Translation from the original in Russian

Bank BelVEB OJSC
and its subsidiaries

Consolidated financial statements

Year ended 31 December 2019
together with independent auditor's report

Contents

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Klary Tsetkin st., 51A, 15th floor
Minsk, 220004, Republic of Belarus
Tel: +375 (17) 240 4242
Fax: +375 (17) 240 4241
www.ey.com/by

ООО «Эрнст энд Янг»
Республика Беларусь, 220004, Минск
ул. Клары Цеткин, 51А, 15 этаж
Тел.: +375 (17) 240 4242
Факс: +375 (17) 240 4241

Translation from the original in Russian

Independent auditor's report on the consolidated financial statements of Belvnesheconombank Open Joint Stock Company for the period from 1 January 2019 to 31 December 2019

To the Chairman of the Management Board
of Belvnesheconombank Open Joint Stock Company
Mr. V.S. Matsiusheuski

To the Shareholders, Supervisory Board, Audit Committee and Management Board
of Belvnesheconombank Open Joint Stock Company

Opinion

We have audited the consolidated financial statements of Belvnesheconombank Open Joint Stock Company and its subsidiaries (hereinafter, the "Bank" or "Bank BelVEB OJSC"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 Bank 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 (IFRSs).

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 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 Bank 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.

Совершенствуя бизнес,
улучшаем мир

Translation from the original in Russian

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 of 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
Allowance for expected credit losses on loans to customers in accordance with IFRS 9	
The estimation of the allowance for expected credit losses on loans to customers is a key area of judgment for the Bank's management. Identification of factors of a significant increase in credit risk, including identification of the change in the risk of default occurring over the remaining life of the financial instrument, identification of default (impairment stages) and estimation of its probability, the level of recovery and macroeconomic forecast ratio require the 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 amount 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 assessing the allowance for expected credit losses on loans to individuals and legal entities, testing of controls over the customer lending process, including testing of controls over the accounting for overdue debt and 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 legal entities, we reviewed assumptions, tested input data used by the Bank, and analyzed the model for assessing the probability of default, the level of recovery and macroeconomic forecast ratio. We reviewed the classification of loans by credit quality stage and recalculated the allowance for expected credit losses. Our audit procedures also included the recalculation of the allowance for individually significant loans and loans with higher credit risk exposure. We analyzed the financial position of the borrowers and the Bank's strategy to collect outstanding amounts under impaired loans. We analyzed consistency of management's assumptions applied in calculating the allowance for expected credit losses.

Translation from the original in Russian

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses on loans to customers in accordance with IFRS 9	
	We analyzed information related to the allowance for expected credit losses on loans, disclosed in the notes to the consolidated financial statements.

Responsibility of management and the Supervisory Board of Bank BelVEB OJSC for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of Bank BelVEB OJSC is responsible for overseeing the Bank'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 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 an audit in accordance with 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;

Translation from the original in Russian

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the Bank. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board and the Audit Committee of Bank BelVEB OJSC 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 Bank BelVEB OJSC 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 Bank BelVEB OJSC, we determine the 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.

Совершенствуя бизнес,
улучшаем мир

Translation from the original in Russian

The partner in charge of the audit resulting in this independent auditor's report is Yulia Studynska.

I.V. Stankevich Associate Partner, FCCA Director on Audit Ernst & Young LLC	A.I. Korshun Deputy Head of Audit Department - Auditor, ACCA

20 March 2020

Details of the audited entity

Name: Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC)
Belvnesheconombank Open Joint Stock Company registered by the National Bank of the Republic of Belarus on 12 December 1991, registration No. 24.
Address: 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Details of the audit firm

Name: Ernst & Young Limited Liability Company
Certificate of State Registration No. 190616051 issued by the Minsk Municipal Executive Committee on 15 December 2014.
Member of the Audit Chamber from 26 December 2019.
Registration No. 10051 in the register of auditors, entered on 1 January 2020.
Address: 51A, 15th floor, Klary Tsetkin str., Minsk, Republic of Belarus, 220004.

