 and 22.

##### **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 27.

##### **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 14.

#### 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.

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### 5. Segment information (continued)

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

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 2019 and 2018, 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.

<b>2019</b>	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Other/ unallocated</b>	<b>Total</b>
<b>External income</b>				
Interest income	115,659	174,447	35,862	<b>325,968</b>
Interest expense	(23,804)	(24,909)	(35,107)	<b>(83,820)</b>
<b>Net interest income</b>	<b>91,855</b>	<b>149,538</b>	<b>755</b>	<b>242,148</b>
Allowance for loan impairment	3,445	(2,261)	(2,746)	<b>(1,562)</b>
<b>Net interest income after allowance for loan impairment</b>	<b>95,300</b>	<b>147,277</b>	<b>(1,991)</b>	<b>240,586</b>
Net fee and commission income	26,532	60,546	(3,450)	<b>83,628</b>
Net gains from foreign currencies	18,822	29,217	12,077	<b>60,116</b>
Other non-interest income	–	–	13,791	<b>13,791</b>
Non-interest expense	(79,175)	(95,294)	(22,671)	<b>(197,140)</b>
<b>Segment financial results</b>	<b>61,479</b>	<b>141,746</b>	<b>(2,244)</b>	<b>200,981</b>
Income tax expense				<b>(50,540)</b>
<b>Profit for the year</b>				<b>150,441</b>
<b>Assets and liabilities</b>				
Segment assets	906,174	2,175,978	1,987,801	<b>5,069,953</b>
<b>Total assets</b>				<b>5,069,953</b>
Segment liabilities	1,678,195	1,920,452	511,817	<b>4,110,464</b>
<b>Total liabilities</b>				<b>4,110,464</b>
<b>Other segment information</b>				
Capital expenditure	3,437	1,479	23,003	<b>27,919</b>
Depreciation and amortization	(4,915)	(6,020)	(18,485)	<b>(29,420)</b>

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5. Segment information (continued)

2018	Retail banking	Corporate banking	Other/ unallocated	Total
<b>External income</b>				
Interest income	82,335	170,733	21,962	275,030
Interest expense	(17,033)	(19,470)	(24,832)	(61,335)
<b>Net interest income</b>	<b>65,302</b>	<b>151,263</b>	<b>(2,870)</b>	<b>213,695</b>
Allowance for loan impairment	2,179	9,253	991	12,423
<b>Net interest income after allowance for loan impairment</b>	<b>67,481</b>	<b>160,516</b>	<b>(1,879)</b>	<b>226,118</b>
Net fee and commission income	23,020	55,711	(6,237)	72,494
Net gains from foreign currencies	16,944	28,402	19,852	65,198
Other non-interest income	-	-	17,207	17,207
Non-interest expense	(74,634)	(85,923)	(20,172)	(180,729)
<b>Segment financial results</b>	<b>32,811</b>	<b>158,706</b>	<b>8,771</b>	<b>200,288</b>
Income tax expense				(41,095)
<b>Profit for the year</b>				<b>159,193</b>
<b>Assets and liabilities</b>				
Segment assets	634,861	2,123,797	1,684,377	4,443,035
<b>Total assets</b>				<b>4,443,035</b>
Segment liabilities	1,423,616	1,673,298	474,260	3,571,174
<b>Total liabilities</b>				<b>3,571,174</b>
<b>Other segment information</b>				
Capital expenditure	3,688	860	29,110	33,658
Depreciation and amortization	(3,467)	(5,382)	(15,878)	(24,727)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019	2018
Cash on hand	146,774	124,619
Current accounts with credit institutions	200,470	268,572
Current accounts with the NBRB	330,035	305,790
Time deposits with credit institutions up to 90 days	424,319	449,711
Time deposits with NBRB up to 90 days	260,181	-
<b>Total cash and cash equivalents</b>	<b>1,361,779</b>	<b>1,148,692</b>
Less allowance for impairment	(15)	(3)
<b>Cash and cash equivalents</b>	<b>1,361,764</b>	<b>1,148,689</b>

As at 31 December 2019, liquid funds were represented by short-term deposits with five foreign banks and the National Bank of the Republic of Belarus (2018: five foreign banks).

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

	2019	
<b>Allowance for ECL at 1 January</b>	<b>3</b>	<b>45</b>
Changes in ECL	12	(42)
Foreign exchange differences	-	-
<b>Allowance for ECL at 31 December</b>	<b>15</b>	<b>3</b>

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### 7. Trading securities

Trading securities owned by the Group comprise:

	<b>2019</b>
Bonds of the Ministry of Finance of the Republic of Belarus	24,064
Bonds of the NBRB	17,712
<b>Trading securities</b>	<b>41,776</b>

### 8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<b>2019</b>	<b>2018</b>
Obligatory reserves with the NBRB	39,561	36,914
Time deposits for more than 90 days	41,366	24,688
<b>Total amounts due from credit institutions</b>	<b>80,927</b>	<b>61,602</b>
Less allowance for impairment	(144)	-
<b>Amounts due from credit institutions</b>	<b>80,783</b>	<b>61,602</b>

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 2019, the Bank had time deposits with five Belarusian banks (2018: four Belarusian banks).

Movements in ECL allowances for the year are as follows:

	<b>2019</b>	<b>2018</b>
<b>Allowance for ECL at 1 January</b>	-	-
Changes in ECL	144	-
Foreign exchange differences	-	-
<b>Allowance for ECL at 31 December</b>	<b>144</b>	<b>-</b>

### 9. Loans to customers

Loans to customers comprise:

	<b>2019</b>	<b>2018</b>
Corporate lending	1,588,524	1,619,800
Consumer lending	730,762	548,225
Small business lending	587,454	503,997
Residential mortgages	175,412	86,636
<b>Total loans to customers at amortized cost</b>	<b>3,082,152</b>	<b>2,758,658</b>
Less allowance for impairment	(74,013)	(101,311)
<b>Loans to customers at amortized cost</b>	<b>3,008,139</b>	<b>2,657,347</b>



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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 2019 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>
<b>Gross carrying amount at 1 January 2019</b>	<b>1,455,350</b>	<b>88,435</b>	<b>73,351</b>	<b>2,664</b>	<b>1,619,800</b>
New originated or purchased assets	1,060,753	22,377	-	-	<b>1,083,130</b>
Assets redeemed	(981,014)	(62,811)	(5,034)	(5)	<b>(1,048,864)</b>
Transfers to Stage 1	2,635	(2,635)	-	-	-
Transfers to Stage 2	(62,703)	62,703	-	-	-
Transfers to Stage 3	(1,572)	-	1,572	-	-
Unwinding of discount	4,356	196	(47)	-	<b>4,505</b>
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	226	-	<b>226</b>
Amounts written off	-	-	(26,229)	(1,697)	<b>(27,926)</b>
Foreign exchange differences	(37,961)	(2,785)	(1,601)	-	<b>(42,347)</b>
<b>At 31 December 2019</b>	<b>1,439,844</b>	<b>105,480</b>	<b>42,238</b>	<b>962</b>	<b>1,588,524</b>

<i>Corporate lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<b>ECL at 1 January 2019</b>	<b>3,946</b>	<b>783</b>	<b>60,897</b>	<b>1,662</b>	<b>67,288</b>
New originated or purchased assets	1,825	38	-	-	<b>1,863</b>
Assets redeemed	(2,294)	(684)	(3,520)	(5)	<b>(6,503)</b>
Transfers to Stage 1	13	(13)	-	-	-
Transfers to Stage 2	(259)	259	-	-	-
Transfers to Stage 3	(1)	-	1	-	-
Effect on period-end ECL due to transfers between stages during the period	-	389	1,571	-	<b>1,960</b>
Changes in inputs used for ECL calculations	(968)	(20)	4,381	302	<b>3,695</b>
Unwinding of discount (recorded in interest income)	-	-	1,211	-	<b>1,211</b>
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	226	-	<b>226</b>
Amounts written off	-	-	(26,229)	(1,697)	<b>(27,926)</b>
Foreign exchange differences	(52)	(40)	(1,809)	-	<b>(1,901)</b>
<b>At 31 December 2019</b>	<b>2,210</b>	<b>712</b>	<b>36,729</b>	<b>262</b>	<b>39,913</b>

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to small business lending for the year ended 31 December 2019 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>
<b>Gross carrying amount at 1 January 2019</b>	<b>459,641</b>	<b>29,730</b>	<b>13,687</b>	<b>939</b>	<b>503,997</b>
New originated or purchased assets	383,770	31,341	-	-	415,111
Assets redeemed	(293,864)	(30,181)	(1,343)	(118)	(325,506)
Transfers to Stage 1	4,931	(4,931)	-	-	-
Transfers to Stage 2	(49,702)	49,702	-	-	-
Transfers to Stage 3	(4,532)	(2,952)	7,484	-	-
Unwinding of discount	1,968	127	230	-	2,325
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	9	-	9
Amounts written off	-	-	(2,861)	-	(2,861)
Foreign exchange differences	(5,061)	(506)	(54)	-	(5,621)
<b>At 31 December 2019</b>	<b>497,151</b>	<b>72,330</b>	<b>17,152</b>	<b>821</b>	<b>587,454</b>