Consolidated statement of financial position

As at 31 December 2019

(Thousands of Belarusian rubles)

	Notes	*2019*	*2018*
Assets			
Cash and cash equivalents	6	809,633	685,624
Precious metals		158	334
Amounts due from credit institutions	7	65,423	62,105
Derivative financial assets	8	73	–
Loans to customers	9	3,410,592	2,883,177
Investment securities	10	415,390	556,286
Investments in associates and jointly controlled entities	11	5,257	4,029
Property and equipment	12	51,761	120,383
Right-of-use assets	13	4,559	–
Intangible assets	14	41,620	44,376
Current income tax asset		654	2,327
Deferred income tax assets	15	–	3,455
Other assets	17	30,852	39,652
Total assets		**4,835,972**	**4,401,748**
Liabilities			
Amounts due to credit institutions	18	1,293,375	1,300,240
Amounts due to the National Bank of the Republic of Belarus	19	21	22
Derivative financial liabilities	8	1,258	–
Amounts due to customers	20	2,541,000	2,192,704
Debt securities issued	21	46,767	102,928
Lease liabilities		4,195	–
Current income tax liabilities		3,643	4,177
Deferred income tax liabilities	15	18,304	319
Other liabilities and provisions	17	55,918	43,404
Subordinated loans	22	212,600	220,461
Total liabilities		**4,177,081**	**3,864,255**
Equity			
Share capital	23	473,057	473,057
Share premium		458	458
Additional paid-in capital		5,485	5,485
Revaluation reserve for buildings		2,502	12,746
Revaluation reserve for securities		15,617	10,926
Retained earnings		161,772	34,821
Total equity attributable to shareholders of the Bank		**658,891**	**537,493**
Non-controlling interests		–	–
Total equity		**658,891**	**537,493**
Total equity and liabilities		**4,835,972**	**4,401,748**

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

Vasil S. Matsiusheuski Chairman of the Management Board

Olga S. Turbina Chief Accountant

20 March 2020

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2019

(Thousands of Belarusian rubles)

	Notes	*2019*	*2018*
Interest revenue calculated using the effective interest rate			
Loans to customers		256,183	273,148
Investment securities		45,875	34,327
Amounts due from credit institutions		4,698	4,346
		306,756	**311,821**
Interest expense			
Amounts due to credit institutions		(48,914)	(41,881)
Amounts due to customers		(67,190)	(64,916)
Subordinated debt		(14,821)	(17,041)
Interest expense under leases	3	(111)	–
Debt securities issued		(4,712)	(2,206)
		(135,748)	**(126,044)**
Net interest income		**171,008**	**185,777**
Reversal/(charge) of allowances for credit losses	16	2,892	(24,362)
Loss on modification of loans	9	(101)	(20,715)
Net interest income after reversal/ (charge) of allowances for credit losses		**173,799**	**140,700**
Effect of initial recognition of interest-bearing assets		(10,423)	(17,501)
Net fee and commission income	25	63,055	61,150
Net gains/(losses) from foreign currencies:			
- dealing		25,048	29,431
- transactions with currency derivative financial instruments		1,135	(75)
- translation differences		(17,229)	(23,523)
Financial result from disposal of a subsidiary		–	4,718
Share in (loss)/profit of associates and jointly controlled entities	11	(487)	38
Reversal of allowances for credit losses on other financial assets and credit related contingencies	16	8,089	4,020
Other income	26	70,823	31,714
Non-interest income		**140,011**	**89,972**
Personnel expenses	27	(73,085)	(68,416)
Depreciation and amortization	12, 13, 14	(25,008)	(24,760)
Taxes other than income tax		(3,120)	(3,509)
Other operating expenses	27	(70,819)	(68,881)
Non-interest expense		**(172,032)**	**(165,566)**
Profit before income tax		**141,778**	**65,106**
Income tax expense	15	(25,071)	(19,177)
Profit for the year		**116,707**	**45,929**
Attributable to:			
- shareholders of the Bank		116,707	45,023
- non-controlling interests		–	906
		116,707	**45,929**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2019

(Thousands of Belarusian rubles)

	Notes	*2019*	*2018*
Profit for the year		**116,707**	**45,929**
Other comprehensive income/(loss)			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in the fair value of debt instruments at fair value through other comprehensive income		6,982	(11,375)
Change in the allowance for expected credit losses on debt instruments at fair value through other comprehensive income		(2,291)	(652)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**4,691**	**(12,027)**
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods			
Revaluation of buildings	12, 23, 27	–	(9,429)
Effect of income tax	15	–	(219)
Total other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**–**	**(9,648)**
Other comprehensive income/(loss) for the year		**4,691**	**(21,675)**
Total comprehensive income for the year		**121,398**	**24,254**
Attributable to:			
- shareholders of the Bank		121,398	23,348
- non-controlling interests		–	906
		121,398	**24,254**

The accompanying notes are an integral part of these 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								
	Share capital	*Share premium*	*Additional paid-in capital*	*Revaluation reserve for buildings*	*Revaluation reserve for securities*	*Retained earnings / (accumulated deficit)*	*Total*	*Non-controlling interests*	*Total equity*
1 January 2018	**473,057**	**458**	**5,485**	**22,771**	**16,606**	**(17,756)**	**500,621**	**9,181**	**509,802**
Effect of transition to IFRS 9 (Note 3)	–	–	–	–	6,347	18,108	**24,455**	(2)	**24,453**
Balance at 1 January 2018 restated in accordance with IFRS 9	**473,057**	**458**	**5,485**	**22,771**	**22,953**	**352**	**525,076**	**9,179**	**534,255**
Profit for the year	–	–	–	–	–	45,023	**45,023**	906	**45,929**
Other comprehensive loss for the year	–	–	–	(9,648)	(12,027)	–	**(21,675)**	–	**(21,675)**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**(9,648)**	**(12,027)**	**45,023**	**23,348**	**906**	**24,254**
Amortization of revaluation reserve for buildings, net of tax (Note 23)	–	–	–	(298)	–	298	**–**	–	**–**
Disposal of a subsidiary	–	–	–	(79)	–	79	**–**	(10,085)	**(10,085)**
Dividends to shareholders of the Bank (Note 23)	–	–	–	–	–	(10,931)	**(10,931)**	–	**(10,931)**
31 December 2018	**473,057**	**458**	**5,485**	**12,746**	**10,926**	**34,821**	**537,493**	**–**	**537,493**
Profit for the year	–	–	–	–	–	116,707	**116,707**	–	**116,707**
Other comprehensive income for the year	–	–	–	–	4,691	–	**4,691**	–	**4,691**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**4,691**	**116,707**	**121,398**	**–**	**121,398**
Amortization of revaluation reserve for buildings, net of tax (Note 23)	–	–	–	(189)	–	189	**–**	–	**–**
Disposal of revaluation reserve, net of tax (Note 23)	–	–	–	(10,055)	–	10,055	**–**	–	**–**
31 December 2019	**473,057**	**458**	**5,485**	**2,502**	**15,617**	**161,772**	**658,891**	**–**	**658,891**

The accompanying notes 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)

	Notes	*2019*	*2018*
Profit for the period		**116,707**	**45,929**
Adjustments:			
Depreciation and amortization	12, 13, 14	25,008	24,760
Income tax expense	15	25,071	19,177
(Reversal)/charge of impairment allowance and other provisions	16	(10,981)	20,342
Share in loss/(profit) of associates and jointly controlled entities	11	487	(38)
Gain on disposal of subsidiaries		–	(4,718)
Translation differences		17,229	23,523
Effect of initial recognition of interest-bearing assets		10,423	17,501
Loss from modification of loan contractual terms		101	20,715
Changes in the fair value of derivative financial instruments	8	1,185	–
Impairment of investments in associate	11	3,098	–
Recognition of leases		95	–
Loss from revaluation of property and equipment	27	–	4,534
Impairment of property and equipment	27	–	101
Loss from disposal of property and equipment, intangible assets and other assets	27	3,623	4,266
Other changes		6,909	(2,205)
Cash flows from operating activities before changes in operating assets and liabilities		**198,955**	**173,887**
Net (increase)/decrease in operating assets			
Precious metals		176	170
Amounts due from credit institutions		542	(481)
Loans to customers		(547,335)	(208,124)
Other assets		8,563	(2,538)
Net increase/(decrease) in operating liabilities			
Short-term amounts due to credit institutions		53,301	90,148
Amounts due to customers		404,697	(271,015)
Other liabilities		9,310	(13)
Net cash flows from operating activities before income tax		**128,209**	**(217,966)**
Income tax paid		(2,492)	(19,894)
Net cash from/(used in) operating activities		**125,717**	**(237,860)**

Consolidated statement of cash flows (continued)