<i>Small business lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<b>ECL at 1 January 2019</b>	<b>3,638</b>	<b>277</b>	<b>11,831</b>	<b>939</b>	<b>16,685</b>
New originated or purchased assets	2,389	404	-	-	2,793
Assets redeemed	(1,904)	(392)	(958)	(118)	(3,372)
Transfers to Stage 1	79	(79)	-	-	-
Transfers to Stage 2	(241)	241	-	-	-
Transfers to Stage 3	(79)	(23)	102	-	-
Effect on period-end ECL due to transfers between stages during the period	(59)	703	5,114	-	5,758
Changes in inputs used for ECL calculations	(532)	4	524	-	(4)
Unwinding of discount (recorded in interest income)	-	-	648	-	648
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	9	-	9
Amounts written off	-	-	(2,861)	-	(2,861)
Foreign exchange differences	(16)	(3)	(73)	-	(92)
<b>At 31 December 2019</b>	<b>3,275</b>	<b>1,132</b>	<b>14,336</b>	<b>821</b>	<b>19,564</b>

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to consumer lending for the year ended 31 December 2019 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>
<b>Gross carrying amount at 1 January 2019</b>	<b>521,531</b>	<b>17,450</b>	<b>9,244</b>	–	<b>548,225</b>
New originated or purchased assets	366,735	2,995	–	–	<b>369,730</b>
Assets redeemed	(177,832)	(4,758)	(2,245)	–	<b>(184,835)</b>
Transfers to Stage 1	7,885	(7,640)	(245)	–	–
Transfers to Stage 2	(6,307)	7,292	(985)	–	–
Transfers to Stage 3	(4,936)	(2,733)	7,669	–	–
Unwinding of discount	(53)	–	–	–	<b>(53)</b>
Changes in contractual cash flows due to modification not resulting in derecognition	–	(2)	(48)	–	<b>(50)</b>
Amounts written off	–	–	(2,029)	–	<b>(2,029)</b>
Foreign exchange differences	(143)	(46)	(37)	–	<b>(226)</b>
<b>At 31 December 2019</b>	<b>706,880</b>	<b>12,558</b>	<b>11,324</b>	–	<b>730,762</b>

<i>Consumer lending</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<b>ECL at 1 January 2019</b>	<b>4,782</b>	<b>2,524</b>	<b>7,825</b>	–	<b>15,131</b>
New originated or purchased assets	2,423	342	–	–	<b>2,765</b>
Assets redeemed	(914)	(596)	(1,995)	–	<b>(3,505)</b>
Transfers to Stage 1	927	(733)	(194)	–	–
Transfers to Stage 2	(112)	902	(790)	–	–
Transfers to Stage 3	(76)	(545)	621	–	–
Effect on period-end ECL due to transfers between stages during the period	(903)	88	4,266	–	<b>3,451</b>
Changes in inputs used for ECL calculations	(2,685)	(387)	370	–	<b>(2,702)</b>
Unwinding of discount (recorded in interest income)	–	–	474	–	<b>474</b>
Changes in contractual cash flows due to modification not resulting in derecognition	–	(2)	(48)	–	<b>(50)</b>
Amounts written off	–	–	(2,029)	–	<b>(2,029)</b>
Foreign exchange differences	(5)	(2)	(41)	–	<b>(48)</b>
<b>At 31 December 2019</b>	<b>3,437</b>	<b>1,591</b>	<b>8,459</b>	–	<b>13,487</b>

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9. Loans to customers (continued)

Allowance for impairment of loans to customers (continued)

Movements in the gross carrying amount and respective ECL related to residential mortgages for the year ended 31 December 2019 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>
<b>Gross carrying amount at 1 January 2019</b>	<b>83,416</b>	<b>995</b>	<b>2,225</b>	<b>-</b>	<b>86,636</b>
New originated or purchased assets	102,248	477	-	-	102,725
Assets redeemed	(11,490)	(661)	(1,975)	-	(14,126)
Transfers to Stage 1	362	(269)	(93)	-	-
Transfers to Stage 2	(288)	338	(50)	-	-
Transfers to Stage 3	(567)	(76)	643	-	-
Unwinding of discount	64	2	2	-	68
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(2)	-	(2)
Foreign exchange differences	83	28	-	-	111
<b>At 31 December 2019</b>	<b>173,828</b>	<b>834</b>	<b>750</b>	<b>-</b>	<b>175,412</b>

<i>Residential mortgages</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
<b>ECL at 1 January 2019</b>	<b>681</b>	<b>19</b>	<b>1,507</b>	<b>-</b>	<b>2,207</b>
New originated or purchased assets	522	-	-	-	522
Assets redeemed	(28)	(9)	(1,312)	-	(1,349)
Transfers to Stage 1	99	(6)	(93)	-	-
Transfers to Stage 2	(2)	20	(18)	-	-
Transfers to Stage 3	(5)	(1)	6	-	-
Effect on period-end ECL due to transfers between stages during the period	(196)	(12)	312	-	104
Changes in inputs used for ECL calculations	(414)	(2)	(28)	-	(444)
Unwinding of discount (recorded in interest income)	-	-	11	-	11
Changes in contractual cash flows due to modification not resulting in derecognition	-	-	(2)	-	(2)
Foreign exchange differences	-	-	-	-	-
<b>At 31 December 2019</b>	<b>657</b>	<b>9</b>	<b>383</b>	<b>-</b>	<b>1,049</b>

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### 9. Loans to customers (continued)

#### 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:

	2019	2018
<b>Loans to customers modified during the period</b>	<b>50,922</b>	<b>66,604</b>
Amortized cost before modification	51,647	67,258
Net loss on modification	(725)	(654)

#### 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.

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.

	<i>Maximum exposure to credit risk</i>	<i>Fair value of collateral held under the base scenario</i>				<i>Total collateral</i>	<i>Net exposure</i>	<i>Associated ECL</i>
		<i>Cash/ deposits</i>	<i>Property</i>	<i>Other*</i>	<i>Net exposure</i>			
<b>At 31 December 2019</b>	<b>73,247</b>	<b>787</b>	<b>7,245</b>	<b>1,458</b>	<b>9,490</b>	<b>63,757</b>	<b>60,990</b>	
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	

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### 9. Loans to customers (continued)

#### Collateral and other credit risk enhancements (continued)

	<i>Maximum exposure to credit risk</i>	<i>Fair value of collateral held under the base scenario</i>			<i>Net exposure</i>	<i>Associated ECL</i>	
		<i>Cash/ deposits</i>	<i>Property</i>	<i>Other*</i>			<i>Total collateral</i>
<b>At 31 December 2018</b>	<b>102,110</b>	<b>1,338</b>	<b>12,412</b>	<b>2,301</b>	<b>16,051</b>	<b>86,059</b>	<b>84,661</b>
Corporate lending	76,015	1,201	10,742	1,513	13,456	62,559	62,559
Small business lending	14,626	137	952	767	1,856	12,770	12,770
Consumer lending	9,244	–	–	21	21	9,223	7,825
Residential mortgages	2,225	–	718	–	718	1,507	1,507

\* 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:

	<b>2019</b>	<b>2018</b>
Investment property	11,479	9,239
Property and equipment	81	157
Other assets	11,484	8,388
<b>Total repossessed collateral</b>	<b>23,044</b>	<b>17,784</b>

#### Concentration of loans to customers

As at 31 December 2019, the Group had a concentration of loans represented by BYN 656,148 thousand, or 21% of gross loan portfolio, due from the ten largest third-party borrowers (2018: BYN 646,689 thousand, or 23% of gross loan portfolio). An allowance of BYN 773 thousand (2018: BYN 571 thousand) was recognized against these loans.

Loans have been extended to the following types of customers:

	<b>2019</b>	<b>2018</b>
Private companies	1,899,603	1,720,369
Individuals	906,174	634,861
State companies	276,375	403,428
<b>Loans to customers</b>	<b>3,082,152</b>	<b>2,758,658</b>

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9. Loans to customers (continued)

Concentration of loans to customers (continued)

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

	<u>2019</u>	<u>2018</u>
Manufacturing, including:	681,505	774,758
Other manufacturing	196,683	180,760
Coking coal, oil products	149,705	164,095
Food, beverages, tobacco products	111,542	145,734
Chemicals, rubber, plastics	85,846	153,647
Wood processing	55,301	45,248
Machinery, equipment	23,126	20,162
Textile industry	17,259	11,288
Electric equipment	15,127	19,717
Pulp and paper industry	14,113	7,563
Metals and metalware production	7,204	20,303
Pharmaceutical industry	3,657	4,891
Transport facilities	1,942	1,350
Individuals	906,174	634,861
Wholesale trade	527,433	525,728
Retail trade	304,482	275,945
Transport	186,916	165,714
Mineral development and extraction	126,601	122,873
Real estate	90,313	74,127
Construction	83,219	70,114
Energy, gas, water supply	59,522	29,647
Other	115,987	84,891
<b>Loans to customers</b>	<b><u>3,082,152</u></b>	<b><u>2,758,658</u></b>

Finance lease receivables

The corporate lending portfolio comprises finance lease receivables. 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	<b>414,503</b>
Unearned future finance income on finance leases	(24,138)	(40,018)	(46,167)	<b>(110,323)</b>
<b>Net investment in finance lease</b>	<b><u>107,706</u></b>	<b><u>151,547</u></b>	<b><u>44,927</u></b>	<b><u>304,180</u></b>