	Notes	*2019*	*2018*
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		2,891,109	997,133
Purchase of investment securities		(2,762,814)	(980,534)
Purchase of property and equipment and intangible assets	12, 14	(18,881)	(27,747)
Proceeds from sale of property and equipment and intangible assets	12, 14, 27	13,092	1,846
Proceeds from sale of investment property		–	1,369
Investments in associates and jointly controlled entities	11	48	(100)
Net cash from/ (used in) investing activities		**122,554**	**(8,033)**
Cash flows from financing activities	32		
Proceeds from long-term interbank borrowings		218,786	538,345
Repayment of long-term interbank borrowings		(264,889)	(417,709)
Proceeds from issue of own debt securities		171,829	8,304
Repurchase of own debt securities		(327,536)	(295,700)
Proceeds from sale of own debt securities		102,555	384,964
Lease payments		(2,005)	–
Dividends paid to shareholders of the Bank	23	–	(9,775)
Net cash (used in)/from financing activities		**(101,260)**	**208,429**
Effect of exchange rate changes on cash and cash equivalents		(23,002)	2,701
Net increase/(decrease) in cash and cash equivalents		**124,009**	**(34,763)**
Cash and cash equivalents, beginning		685,624	720,387
Cash and cash equivalents, ending	6	**809,633**	**685,624**

Interest paid and received by the Bank during the year ended 31 December 2019 amounted to BYN 140,057 thousand and BYN 319,904 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2018 amounted to BYN 132,093 thousand and BYN 318,240 thousand, respectively.

(Thousands of Belarusian rubles, unless otherwise indicated)

1. Principal activity

Belvnesheconombank Open Joint Stock Company (Bank BelVEB OJSC) was formed on 12 December 1991 as an open joint stock company under the laws of the Republic of Belarus. Bank BelVEB OJSC operates under general banking license No. 6 issued by the National Bank of the Republic of Belarus on 21 December 2018 (before 21 December 2018: under general banking license No. 6 issued by the National Bank of the Republic of Belarus on 21 December 2013), the special license for operations with precious metals and precious stones issued by the Ministry of Finance of the Republic of Belarus on 23 June 2010 and the special permit (license) for operations with securities issued by the Ministry of Finance of the Republic of Belarus on 29 July 2002.

Bank BelVEB OJSC is a universal financial institution and one of the leading commercial banks in the Republic of Belarus. Its activities include international settlements, currency operations and other services relating to foreign trade activities of the state and customers. The Bank has extensive experience and a proven track record in both international and domestic markets. The Bank's main office is in Minsk. As at 31 December 2019, the Bank has an extensive network of sales points totaling 37, which comprises 30 offices rendering services to individuals and legal entities (including the large business category), of which 5 offices in regional cities, 10 offices in Minsk, 15 offices in cities and towns throughout the country, 4 retail centers (3 of them located in Minsk and one in Novopolotsk); one exchange office in Vitebsk; one remote workplace in Minsk and one cash settlement center in Volkovysk.

The legal address of Bank BelVEB OJSC is 29 Pobediteley av., Minsk, Republic of Belarus, 220004.

Bank BelVEB OJSC is a principal member of MasterCard International (since 1994) and VISA International (since 1995).

Bank BelVEB OJSC is a member of the deposit insurance system. The system operates under the Belarusian laws and regulations and is governed by the public institution "Agency of Deposits Compensation". Insurance covers Bank BelVEB OJSC's liabilities to individual depositors for 100% of each individual deposit amount in case of business failure and revocation of the banking license issued by the National Bank of the Republic of Belarus.

These consolidated financial statements comprise the financial statements of Bank BelVEB OJSC and its subsidiaries (together referred to as the "Bank"). A list of consolidated subsidiaries is presented in Note 2.

As at 31 December, the following shareholders owned more than 5% of the outstanding shares:

Shareholder	*2019, %*	*2018, %*
State Development Corporation VEB.RF	97.52	97.52
Other	2.48	2.48
Total	**100.00**	**100.00**

The Bank is ultimately controlled by the Russian Government.

As at 31 December 2019 and 2018, members of the Supervisory Board and Management Board controlled 5, or 0.00000004%, of the Bank's shares.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in thousands of Belarusian rubles (hereinafter, "BYN thousand"), except for earnings per share amounts or unless otherwise indicated.

The Bank and its subsidiaries are required to maintain their accounting records and prepare their financial statements for regulatory purposes in accordance with the Belarusian accounting and banking legislation and related instructions (hereinafter, "BAL"). These consolidated financial statements are based on the Bank's BAL books and records, as adjusted and reclassified in order to comply with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in Summary of accounting policies below. For example, securities, property and equipment (buildings) and derivative financial instruments have been measured at fair value.

(Thousands of Belarusian rubles, unless otherwise indicated)

2. Basis of preparation (continued)

General (continued)

Subsidiaries

The consolidated financial statements for 2019 and 2018 include the following subsidiaries:

Subsidiary	*Interest/ voting, %*	*Country*	*Date of incorporation*	*Industry*
BelVEB Insurance	100.0	Republic of Belarus	17 October 1994	Insurance
VEB Technologies	100.0	Republic of Belarus	2 March 2018	IT

In 2018, Bank BelVEB OJSC was involved in the establishment of VEB Technologies LLC, an IT company, with an ownership interest of 99.9%. An interest of 0.1% is owned by BelVEB Insurance Unitary Insurance Enterprise, the Bank's subsidiary.

The Bank's subsidiaries controlled through the above companies are as follows:

Subsidiary	*Interest/ voting, %*	*Country*	*Date of incorporation*	*Industry*
DFS LLC	100.00	Republic of Belarus	26 March 2019	Finance
BelVEB IT LLC	100.00	Republic of Belarus	29 October 2019	IT

In March 2019, VEB Technologies LLC founded DFS LLC, a subsidiary, in which it holds a 100% stake worth BYN 2,100 thousand; in October 2019, VEB Technologies LLC founded BelVEB IT LLC, a subsidiary, in which it holds a 100% stake worth BYN 100 thousand.

DFS LLC is a fintech company, an operator of the platform where legal entities can raise borrowings by selling financial instrument tokens to the clients of the platform.

Associates and jointly controlled entities

Investments in associates and jointly controlled entities below are accounted for under the equity method (Note 11):

	31 December 2019				
Associate	*Interest/voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
Sivelga CJSC	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006
Jointly controlled entities	*Interest/voting, %*	*Country*	*Date of incorporation*	*Industry*	*Date of acquisition*
BelVEB Service LLC	19.00	Republic of Belarus	1 October 2019	Other	1 October 2019
BelVEB Capital LLC	19.00	Republic of Belarus	10 July 2019	Other	10 July 2019
BelVEB Consult LLC	34.39	Republic of Belarus	18 December 2019	Other	18 December 2019

In October 2019, in accordance with the Plan for Strategic Development of Bank BelVEB OJSC for 2019-2021, Bank BelVEB OJSC outsourced some supporting business processes to BelVEB Service LLC and BelVEB Consult LLC. The following business processes/ stages of business processes were outsourced: support of tax accounting, support of business operations, payroll settlements, support and management of collateral and distressed assets, personnel recruiting and training, support of employee incentive programs and bonus calculation, HR, security, cybersecurity, and economic security.

As part of its strategy to transform the local network Bank BelVEB OJSC transferred the property management function to third parties and performed sale and leaseback transactions with third parties concerning part of the property. Most property items were sold to BelVEB Capital LLC co-founded by the Bank in July 2019.

In December 2019, the Bank co-founded BelVEB Consult LLC, which took over collateral management.

(Thousands of Belarusian rubles, unless otherwise indicated)

2. Basis of preparation (continued)

Associates and jointly controlled entities (continued)

In 2019, the Bank sold its 30% stake in BelVEBleasing LLC to VEB-Leasing JSC, a company based in Russia, for BYN 142,5 thousand.

	31 December 2018				
Associate	***Interest/voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***
Sivelga CJSC	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006
BelVEBleasing LLC	49.00	Republic of Belarus	6 March 2018	Finance	6 March 2018

In 2018, the Bank co-founded BelVEBleasing LLC, in which it holds a 49% interest.

3. Summary of accounting policies

Changes in accounting policies

The Bank applied for the first time a new standard and certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2019. The Bank has not early adopted standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of a new standard and 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 Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 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 Bank 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 Bank also elected to apply recognition exemptions for leases with a lease term of 12 months or less at the commencement date which do not contain a purchase option (short-term leases), as well as for leases in which the underlying asset is of low value (leases of 'low-value' assets).

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

Assets	
Right-of-use assets	3,062
Total assets	**3,062**
Liabilities	
Finance lease liabilities	3,062
Deferred income tax liabilities	–
Total liabilities	**3,062**
Total adjustment to equity	**–**

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The Bank has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as 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 Bank; 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 the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as lease expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent payments were recognized under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Bank 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 Bank.