Finance lease receivables as at 31 December 2018 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	126,893	195,384	47,765	<b>370,042</b>
Unearned future finance income on finance leases	(23,762)	(33,099)	(18,754)	<b>(75,615)</b>
<b>Net investment in finance leases</b>	<b><u>103,131</u></b>	<b><u>162,285</u></b>	<b><u>29,011</u></b>	<b><u>294,427</u></b>

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10. Investment securities

Investment securities comprise the following:

	2019	2018
<b>Debt securities measured at amortized cost (previously classified as held to maturity)</b>		
Bonds of the Ministry of Finance of the Republic of Belarus	67,692	56,619
Bonds of the NBRB	121,814	214,524
USA Federal Government Bonds	75,745	-
Bonds of BPS-Sberbank OJSC	-	295
	<b>265,251</b>	<b>271,438</b>
Less allowance for impairment	(549)	(2,605)
<b>Debt securities measured at amortized cost (previously classified as held to maturity)</b>	<b>264,702</b>	<b>268,833</b>
<b>Debt securities at FVOCI</b>		
USA Federal Government Bonds	33,760	36,816
<b>Debt securities at FVOCI</b>	<b>33,760</b>	<b>36,816</b>
<b>Equity securities at FVOCI</b>	<b>1,340</b>	<b>1,340</b>

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

<b>Debt securities measured at amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2019</b>	<b>271,438</b>	-	-	<b>271,438</b>
New purchased or originated assets	6,385,386	-	-	<b>6,385,386</b>
Assets redeemed	(6,385,768)	-	-	<b>(6,385,768)</b>
Unwinding of discount (recorded in interest income)	1,396	-	-	<b>1,396</b>
Foreign exchange differences	(7,201)	-	-	<b>(7,201)</b>
<b>At 31 December 2019</b>	<b>265,251</b>	-	-	<b>265,251</b>

<b>Debt securities measured at amortized cost</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Allowance for ECL at 1 January 2019</b>	<b>2,605</b>	-	-	<b>2,605</b>
New purchased or originated assets	1,401	-	-	<b>1,401</b>
Assets redeemed	(351)	-	-	<b>(351)</b>
Changes to models and inputs used for ECL calculations	(3,078)	-	-	<b>(3,078)</b>
Foreign exchange differences	(28)	-	-	<b>(28)</b>
<b>At 31 December 2019</b>	<b>549</b>	-	-	<b>549</b>

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

<b>Debt securities measured at FVOCI</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying amount at 1 January 2019</b>	<b>36,816</b>	-	-	<b>36,816</b>
New purchased or originated assets	34,233	-	-	<b>34,233</b>
Assets redeemed	(36,334)	-	-	<b>(36,334)</b>
Unwinding of discount (recorded in interest income)	(94)	-	-	<b>(94)</b>
Foreign exchange differences	(861)	-	-	<b>(861)</b>
<b>At 31 December 2019</b>	<b>33,760</b>	-	-	<b>33,760</b>



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### 10. Investment securities (continued)

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 2019, the Group received no dividends on equity instruments at FVOCI (2018: BYN 130 thousand, which were recognized within other income in the consolidated statement of comprehensive income).

### 11. 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:

	<b>2019</b>	<b>2018</b>
<b>Cost</b>		
<b>At 1 January</b>	12,230	17,847
Additions	6,828	1,867
Disposals	(3,058)	(15,975)
Transfer from property and equipment	4,283	–
Transfer from other assets	–	8,491
<b>At 31 December</b>	<b>20,283</b>	<b>12,230</b>
<b>Accumulated depreciation</b>		
<b>At 1 January</b>	(390)	(918)
Depreciation charge	(225)	(428)
Depreciation of disposed items	6	956
Transfer from property and equipment	(26)	–
<b>At 31 December</b>	<b>(635)</b>	<b>(390)</b>
<b>Net book value</b>		
<b>At 1 January</b>	<b>11,840</b>	<b>16,929</b>
<b>At 31 December</b>	<b>19,648</b>	<b>11,840</b>
	<b>2019</b>	<b>2018</b>
Rental income from investment property	569	4,495
Direct operating expenses on investment property that generates rental income	(379)	(959)
	<b>190</b>	<b>3,536</b>

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 2019, 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 2,334 thousand (2018: BYN 2,169 thousand).

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## 12. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Right-of-use assets (Note 3)</i>	<i>Total</i>
<b>Cost</b>				
<b>At 31 December 2018</b>	<b>118,707</b>	<b>136,061</b>	<b>-</b>	<b>254,768</b>
Effect of applying IFRS 16 (Note 3)	-	-	4,261	4,261
<b>At 1 January 2019</b>	<b>118,707</b>	<b>136,061</b>	<b>4,261</b>	<b>259,029</b>
Additions	4,190	14,151	1,255	19,596
Disposals	(3,705)	(7,910)	-	(11,615)
Transfer to investment property	(4,283)	-	-	(4,283)
<b>At 31 December 2019</b>	<b>114,909</b>	<b>142,302</b>	<b>5,516</b>	<b>262,727</b>
<b>Accumulated depreciation</b>				
<b>At 31 December 2018</b>	<b>(27,896)</b>	<b>(70,322)</b>	<b>-</b>	<b>(98,218)</b>
Depreciation charge	(2,305)	(13,441)	(2,316)	(18,062)
Disposals	2,108	6,469	-	8,577
Transfer to investment property	26	-	-	26
<b>At 31 December 2019</b>	<b>(28,067)</b>	<b>(77,294)</b>	<b>(2,316)</b>	<b>(107,677)</b>
<b>Net book value</b>				
<b>At 31 December 2018</b>	<b>90,811</b>	<b>65,739</b>	<b>-</b>	<b>156,550</b>
<b>At 31 December 2019</b>	<b>86,842</b>	<b>65,008</b>	<b>3,200</b>	<b>155,050</b>
		<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Total</i>
<b>Cost</b>				
<b>At 31 December 2017</b>		<b>113,454</b>	<b>133,323</b>	<b>246,777</b>
Additions		10,430	17,594	28,024
Disposals		(5,177)	(14,856)	(20,033)
Transfer to investment property		-	-	-
<b>At 31 December 2018</b>		<b>118,707</b>	<b>136,061</b>	<b>254,768</b>
<b>Accumulated depreciation</b>				
<b>At 31 December 2017</b>		<b>(25,503)</b>	<b>(70,760)</b>	<b>(96,263)</b>
Depreciation charge		(2,767)	(11,703)	(14,470)
Disposals		374	12,141	12,515
Transfer to investment property		-	-	-
<b>At 31 December 2018</b>		<b>(27,896)</b>	<b>(70,322)</b>	<b>(98,218)</b>
<b>Net book value</b>				
<b>At 31 December 2017</b>		<b>87,951</b>	<b>62,563</b>	<b>150,514</b>
<b>At 31 December 2018</b>		<b>90,811</b>	<b>65,739</b>	<b>156,550</b>

As at 31 December 2019, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYN 31,825 thousand (2018: BYN 27,126 thousand).

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13. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
<b>Cost</b>			
<b>At 31 December 2018</b>	<b>84,752</b>	<b>743</b>	<b>85,495</b>
Additions	11,618	76	11,694
Disposals	(1)	-	(1)
<b>At 31 December 2019</b>	<b>96,369</b>	<b>819</b>	<b>97,188</b>
<b>Accumulated depreciation</b>			
<b>At 31 December 2018</b>	<b>(51,959)</b>	<b>(151)</b>	<b>(52,110)</b>
Depreciation charge	(11,054)	(79)	(11,133)
Disposals	1	-	1
<b>At 31 December 2019</b>	<b>(63,012)</b>	<b>(230)</b>	<b>(63,242)</b>
<b>Net book value</b>			
<b>At 31 December 2018</b>	<b>32,793</b>	<b>592</b>	<b>33,385</b>
<b>At 31 December 2019</b>	<b>33,357</b>	<b>589</b>	<b>33,946</b>

	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
<b>Cost</b>			
<b>At 31 December 2017</b>	<b>74,304</b>	<b>605</b>	<b>74,909</b>
Additions	10,449	152	10,601
Disposals	(1)	(14)	(15)
<b>At 31 December 2018</b>	<b>84,752</b>	<b>743</b>	<b>85,495</b>
<b>Accumulated depreciation</b>			
<b>At 31 December 2017</b>	<b>(42,192)</b>	<b>(95)</b>	<b>(42,287)</b>
Depreciation charge	(9,768)	(61)	(9,829)
Disposals	1	5	6
<b>At 31 December 2018</b>	<b>(51,959)</b>	<b>(151)</b>	<b>(52,110)</b>
<b>Net book value</b>			
<b>At 31 December 2017</b>	<b>32,112</b>	<b>510</b>	<b>32,622</b>
<b>At 31 December 2018</b>	<b>32,793</b>	<b>592</b>	<b>33,385</b>

14. Taxation

The corporate income tax expense comprises:

	<b>2019</b>	<b>2018</b>
Current tax charge	49,234	58,450
Deferred tax charge – origination and reversal of temporary differences	12	(16,144)
Including: deferred tax recognized in other comprehensive income	1,294	(1,211)
<b>Income tax expense</b>	<b>50,540</b>	<b>41,095</b>
	<b>2019</b>	<b>2018</b>
Net gains/(losses) on debt instruments measured at FVOCI	(19)	17
Net (gains)/losses on equity instruments designated at the Group's discretion as measured at FVOCI	-	6
Actuarial gain/(loss) on defined pension plan	(1,275)	1,188
<b>Income tax recognized in other comprehensive income</b>	<b>(1,294)</b>	<b>1,211</b>

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### 14. Taxation (continued)

Belarusian legal entities must file individual tax returns. In 2019 and 2018, the income tax rate for banks was 25%. In 2019 and 2018, the income tax rate for the Bank's subsidiaries in the Republic of Belarus was 18%. In 2019 and 2018, 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:

	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>	<b>200,981</b>	<b>200,288</b>
Statutory tax rate	25%	25%
<b>Theoretical income tax expense at the statutory rate</b>	<b>50,245</b>	<b>50,072</b>
Tax exemption for operations with securities	(5,113)	(2,668)
Tax exemption for expenses related to supporting agricultural enterprises	(2,392)	(3,335)
Effect of changes in legislation on accounting for lease operations	–	(14,902)
Other tax exemptions	(4,497)	(5,618)
Income of subsidiaries taxed at different rates	(1,058)	3,239
Non-deductible expenses:		
- salaries and related expenses	3,904	4,912
- provisions	3,228	3,203
- insurance	2,256	2,662
- disposal of property and equipment	1,322	1,112
- charity	246	447
- depreciation and amortization	156	153
- maintenance and repairs	134	132
- consulting, advertising and representative expenses	94	132
- taxes other than income tax	24	22
- translation differences	–	27
- other	1,327	2,163
Reversal of statutory revaluation of property and equipment	664	(658)
<b>Income tax expense</b>	<b>50,540</b>	<b>41,095</b>

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14. Taxation (continued)

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

	1 January 2018	Origination and reversal of temporary differences		2018	Origination and reversal of temporary differences		2019
		In the statement of comprehens profit or loss	In other ive income		In the statement of comprehens profit or loss	In other ive income	
<b>Tax effect of deductible temporary differences</b>							
Property and equipment	5,952	(714)	-	5,238	(632)	-	4,606
Amounts due to credit institutions	-	-	-	-	-	-	-
Loans to customers	6,092	(4,439)	-	1,653	(561)	-	1,092
Amounts due to customers	8	(8)	-	-	-	-	-
Other provisions	103	(37)	-	66	12	-	78
Other assets	744	187	-	931	(133)	-	798
Other liabilities	5,095	14	(1,188)	3,921	396	1,275	5,592
<b>Deferred tax assets</b>	<b>17,994</b>	<b>(4,997)</b>	<b>(1,188)</b>	<b>11,809</b>	<b>(918)</b>	<b>1,275</b>	<b>12,166</b>
Deferred tax asset offset against deferred tax liability	(17,994)	7,728	1,188	(9,078)	363	(1,275)	(9,990)
<b>Total deferred tax assets</b>	<b>-</b>	<b>2,731</b>	<b>-</b>	<b>2,731</b>	<b>(555)</b>	<b>-</b>	<b>2,176</b>
<b>Tax effect of taxable temporary differences</b>							
Allowance for loan impairment	(43,643)	9,723	-	(33,920)	(747)	-	(34,667)
Amounts due to credit institutions	(54)	(21)	-	(75)	55	-	(20)
Other provisions	(6,439)	173	-	(6,266)	442	-	(5,824)
Investment securities	(21)	25	(23)	(19)	(36)	19	(36)
Loans to customers	(3,202)	3,202	-	-	-	-	-
Investments in subsidiaries	(1,913)	9	-	(1,904)	-	-	(1,904)
Other assets	(1,602)	1,517	-	(85)	(102)	-	(187)
Other liabilities	(7,724)	7,724	-	-	-	-	-
<b>Deferred tax liability</b>	<b>(64,598)</b>	<b>22,352</b>	<b>(23)</b>	<b>(42,269)</b>	<b>(388)</b>	<b>19</b>	<b>(42,638)</b>
Deferred tax asset offset against deferred tax liability	17,994	(7,728)	(1,188)	9,078	(363)	1,275	9,990
<b>Total deferred tax liabilities</b>	<b>(46,604)</b>	<b>14,624</b>	<b>(1,211)</b>	<b>(33,191)</b>	<b>(751)</b>	<b>1,294</b>	<b>(32,648)</b>
<b>Deferred tax liabilities, net</b>	<b>(46,604)</b>	<b>17,355</b>	<b>(1,211)</b>	<b>(30,460)</b>	<b>(1,306)</b>	<b>1,294</b>	<b>(30,472)</b>

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### 15. 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 2019:

	<i>Notes</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
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	10	2,028	–	–	–	2,028
Credit-related commitments	22	(679)	(45)	(267)	–	(991)
<b>Total (allowance)/reversal of allowance for credit losses</b>		<b>4,588</b>	<b>69</b>	<b>(6,040)</b>	<b>(179)</b>	<b>(1,562)</b>

In 2019, the Group received BYN 2,772 thousand that were written off earlier as bad debt (2018: BYN 8,637 thousand). This amount relates to loans to corporate customers of BYN 365 thousand (2018: BYN 5,982 thousand) and loans to individuals of BYN 2,407 thousand (2018: BYN 2,655 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:

	<i>Other provisions</i>
<b>At 31 December 2018</b>	–
Charge	5,004
Write-off	–
<b>At 31 December 2019</b>	<b>5,004</b>

### 16. Other assets and liabilities

Other assets comprise:

	<i>2019</i>	<i>2018</i>
<b>Other financial assets</b>		
Derivative financial assets	259	125
Accrued fines and fees and commissions receivable	2,825	3,169
	<b>3,084</b>	<b>3,294</b>
<b>Other non-financial assets</b>		
Prepayments	12,901	12,925
VAT and other prepaid taxes other than income tax	12,278	16,013
Property received as a repayment of loans	11,484	8,388
Insurance payments of a subsidiary	6,832	4,454
Blocks of apartments owned by the Bank	3,394	3,459
Assets to be transferred under finance lease agreements	1,332	3,705
Assets held for sale	277	–
Other non-financial assets	15,128	11,368
	<b>63,626</b>	<b>60,312</b>
<b>Total other assets</b>	<b>66,710</b>	<b>63,606</b>

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### 16. Other assets and liabilities (continued)

The blocks of apartments owned by the Group comprise apartments and parking spaces owned by the Group constructed for sale in the course of its normal activities. The carrying amount of the residential property is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Group.

Other liabilities comprise:

	<b>2019</b>	<b>2018</b>
<b>Other financial liabilities</b>		
Life insurance liabilities payable by a subsidiary	57,061	44,897
Defined benefit plan: pension liabilities (Note 27)	38,591	32,491
Pension liabilities payable by a subsidiary to third parties	18,870	8,482
Salaries and bonuses payable	10,802	9,786
Trade and other payables	5,630	2,265
Lease liability	3,029	–
Derivative financial liabilities	650	213
Other financial liabilities	16,470	14,733
	<b>151,103</b>	<b>112,867</b>
<b>Other non-financial liabilities</b>		
Tax liabilities (taxes other than income tax)	2,750	1,774
Other non-financial liabilities	1,482	1,889
	<b>4,232</b>	<b>3,663</b>
<b>Total other liabilities</b>	<b>155,335</b>	<b>116,530</b>

### 17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<b>2019</b>	<b>2018</b>
Current accounts	23,798	41,616
Time deposits and loans	158,195	220,109
<b>Amounts due to credit institutions</b>	<b>181,993</b>	<b>261,725</b>

As at 31 December 2019, time deposits and loans included amounts payable to the bank from RBI Group comprising BYN 55,178 thousand (2018: BYN 114,558 thousand). EUR-denominated contracts and USD-denominated contracts bore interest rates of 2.73% and 6.33%, respectively (2018: EUR-denominated and USD-denominated contracts bore interest rates of 2.63%-4.74% and 8.05%, respectively).

### 18. Amounts due to customers

Amounts due to customers comprise:

	<b>2019</b>	<b>2018</b>
Time deposits	1,220,232	994,849
Current accounts	2,323,993	2,034,040
<b>Amounts due to customers</b>	<b>3,544,225</b>	<b>3,028,889</b>
Held as collateral against letters of credit	5,926	474
Held as collateral against guarantees	3,121	4,595

As at 31 December 2019, amounts due to customers of BYN 272,727 thousand, or 8% of the total amounts due to customers, were due to the five largest third-party customers (2018: BYN 230,097 thousand, or 8%).

Included in time deposits are deposits of individuals of BYN 585,977 thousand (31 December 2018: BYN 582,181 thousand).

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### 18. Amounts due to customers (continued)

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 2019, irrevocable deposits of individuals amounted to BYN 275,493 thousand, or 47% of the time deposits of individuals (31 December 2018: BYN 172,800 thousand, or 30%).