Leases previously classified as finance leases

The Bank 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 Bank recognized right-of-use assets and lease liabilities for those 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. Under some lease agreements, right-of-use assets were recognized in the amount equal to the lease liability adjusted to the amounts of advances or previously recognized charged expenses. Lease liabilities were recognized at the present value of the remaining lease payments, discounted using the rate of attracting additional borrowings at the date of initial application.

The Bank also applied available practical expedients and as a result it:

- ► Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- ► Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- ► Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- ► right-of-use assets were recognized in the amount of BYN 3,062 thousand
- ► additional lease liabilities were recognized in the amount of BYN 3,062 thousand (disclosed in Finance lease liabilities).

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

Lease commitments as at 31 December 2018	**7,262**
Weighted average incremental borrowing rate (for a period of one year) as at 1 January 2019 under agreements in:	
Belarusian rubles	7.69%
US dollars	2.00%
Euro	0.85%
Discounted lease commitments as at 1 January 2019	**3,784**
Less:	
Commitments relating to short-term leases	294
Commitments relating to leases of low-value assets	428
Lease liabilities as at 1 January 2019	**3,062**

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Bank upon adoption of IFRS 16, which have been applied from the date of initial application:

i. Bank as lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank 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 Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is 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 Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are 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.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments include 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. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank 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 the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those 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 assets that are considered of low value (i.e., less than BYN 10 thousand). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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

The Bank 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.

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

	Right-of-use assets				
	Buildings	***Equipment***	***Vehicles***	***Total***	***Lease liabilities***
1 January 2019	**3,056**	**6**	**–**	**3,062**	**3062**
Additions	1,894	–	1,217	**3,111**	3,111
Disposals	(120)	–	–	**(120)**	(84)
Depreciation expense	(1,350)	(3)	(141)	**(1,494)**	–
Interest expense	–	–	–	**–**	111
Payments	–	–	–	**–**	(2,005)
31 December 2019	**3,480**	**3**	**1,076**	**4,559**	**4,195**

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

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

The Bank recognized expenses from short-term leases of BYN 294 thousand and leases of low-value underlying assets of BYN 578 thousand, respectively, for the year ended 31 December 2019. In 2019, total cash outflow amounted to BYN 2,213 thousand. In 2019, the Bank also had non-cash additions to right-of-use assets and lease liabilities of BYN 3,111 thousand.

ii. Operating – Bank as lessor

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

iii. Finance – Bank as lessor

The Bank recognizes lease receivables at 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 the lease receivables.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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. The interpretation specifically addresses the following:

- 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 Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the interpretation, the Bank considered whether it had any uncertain tax treatments, particularly those relating to transfer pricing. Based on the analysis, the Bank concluded that currently there is uncertainty regarding the application of transfer pricing rules and there is no well-established practice of their applying. In addition, the Bank believes that it is highly probable that tax authorities will agree with the tax treatments applied by the Bank (and by its subsidiaries). The Bank expects that the calculated income tax recorded in the consolidated financial statements and determined involving an uncertain tax treatment and won't be recalculated based on the results of the tax audit.

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 an 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. These amendments do not have any impact on the Bank's consolidated financial statements.

(Thousands of Belarusian rubles, unless otherwise indicated)

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 the 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 is also required to determine the 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).

These amendments do not have any impact on the Bank's consolidated financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies 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 investments.

The amendments also clarified 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 do not have any impact on the Bank's consolidated financial statements.

Annual improvements 2015-2017 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 applies 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, with early application permitted.

These amendments had no impact on the Bank's consolidated financial statements, as it was not involved in any transactions where joint control is obtained.

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 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, with early application permitted.

These amendments had no impact on the Bank's consolidated financial statements, as it was not involved in any transactions 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 should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

An entity applies these amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

These amendments do not have any impact on the Bank'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.

The entity applies the 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 applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Bank has no assets, for which borrowing costs are capitalized, these amendments had no impact on the Bank's consolidated financial statements.

Basis of consolidation

Subsidiaries, which are entities which are controlled by the Bank, are consolidated. Control is achieved when the Bank 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 Bank controls an investee if, and only if, the Bank has:

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

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

- ► The contractual arrangement with the other vote holders of the investee
- ► Rights arising from other contractual arrangements
- ► The Bank's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Bank 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 impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank.