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

	<b>2019</b>	<b>2018</b>
Individuals	1,678,195	1,423,616
Private companies	1,847,482	1,581,821
State companies and budgetary organizations	18,548	23,452
<b>Amounts due to customers</b>	<b>3,544,225</b>	<b>3,028,889</b>

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

	<b>2019</b>	<b>2018</b>
Individuals	1,678,195	1,423,616
Manufacturing:	460,938	317,655
Machinery, equipment	90,385	53,632
Chemicals, rubber, plastics	70,737	50,514
Electric equipment	54,856	22,551
Food, beverages, tobacco products	43,877	35,781
Wood processing	28,593	14,302
Transport facilities	25,431	10,585
Base metals production	24,361	12,247
Pulp and paper industry	13,556	10,862
Textile industry	12,830	12,930
Coking coal, oil products	11,250	17,614
Pharmaceutical industry	5,936	9,096
Other manufacturing	79,126	67,541
Information and communications	458,604	356,382
Wholesale trade	328,951	313,525
Professional, research and technical activities	119,001	66,730
Construction	114,356	114,117
Real estate	65,033	47,446
Transport facilities	64,393	89,445
Retail trade	57,203	42,746
Other	197,551	257,227
<b>Amounts due to customers</b>	<b>3,544,225</b>	<b>3,028,889</b>

### 19. Amounts due to international credit institutions

As at 31 December 2019 and 2018, amounts due to international credit institutions consisted of loans issued by the European Bank for Reconstruction and Development of BYN 130,831 thousand (2018: BYN 60,406 thousand).



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### 20. Debt securities issued

As at 31 December 2019 and 2018, debt securities issued were represented by non-documentary bonds maturing in 2023-2028. The bonds bear a floating interest rate linked to the NBRB refinancing rate.

### 21. Equity

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

	<i>Number of shares</i>		<i>Nominal value</i>		<i>Inflation adjustment</i>	<i>Total</i>
	<i>Preferred</i>	<i>Ordinary</i>	<i>Preferred</i>	<i>Ordinary</i>		
31 December 2017, 2018 and 2019	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.

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.

At the shareholders' meeting in September 2019, the Bank declared dividends based on the interim financial statements for the six months ended 30 June 2019 in the amount of BYN 0.38 and BYN 0.35 per ordinary share and preferred share, respectively. The dividends were paid.

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Bank's shareholders based on the Bank's financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2019, the Bank's non-distributable reserves totaled BYN 208,241 thousand (2018: BYN 216,787 thousand). As at 31 December 2019, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYN 3,204 thousand (2018: BYN 2,896 thousand).

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**21. Equity (continued)**

**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>
<b>At 1 January 2018</b>	<b>2,994</b>	<b>65</b>	<b>(10,002)</b>	<b>(6,943)</b>
Exchange differences on translation of the financial statements of a foreign subsidiary	523	-	-	<b>523</b>
Revaluation of defined pension plans	-	-	4,753	<b>4,753</b>
Net change in the fair value of debt instruments at FVOCI	-	67	-	<b>67</b>
Net change in the fair value of equity instruments at FVOCI	-	22	-	<b>22</b>
Tax effect of net gains on debt and equity instruments at FVOCI and revaluation of defined pension plans	-	(23)	(1,188)	<b>(1,211)</b>
<b>At 31 December 2018</b>	<b>3,517</b>	<b>131</b>	<b>(6,437)</b>	<b>(2,789)</b>
Exchange differences on translation of the financial statements of a foreign subsidiary	(565)	-	-	<b>(565)</b>
Revaluation of defined pension plans	-	-	(5,099)	<b>(5,099)</b>
Net change in the fair value of debt instruments at FVOCI	-	(72)	-	<b>(72)</b>
Net change in the fair value of equity instruments at FVOCI	-	(1)	-	<b>(1)</b>
Tax effect of net gains on debt and equity instruments at FVOCI and revaluation of defined pension plans	-	19	1,275	<b>1,294</b>
<b>At 31 December 2019</b>	<b>2,952</b>	<b>77</b>	<b>(10,261)</b>	<b>(7,232)</b>

**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.

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## 22. 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 2019, the Belarusian government and the NBRB continued to focus on the stabilization of the financial market. In 2019, the NBRB decreased key interest rates. The refinancing rate decreased from 10.0% to 9.0%, the rates applicable to permanently available and bilateral transactions performed to maintain current bank liquidity decreased from 11.5% to 10%; the rate on overnight deposits remained at 8.0%.

In 2019, the provisioning rate on borrowings in foreign currencies remained unchanged and amounted to 17.0% p.a. and in November 2019, the interest rate for the use of USD-denominated cash resources under swap transactions was reduced by 0.75 p.p. to 1.50% p.a. During 2019, the Republic of Belarus continued to increase its government debt. As at 1 January 2020, government debt totaled BYN 44.8 billion, which is BYN 0.6 billion less than at the beginning of the prior year.

In 2019, the Group's business was affected by the following economic and monetary processes occurring in the Republic of Belarus: GDP grew by 1.2% year-on-year (2018: 3.1% year-on-year); the consumer price index for goods and services grew by 4.7%; gold and foreign currency reserves of the Republic of Belarus increased by USD 2,236 billion, or 31.2% (2018: decreased by USD 157.7 million, or 2.2%), and amounted to USD 9,394 million as at 1 January 2020. The growth in gold and foreign currency reserves was driven by, among other things, the issue by the National Bank of the Republic of Belarus and the Ministry of Finance of foreign currency bonds in the domestic market and proceeds from Eurobonds placed in external financial markets. In 2019, the BYN value to a foreign currency basket increased by 2.74% (2018: decreased by 1.1%) as follows: EUR/BYN exchange rate decreased by 4.89% (2018: increased by 5.01%), USD/BYN exchange rate decreased by 2.60% (2018: increased by 9.48%), RUB/BYN exchange rate increased by 9.36% (2018: decreased by 9.19%). Altogether, uncertainty in the relations with the Russian Federation causes additional negative pressures on the economy. For the first time over the recent years, the Republic of Belarus started the year 2020 without any long-term oil supply contracts with the Russian Federation, which will result in inevitable losses for refineries and the petrochemical industry in general. If the oil conflict with the Russian Federation is protracted, the government will have to address the issue to achieve its economic targets. Partial replacement of Russian oil with more expensive oil from other countries will inevitably cause further rises in fuel costs in the domestic market, therefore, it will continue to drive inflation processes.

Due to the recent progress of the COVID-19 pandemic, many countries, including the Russian Federation (Belarus' principal business partner), introduced quarantine measures that significantly affected the level and scope of business operations in the market. It is expected that the pandemic itself and the mitigating measures may impact the performance of companies across industries. The Group regards the pandemic as a non-adjusting event after the reporting period, the quantitative effect of which cannot be reliably measured at the moment.

Since March 2020, equity, currency and commodity markets have shown extreme volatility, as well as a drop in oil prices and depreciation of the Russian ruble against the US dollar and euro. The Group's management is currently assessing the possible impact of the changing micro- and macroeconomic environment on the Group's financial position and performance.

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, if any, 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.

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### 22. Commitments and contingencies (continued)

#### **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. Inconsistent interpretations are not unusual. 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. In addition, since Management's interpretation of this legislation may differ from possible official interpretations, and the compliance with this legislation may be challenged by tax authorities, additional taxes, penalties and preventive measures may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time.

It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

As at 31 December 2019, 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.

#### **Financial commitments and contingencies**

As at 31 December 2019, the Group's financial commitments and contingencies comprised the following:

	<b>2019</b>	<b>2018</b>
<b>Credit-related commitments</b>		
Undrawn loan commitments	994,740	851,722
Letters of credit	59,039	103,764
Financial guarantees	153,750	221,512
	<b>1,207,529</b>	<b>1,176,998</b>
<b>Operating lease commitments</b>		
Not later than 1 year	–	2,313
From 1 year to 5 years	–	2,055
Later than 5 years	–	–
	<b>–</b>	<b>4,368</b>
	<b>1,207,529</b>	<b>1,181,366</b>
<b>Commitments and contingencies</b>		
Provision for ECL on credit-related commitments	(3,094)	(2,111)
Other provisions	(5,004)	–
Deposits held as collateral against letters of credit and guarantees (Note 18)	(9,047)	(5,069)

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

<b>Credit-related commitments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Provision for ECL at 1 January 2019</b>	<b>2,041</b>	<b>59</b>	<b>11</b>	<b>2,111</b>
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 translation differences	(8)	–	–	(8)
<b>At 31 December 2019</b>	<b>2,712</b>	<b>104</b>	<b>278</b>	<b>3,094</b>

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**23. Net interest income**

Net interest income comprises:

	<b>2019</b>	<b>2018</b>
<b>Financial assets at amortized cost</b>	<b>293,252</b>	<b>247,150</b>
Cash equivalents	12,808	9,413
Amounts due from credit institutions	681	449
Loans to customers	257,624	223,798
Investment securities	22,139	13,490
<b>Financial assets at FVOCI</b>	<b>963</b>	<b>38</b>
Investment securities	963	38
<b>Interest income calculated using the effective interest rate</b>	<b>294,215</b>	<b>247,188</b>
Trading securities	573	-
Finance lease	31,180	27,842
<b>Other interest income</b>	<b>31,753</b>	<b>27,842</b>
<b>Total interest income</b>	<b>325,968</b>	<b>275,030</b>
Amounts due to NBRB	-	(2,703)
Amounts due to customers	(58,110)	(36,949)
Amounts due to credit institutions	(8,117)	(11,299)
Debt securities issued	(14,262)	(9,333)
Amounts due to international financial institutions	(3,331)	(1,051)
<b>Interest expense</b>	<b>(83,820)</b>	<b>(61,335)</b>
<b>Net interest income</b>	<b>242,148</b>	<b>213,695</b>