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 Bank loses control over a subsidiary, it derecognizes the assets 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.

Investments in associates and jointly controlled entities

Associates are entities in which the Bank generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Jointly controlled entities involve joint operation, through which the parties exercise joint control over the entity and have rights to net assets of the entity.

3. Summary of accounting policies (continued)

Investments in associates and jointly controlled entities (continued)

Investments in associates and jointly controlled entities are accounted for under the equity method and are initially recognized at cost, including goodwill. Subsequent changes in the carrying amount reflect the post-acquisition changes in the Bank's share of net assets of the associates and jointly controlled entities. The Bank's share in profits or losses of its associates and jointly controlled entities is recognized in profit or loss, and its share in movements in allowances is recognized in other comprehensive income. However, when the Bank's share in losses of its associates and jointly controlled entities equals or exceeds its interest in the associates or jointly controlled entities, the Bank does not recognize further losses, unless the Bank is obliged to make further payments to, or on behalf of, the associates and jointly controlled entities.

Unrealized gains on transactions between the Bank and its associates and jointly controlled entities are eliminated to the extent of the Bank's interest in the associates and jointly controlled entities; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Fair value measurement

The Bank measures financial instruments at fair value through profit or loss (hereinafter, the "FVPL") and at fair value through other comprehensive income (hereinafter, "FVOCI"), as well as non-financial assets such as property and equipment (buildings), at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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 Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. 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 its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Bank 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 Bank 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 require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing 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 Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost
- FVOCI
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may at its discretion designate the financial instruments as measured at FVPL, if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

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 at amortized cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortized cost if both of the following conditions are met:

- The financial asset is held under a business model designated to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Business model assessment

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

The Bank'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 Bank's assessment.

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

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

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

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

'Principal' for the purpose of this test is defined as the fair value of the 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 Bank 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 Bank measures debt instruments at FVOCI if the following two 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 and losses arising due to changes in fair value recognized in other comprehensive income (hereinafter, the "OCI").

The fair value of debt financial instruments (bonds) is the present value of all future (expected) cash flows under this instrument at the date of its origination and/or at the reporting date discounted with the market interest rate for this (comparable/similar) financial instrument. The market interest rate for this financial instrument or other comparable/similar financial instruments is determined on the basis of available internal and external sources of information depending on the type and nature of a financial instrument.

To determine the fair value of available debt financial instruments (Eurobonds), the current estimate of demand, namely, the last quote is used on the basis of information disclosed by exchanges at the close of a current trading day and quotes published by Thomson Reuters, Bloomberg as at the end of the previous business day.

Interest income and foreign exchange gains or 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.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the consolidated statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise 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 the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank elects to classify irrevocably 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 decision to classify is adopted for each instrument separately.

Gains and losses on such equity instruments are never reclassified to profit or loss. Dividends are recognized in profit or loss as other income when the right of the payment has been established, except when the Bank 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Financial guarantees, letters of credit and loan commitments

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

Financial guarantees are initially recognized in the financial statements at fair value, in the amount of the premium received. Subsequent to initial recognition, the Bank'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, of the allowance for expected credit losses (hereinafter, "ECL").

Undrawn loan commitments and letters of credits are commitments where, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similarly to financial guarantees, the ECL measurement requirements are applied to such commitments.

The Bank 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 allowance for ECL and the amount initially recognized less, when appropriate, the cumulative amount of income recognized.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from exceptional cases, when the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. In 2019, the Bank did not reclassify any of its financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the National Bank of the Republic of Belarus, 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.

Precious metals

Precious metals in the form of ingots and coins are recorded at bid prices, which approximate fair values. The Bank determines value of write-off of precious metals in the form of ingots and coins at self-cost of each unit. Changes in the NBRB's bid prices are recorded as translation differences from precious metals in other income.

Derivative financial instruments

In the normal course of business, the Bank enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are held for trading and are recorded at fair value. 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 as net gains/(losses) from foreign currencies.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or other financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or other financial assets for a fixed number of its own equity instruments. Such instruments include amounts due to the National Bank of the Republic of Belarus, amounts due to credit institutions, amounts due to customers, debt securities issued, other borrowings and subordinated debts. 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.