**24. Net fee and commission income**

Net fee and commission income comprises:

	<b>2019</b>	<b>2018</b>
Settlement operations	183,424	156,134
Guarantees and letters of credit	6,392	6,502
Currency conversion operations	26	991
Other	1,212	3,197
<b>Fee and commission income</b>	<b>191,054</b>	<b>166,824</b>
Settlement operations	(95,953)	(80,062)
Guarantees	(4,561)	(4,587)
Agency services	(3,053)	(3,349)
Currency conversion operations	(185)	(233)
Operations with securities	(96)	(114)
Other	(3,578)	(5,985)
<b>Fee and commission expense</b>	<b>(107,426)</b>	<b>(94,330)</b>
<b>Net fee and commission income</b>	<b>83,628</b>	<b>72,494</b>

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### 25. Other income

Other income comprises:

	<b>2019</b>	<b>2018</b>
Income from agriculture services	6,675	5,433
Income from operating lease	1,156	5,277
Income from sale of property and equipment and investment property	174	4,947
Income from dividends	–	130
Income from early redemption and sale of leased assets	–	215
Other	5,737	1,205
<b>Total other income</b>	<b>13,742</b>	<b>17,207</b>

### 26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	<b>2019</b>	<b>2018</b>
Salaries and bonuses	67,142	59,923
Social security costs	22,885	23,235
Retirement benefits (Note 27)	4,782	2,837
Other employment taxes	1,781	1,756
<b>Personnel expenses</b>	<b>96,590</b>	<b>87,751</b>
Software expenses	12,322	11,942
Occupancy and rent	9,729	13,090
Deposit insurance fees	9,202	7,732
Marketing and advertising	5,667	4,186
Legal and consultancy	5,402	5,098
Plastic cards operations	3,556	3,945
Taxes other than income tax	3,427	4,173
Office supplies	1,822	2,257
Communications	1,680	1,592
Transportation expenses	1,635	1,974
Inventory sale costs	1,074	2,090
Repair and maintenance of equipment	1,090	965
Business travel and related expenses	1,068	974
Personnel training	986	701
Loss on disposal of property and equipment and intangible assets	968	1,822
Representation expenses	606	614
Security	283	214
Other	5,609	4,882
<b>Other operating expenses</b>	<b>66,126</b>	<b>68,251</b>

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### 27. 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)*

	<b>2019</b>	<b>2018</b>
Current service cost	1,855	2,176
Interest cost on benefit obligation	2,838	3,628
Past service cost	89	(2,967)
	<b>4,782</b>	<b>2,837</b>

#### **Net benefit expense (Note 26)**

#### *Retirement benefit liability*

	<b>2019</b>	<b>2018</b>
Retirement benefit liability (Note 16)	(38,591)	(32,491)

Changes in value of the defined benefit obligation

	<b>2019</b>	<b>2018</b>
<b>Opening defined benefit plan obligation</b>	<b>32,491</b>	<b>34,687</b>
Current service cost	1,855	2,176
Interest expense	2,838	3,628
Increase in obligations due to changes in pension plan terms	89	(2,967)
Actuarial gains/losses arising from changes in demographic assumptions	(98)	249
Actuarial gains/ losses arising from changes in finance assumptions	4,561	(4,859)
Current regulating amendments	636	(143)
Benefits paid	(3,781)	(280)
<b>Closing defined benefit obligation</b>	<b>38,591</b>	<b>32,491</b>

#### *Changes in plan obligations*

	<b>2019</b>	<b>2018</b>
<b>Opening plan obligation</b>	<b>(32,491)</b>	<b>(34,687)</b>
Net benefit expense	(4,782)	(2,837)
Revaluation of defined benefit plans recognized in other comprehensive income	(5,099)	4,753
Benefits paid	3,781	280
<b>Closing plan obligation</b>	<b>(38,591)</b>	<b>(32,491)</b>

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

	<b>2019</b>	<b>2018</b>
Discount rate	4.23%	5.27%
Future inflation rate	7.46%	6.00%

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## 27. Post-employment benefits (continued)

### Defined benefit plan (continued)

In 2018 and 2019, 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 13.7 years (2018: 12.7 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 1,109 thousand (2018: BYN 1,424 thousand).

### Sensitivity analysis

	<b>Changes in assumptions</b>	<b>Effect on the benefit obligation</b>
Discount rate	+ / -1 pp	5,092
Future inflation rate	+ / -1 pp	1,686
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / -0.5 pp	159

## 28. 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.



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## 28. Risk management (continued)

### Introduction (continued)

- ▶ *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.

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.

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## 28. Risk management (continued)

### Introduction (continued)

#### *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.

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 8.

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## 28. Risk management (continued)

### Credit risk (continued)

#### 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)	<i>Probability of default</i> 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)	<i>Exposure at default</i> 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)	<i>Loss given default</i> 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.

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.

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## 28. Risk management (continued)

### Credit risk (continued)

#### *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.

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.

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## 28. Risk management (continued)

### Credit risk (continued)

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.

#### *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.

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## 28. Risk management (continued)

### Credit risk (continued)

#### *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.

#### *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.

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**28. Risk management (continued)**

**Credit risk (continued)**

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 2019.

<b>Key factors</b>	<b>ECL scenario</b>	<b>Assigned probability, %</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
<b>GDP growth, %</b>	Optimistic	25%	3.7	3.7	3.4
	Basic	50%	1.8	1.5	1.5
	Pessimistic	25%	-0.8	-1.6	-1.1
<b>USD/BYN exchange rate</b>	Optimistic	25%	1.9	1.9	2.1
	Basic	50%	2.2	2.3	2.4
	Pessimistic	25%	2.6	2.8	2.8
<b>EUR/BYN exchange rate</b>	Optimistic	25%	1.8	1.9	2.3
	Basic	50%	2.5	2.6	2.9
	Pessimistic	25%	3.1	3.4	3.5
<b>Growth of consumer prices, %</b>	Optimistic	25%	4.9	4.7	4.9
	Basic	50%	6.0	6.0	6.0
	Pessimistic	25%	15.8	17.7	15.8
<b>Unemployment rate, %</b>	Optimistic	25%	0.4	0.8	0.9
	Basic	50%	1.0	1.5	1.5
	Pessimistic	25%	1.7	2.3	2.2

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**28. 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.

<b>31 December 2019</b>	<b>Notes</b>		<b>High grade</b>	<b>Standard grade</b>	<b>Sub-standard grade</b>	<b>Impaired</b>	<b>Total</b>
Cash and cash equivalents, except for cash on hand	6	Stage 1	576,068	638,937	–	–	<b>1,215,005</b>
Amounts due from credit institutions	8	Stage 1	–	80,927	–	–	<b>80,927</b>
Loans to customers at amortized cost:	9						
- Corporate lending		Stage 1	58,810	1,265,467	115,567	–	<b>1,439,844</b>
		Stage 2	–	41,092	64,388	–	<b>105,480</b>
		Stage 3	–	–	–	42,238	<b>42,238</b>
		POCI	–	–	–	962	<b>962</b>
- Small business lending		Stage 1	–	448,079	49,072	–	<b>497,151</b>
		Stage 2	–	36,630	35,700	–	<b>72,330</b>
		Stage 3	–	–	–	17,152	<b>17,152</b>
		POCI	–	–	–	821	<b>821</b>
- Consumer lending		Stage 1	–	677,543	29,337	–	<b>706,880</b>
		Stage 2	–	2,472	10,086	–	<b>12,558</b>
		Stage 3	–	–	–	11,324	<b>11,324</b>
- Mortgage lending		Stage 1	–	173,828	–	–	<b>173,828</b>
		Stage 2	–	–	834	–	<b>834</b>
		Stage 3	–	–	–	750	<b>750</b>
Debt investment securities:	10						
- measured at FVOCI		Stage 1	33,760	–	–	–	<b>33,760</b>
- measured at amortized cost		Stage 1	265,251	–	–	–	<b>265,251</b>
Credit-related commitments	22	Stage 1	48,139	1,115,362	17,319	–	<b>1,180,820</b>
		Stage 2	–	19,812	6,467	–	<b>26,279</b>
		Stage 3	–	–	–	430	<b>430</b>
<b>Total</b>			<b>982,028</b>	<b>4,500,149</b>	<b>328,770</b>	<b>73,667</b>	<b>5,884,624</b>



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28. Risk management (continued)

Credit risk (continued)

31 December 2018	Notes		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	6	Stage 1	601,775	422,298	-	-	1,024,073
Amounts due from credit institutions	8	Stage 1	36,914	24,688	-	-	61,602
Loans to customers at amortized cost:	9						
- Corporate lending		Stage 1	29,313	1,314,785	111,252	-	1,455,350
		Stage 2	-	21,115	67,320	-	88,435
		Stage 3	-	-	-	73,351	73,351
		POCI	-	-	-	2,664	2,664
- Small business lending		Stage 1	-	423,576	36,065	-	459,641
		Stage 2	-	16,783	12,947	-	29,730
		Stage 3	-	-	-	13,687	13,687
		POCI	-	-	-	939	939
- Consumer lending		Stage 1	-	506,236	15,295	-	521,531
		Stage 2	-	7,513	9,937	-	17,450
		Stage 3	-	-	-	9,244	9,244
- Mortgage lending		Stage 1	-	83,416	-	-	83,416
		Stage 2	-	-	995	-	995
		Stage 3	-	-	-	2,225	2,225
Debt investment securities:	10						
- measured at FVOCI		Stage 1	36,816	-	-	-	36,816
- measured at amortized cost		Stage 1	271,143	295	-	-	271,438
Credit-related commitments		Stage 1	43,413	1,092,238	30,445	-	1,166,096
	22	Stage 2	-	7,389	3,462	-	10,851
		Stage 3	-	-	-	51	51
<b>Total</b>			<b>1,019,374</b>	<b>3,920,332</b>	<b>287,718</b>	<b>102,161</b>	<b>5,329,585</b>

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

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

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### 28. Risk management (continued)

#### Credit risk (continued)

#### Geographical risk concentration

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

	2019				2018			
	Belarus	OECD	CIS and other foreign banks	Total	Belarus	OECD	CIS and other foreign banks	Total
<b>Assets</b>								
Cash and cash equivalents	764,481	559,561	37,722	1,361,764	515,934	600,618	32,137	1,148,689
Trading securities	41,776	-	-	41,776	-	-	-	-
Amounts due from credit institutions	80,783	-	-	80,783	61,602	-	-	61,602
Loans to customers	3,006,306	1,833	-	3,008,139	2,653,256	4,091	-	2,657,347
Investment securities	190,297	109,505	-	299,802	270,174	36,815	-	306,989
Other assets	2,888	168	28	3,084	3,214	80	-	3,294
	<b>4,086,531</b>	<b>671,067</b>	<b>37,750</b>	<b>4,795,348</b>	<b>3,504,180</b>	<b>641,604</b>	<b>32,137</b>	<b>4,177,921</b>
<b>Liabilities</b>								
Amounts due to credit institutions	60,726	65,484	55,783	181,993	123,684	133,270	4,771	261,725
Amounts due to customers	3,367,326	77,148	99,751	3,544,225	2,873,238	66,222	89,429	3,028,889
Amounts due to international credit institutions	-	130,831	-	130,831	-	60,406	-	60,406
Debt securities issued	54,422	-	-	54,422	68,025	-	-	68,025
Other liabilities	150,482	602	19	151,103	112,828	35	4	112,867
	<b>3,632,956</b>	<b>274,065</b>	<b>155,553</b>	<b>4,062,574</b>	<b>3,177,775</b>	<b>259,933</b>	<b>94,204</b>	<b>3,531,912</b>
<b>Net position</b>	<b>453,575</b>	<b>397,002</b>	<b>(117,803)</b>	<b>732,774</b>	<b>326,405</b>	<b>381,671</b>	<b>(62,067)</b>	<b>646,009</b>

#### 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>	<b>2019</b>	<b>2018</b>
Liquidity coverage ratio	100.0%	156.6%	119.9%
Net stable funding ratio	100.0%	147.7%	123.1%

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28. 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.

<b>Financial liabilities at 31 December 2019</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Amounts due to credit institutions	23,798	59,197	33,315	71,632	7,737	<b>195,679</b>
Derivative financial instruments:						
- Contractual amounts payable	-	331,557	2,418	-	-	<b>333,975</b>
- Contractual amounts receivable	-	(331,323)	(2,518)	-	-	<b>(333,841)</b>
Amounts due to customers	2,323,993	694,817	346,644	205,669	227	<b>3,571,350</b>
Amounts due to international financial institutions	2,198	6,490	19,027	118,706	-	<b>146,421</b>
Debt securities issued	-	992	3,030	20,969	61,944	<b>86,935</b>
Other liabilities	1,281	388	33,550	115,884	-	<b>151,103</b>
<b>Total undiscounted financial liabilities</b>	<b>2,351,270</b>	<b>762,118</b>	<b>435,466</b>	<b>532,860</b>	<b>69,908</b>	<b>4,151,622</b>

<b>Financial liabilities at 31 December 2018</b>	<b>On demand</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Amounts due to credit institutions	41,617	171,524	12,626	43,533	283	<b>269,583</b>
Derivative financial instruments:						
- Contractual amounts payable	-	406,994	3,027	-	-	<b>410,021</b>
- Contractual amounts receivable	-	(407,104)	(3,145)	-	-	<b>(410,249)</b>
Amounts due to customers	2,034,039	727,536	219,894	63,801	76	<b>3,045,346</b>
Amounts due to international financial institutions	1,031	6,035	9,227	49,052	-	<b>65,345</b>
Debt securities issued	-	1,708	60,817	4,715	15,650	<b>82,890</b>
Other liabilities	1,250	-	25,747	85,870	-	<b>112,867</b>
<b>Total undiscounted financial liabilities</b>	<b>2,077,937</b>	<b>906,693</b>	<b>328,193</b>	<b>246,971</b>	<b>16,009</b>	<b>3,575,803</b>

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

	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
2019	1,047,680	85,391	72,843	1,615	<b>1,207,529</b>
2018	974,034	157,804	43,436	6,092	<b>1,181,366</b>

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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**28. 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 as at 31 December 2019 and 2018.

<b>Currency</b>	<b>Increase in basis points 2019</b>	<b>Sensitivity of net interest income 2019</b>
BYN	+50 b.p.	2,620
EUR	+50 b.p.	2,173
USD	+50 b.p.	920
<b>Currency</b>	<b>Decrease in basis points 2019</b>	<b>Sensitivity of net interest income 2019</b>
BYN	-50 b.p.	(2,620)
EUR	-50 b.p.	(2,173)
USD	-50 b.p.	(920)
<b>Currency</b>	<b>Increase in basis points 2018</b>	<b>Sensitivity of net interest income 2018</b>
BYN	+50 b.p.	2,176
EUR	+50 b.p.	1,764
USD	+50 b.p.	746
<b>Currency</b>	<b>Decrease in basis points 2018</b>	<b>Sensitivity of net interest income 2018</b>
BYN	-50 b.p.	(2,176)
EUR	-50 b.p.	(1,764)
USD	-50 b.p.	(746)

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### 28. 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 2019 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.

<b>Currency</b>	<b>Change in currency rate in %, 2019</b>	<b>Effect on profit before tax, 2019</b>	<b>Change in currency rate in %, 2018</b>	<b>Effect on profit before tax, 2018</b>
USD	9.00	1,441	10.00	894
USD	-9.00	(1,441)	-10.00	(894)
EUR	9.00	2,034	10.00	1,941
EUR	-9.00	(2,034)	-10.00	(1,941)

#### 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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**29. 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 2019</i>	<i>Fair value 2019</i>	<i>Unrecognized gain/ (loss) 2019</i>	<i>Carrying amount 2018</i>	<i>Fair value 2018</i>	<i>Unrecognized gain/ (loss) 2018</i>
<b>Financial assets</b>						
Cash and cash equivalents	1,361,764	1,361,764	–	1,148,689	1,148,689	–
Amounts due from credit institutions	80,783	80,783	–	61,602	61,602	–
Loans to customers	3,008,139	2,996,602	(11,537)	2,657,347	2,650,473	(6,874)
Investment securities – debt securities at amortized cost	264,702	267,887	3,185	268,833	268,994	161
Other financial assets	2,825	2,825	–	3,169	3,169	–
<b>Financial liabilities</b>						
Amounts due to credit institutions	181,993	181,993	–	261,725	261,725	–
Amounts due to customers	3,544,225	3,539,739	4,486	3,028,889	3,028,762	127
Amounts due to international financial institutions	130,831	130,831	–	60,406	60,406	–
Debt securities issued	54,422	54,422	–	68,025	68,025	–
Other financial liabilities	150,453	150,453	–	112,654	112,654	–
<b>Total unrecognized change in unrealized fair value</b>			<b><u>(3,866)</u></b>			<b><u>(6,586)</u></b>

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### 29. 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:

<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets for which fair values are disclosed</b>				
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
	<u>146,774</u>	<u>1,563,660</u>	<u>2,999,427</u>	<u>4,709,861</u>
<b>Financial liabilities for which fair values are disclosed</b>				
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
	<u>–</u>	<u>54,422</u>	<u>4,003,016</u>	<u>4,057,438</u>
<b>31 December 2018</b>				
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	124,619	1,024,070	–	1,148,689
Amounts due from credit institutions	–	61,602	–	61,602
Loans to customers	–	–	2,650,473	2,650,473
Investment securities – debt securities at amortized cost	–	268,994	–	268,994
Other financial assets	–	–	3,169	3,169
	<u>124,619</u>	<u>1,354,666</u>	<u>2,653,642</u>	<u>4,132,927</u>
<b>Financial liabilities for which fair values are disclosed</b>				
Amounts due to credit institutions	–	–	261,725	261,725
Amounts due to customers	–	–	3,028,762	3,028,762
Amounts due to international financial institutions	–	–	60,406	60,406
Debt securities issued	–	68,025	–	68,025
Other financial liabilities	–	–	112,654	112,654
	<u>–</u>	<u>68,025</u>	<u>3,463,547</u>	<u>3,531,572</u>

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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### 29. 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:

<b>31 December 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
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
	<b>33,760</b>	<b>42,145</b>	<b>1,230</b>	<b>77,135</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	–	615	35	650
	<b>–</b>	<b>615</b>	<b>35</b>	<b>650</b>
<b>31 December 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	–	80	45	125
Equity securities at FVOCI	–	166	1,174	1,340
Debt securities at FVOCI	36,816	–	–	36,816
	<b>36,816</b>	<b>246</b>	<b>1,219</b>	<b>38,281</b>
<b>Financial liabilities</b>				
Derivative financial liabilities	–	38	175	213
	<b>–</b>	<b>38</b>	<b>175</b>	<b>213</b>

#### 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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### 29. 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 2019</i>	<i>Gain/(loss) recorded in profit or loss on “Translation differences” position</i>	<i>Settlements</i>	<i>At 31 December 2019</i>
<b>Financial assets</b>				
Derivative financial instruments	45	56	(45)	56
Debt securities at FVOCI	1,174	–	–	1,174
<b>Total Level 3 financial assets</b>	<b>1,219</b>	<b>56</b>	<b>(45)</b>	<b>1,230</b>
<b>Financial liabilities</b>				
Derivative financial instruments	(175)	(35)	175	(35)
<b>Total Level 3 financial liabilities</b>	<b>(175)</b>	<b>(35)</b>	<b>175</b>	<b>(35)</b>

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

	<i>2019</i>			<i>2018</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	130	21	151	(247)	–	(247)

#### 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 2019</i>		<i>31 December 2018</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>
<b>Financial assets</b>				
Derivative financial instruments	1,230	10	1,219	6
<b>Financial liabilities</b>				
Derivative financial instruments	(35)	3	(175)	19

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. (2018: 100 b.p.).

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### 30. 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 28 “Risk management” for the Group’s contractual undiscounted repayment obligations.

	2019			2018		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	1,361,764	–	<b>1,361,764</b>	1,148,689	–	<b>1,148,689</b>
Trading securities	17,936	23,840	<b>41,776</b>	–	–	–
Amounts due from credit institutions	72,247	8,536	<b>80,783</b>	55,999	5,603	<b>61,602</b>
Loans to customers	1,606,176	1,401,963	<b>3,008,139</b>	1,565,707	1,091,640	<b>2,657,347</b>
Investment securities	171,846	127,956	<b>299,802</b>	252,513	54,476	<b>306,989</b>
Investment property	225	19,423	<b>19,648</b>	390	11,450	<b>11,840</b>
Property and equipment	19,715	135,335	<b>155,050</b>	16,285	140,265	<b>156,550</b>
Intangible assets	12,083	21,863	<b>33,946</b>	9,160	24,225	<b>33,385</b>
Deferred income tax assets	–	2,176	<b>2,176</b>	–	2,731	<b>2,731</b>
Current income tax assets	159	–	<b>159</b>	296	–	<b>296</b>
Other assets	66,025	685	<b>66,710</b>	62,847	759	<b>63,606</b>
<b>Total assets</b>	<b>3,328,176</b>	<b>1,741,777</b>	<b>5,069,953</b>	<b>3,111,886</b>	<b>1,331,149</b>	<b>4,443,035</b>
Amounts due to credit institutions	109,543	72,450	<b>181,993</b>	222,257	39,468	<b>261,725</b>
Amounts due to customers	2,905,302	638,923	<b>3,544,225</b>	2,650,787	378,102	<b>3,028,889</b>
Amounts due to international financial institutions	28,146	102,685	<b>130,831</b>	14,408	45,998	<b>60,406</b>
Debt securities issued	63	54,359	<b>54,422</b>	55,662	12,363	<b>68,025</b>
Current income tax liabilities	2,912	–	<b>2,912</b>	297	–	<b>297</b>
Deferred income tax liabilities	–	32,648	<b>32,648</b>	–	33,191	<b>33,191</b>
Provisions	8,098	–	<b>8,098</b>	2,111	–	<b>2,111</b>
Other liabilities	39,070	116,265	<b>155,335</b>	30,660	85,870	<b>116,530</b>
<b>Total liabilities</b>	<b>3,093,134</b>	<b>1,017,330</b>	<b>4,110,464</b>	<b>2,976,182</b>	<b>594,992</b>	<b>3,571,174</b>
<b>Net position</b>	<b>235,042</b>	<b>724,447</b>	<b>959,489</b>	<b>135,704</b>	<b>736,157</b>	<b>871,861</b>

### 31. 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 affected 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), shareholders with more than 5% ownership in the share capital of the Bank 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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**31. Related party transactions (continued)**

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

	2019			2018		
	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>
<b>Cash and cash equivalents at 31 December</b>	<b>8,605</b>	<b>1,407</b>	<b>-</b>	<b>26,931</b>	<b>2,191</b>	<b>-</b>
<b>Loans at 1 January</b>	-	-	<b>230</b>	-	-	<b>19</b>
Loans issued during the year	-	-	202	-	-	280
Loans repaid during the year	-	-	(145)	-	-	(69)
<b>Loans outstanding at 31 December</b>	<b>-</b>	<b>-</b>	<b>287</b>	<b>-</b>	<b>-</b>	<b>230</b>
<b>Deposits at 1 January</b>	<b>114,558</b>	<b>-</b>	<b>5,293</b>	<b>256,092</b>	<b>1,158</b>	<b>3,957</b>
Foreign exchange differences	(4,116)	1,704	(1,201)	15,844	58	463
Deposits received during the year	-	49,612	2,119	-	-	6,234
Deposits repaid during the year	(55,264)	-	(2,848)	(157,378)	(1,216)	(5,361)
<b>Deposits at 31 December</b>	<b>55,178</b>	<b>51,316</b>	<b>3,363</b>	<b>114,558</b>	<b>-</b>	<b>5,293</b>
Settlement and current accounts at 31 December	244	3,137	2,731	68	2,327	1,226
Commitments and guarantees issued	-	-	-	-	-	-
Commitments and guarantees received	-	-	-	1,188	-	-

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

	<i>For the year ended 31 December</i>					
	2019			2018		
	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>
Interest income	12	2	29	2	2	14
Interest expense	(3,674)	(280)	42	(8,468)	-	(101)
Net gains/(losses) from foreign currencies	7,555	(2,784)	-	4,907	531	-
Fee and commission income	83	168	6	85	166	-
Fee and commission expense	(4,199)	(63)	2	(3,527)	(119)	1
Personnel expenses	-	-	(3,341)	-	-	(3,356)
Other operating expenses	(5,094)	-	-	(4,387)	-	-

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### 31. Related party transactions (continued)

Compensation to key management personnel comprises the following:

	2019	2018
Salaries and other short-term benefits	2,874	2,757
Defined benefit plan	242	327
Social security costs	225	272
<b>Total compensation to key management personnel</b>	<b>3,341</b>	<b>3,356</b>

### 32. Changes in liabilities arising from financing activities

	<i>Notes</i>	<i>Debt securities issued</i>	<i>Total liabilities arising from financing activities</i>
<b>Carrying amount at 31 December 2017</b>		<b>51,732</b>	<b>51,732</b>
Proceeds from issue		57,965	57,965
Repaid		(41,712)	(41,712)
Foreign exchange differences		-	-
Other		40	40
<b>Carrying amount at 31 December 2018</b>		<b>68,025</b>	<b>68,025</b>
Proceeds from issue		502	502
Repaid		(14,022)	(14,022)
Foreign exchange differences		-	-
Other		(83)	(83)
<b>Carrying amount at 31 December 2019</b>	20	<b>54,422</b>	<b>54,422</b>

The “Other” line includes the effect of accrued but not yet paid interest on debt securities issued, other borrowed funds and subordinated loans. The Group classifies interest paid as cash flows from operating activities.

### 33. 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.

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### 33. Capital adequacy (continued)

#### 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 2019 and 2018, comprised:

	<b>2019</b>	<b>2018</b>
Tier 1 capital	930,411	842,605
<b>Total equity</b>	<b>930,411</b>	<b>842,605</b>
<b>Risk-weighted assets</b>	<b>3,936,925</b>	<b>3,668,442</b>
Tier 1 capital adequacy ratio (minimum value of 4%)	23.63%	22.97%
Total capital ratio (minimum value of 8%)	23.63%	22.97%

### 34. Events after the reporting period

On 19 February 2020, the National Bank of the Republic of Belarus reduced the refinancing rate from 9.00% to 8.75%.

On 18 March 2020, the Management Board of the National Bank of the Republic of Belarus decided to apply a number of countercyclical measures aimed at improving the ability of banks to maintain financial support of the real economy being significantly affected by external negative factors.

In March 2020, the exchange rate of the Belarusian ruble depreciated against the US dollar and other major currencies. The exchange rate of the National Bank of the Republic of Belarus at 23 April 2020 was BYN 2.4949 for USD 1.

The coronavirus pandemic continues to spread throughout the world. The Group will closely monitor the coronavirus situation; however, it is impossible to assess its financial effect at this point (Note 22).