Borrowings from parent originated at interest rates different from market rates are measured at origination to their fair value, being future interest payments and principal repayment(s) discounted at market interest rates for similar borrowings. The difference between the fair value and the nominal value at origination is charged to equity as additional paid in capital. Subsequently, the carrying amount of such borrowings is adjusted for amortization of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of profit or loss using the effective interest method.

3. Summary of accounting policies (continued)

Government grants

Government grants in the form of a non-financial asset receivable from the Government are recognized at the net present value of future discounted cash flows in respect of compensation of interest income (Note 17). The loss on initial recognition of preferential loans is presented on a net basis with income from recognition of government grants in the consolidated statement of profit or loss.

The further recognition of receivable under the government grants is performed at amortized cost using the method of effective interest rate. Government grants are tested for impairment with the following recognition of gains/(losses) in the consolidated statement of profit or loss in case of ceasing the recognition of instrument or its impairment, as well as in the process of amortization.

Write-off of the loans issued

Loans are written off against the created allowance for expected credit losses when deemed uncollectible, including through repossession of collateral. Loans are written off after the Bank's authorized bodies have exercised all possibilities available to collect amounts due to the Bank including sale of all available collateral. The decision to write off bad debt against the allowance for impairment is approved by the Distressed Assets Committee.

Restructured loans

Where possible, the Bank seeks to restructure loans, as agreed upon between the parties, rather than to take possession of collateral, for example, to extend payment arrangements, agree upon new loan conditions or otherwise modify contractual cash flows.

The Bank derecognizes a financial asset, such as a loan to a customer, when the renegotiation of terms and conditions result in a significant change in cash flows, which is a significant modification of a financial asset to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss before an impairment loss has been recorded. At initial recognition, loans are classified to Stage 1 for ECL assessment purposes, unless the newly originated loan is considered a POCI asset (purchased or originated credit-impaired asset). When assessing whether a loan to a customer should be derecognized, the Bank considers the following:

- The currency of a financial asset has changed
- The interest rate has changed (from fixed to floating and vice versa)
- The debtor (counterparty) under the contract has changed

Where the modification does not result in a significant change in cash flows, it also does not result in derecognition of a financial asset, this modification is insignificant. An insignificant modification includes a change in a contract validity period, a change in the frequency of principal and interest payments, as well as other changes in contract terms that are not a significant modification. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest revenue calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

Where a modification does not result in derecognition, the Bank reassesses whether the credit risk related to a financial asset has increased significantly since its initial recognition, taking into account all reasonable and supportable information, including forecast data, and classifies financial instruments to one of the following stages of accrual of the allowance based on the degree of deterioration in the credit quality of the asset after its initial recognition.

- Stage 1 - financial assets, for which there are no factors indicating a significant increase in credit risk and no impairment indicators; for these assets, 12-month ECL are recognized
- Stage 2 - financial assets, for which there are factors indicating a significant increase in credit risk, but there are no impairment indicators; for these assets, lifetime ECL are recognized
- Stage 3 - financial assets with impairment indicators; for these assets, lifetime ECL are recognized.

The Bank recognizes restructuring of a loan in case of the following: any changes in contractual terms related to the maturity (repayment) of the principal amount and/or the interest payment date, and/or principal repayment schedule (terms and amounts), and/or interest repayment schedule (terms), and/or interest rate, as well as entering into a new contract, under which a Bank may have an asset exposed to credit risk and obligations of the Bank and the debtor under the previous contract are discharged (the debtor under the new contract and the previous contract is one and the same entity). These changes, which result from debtor's inability to meet its obligations, are introduced to encourage the debtor to meet its obligations in full and in a timely manner.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Restructured loans (continued)

Problematic restructuring indicating a significant increase in credit risk is a repeated and subsequent restructuring, when there are no factors that indicate a significant increase in credit risk and/or impairment indicators; or restructuring when there are factors indicating a significant increase in credit risk at the time of restructuring; or restructuring when overdue liabilities on principal amount and/or interest become term liabilities; or restructuring that involves rescheduling of the previously stipulated payment of the principal amount and/or interest for more than one year.

Default restructuring is a restructuring associated with the inability of the borrower (counterparty) to fulfill its obligations under the initial contractual terms

Restructuring is recognized as default if at least one of the following criteria is met:

- ► Restructuring when there are indicators that a financial asset is impaired at the time of restructuring and the recovery condition is not yet met or not met, or repeated and subsequent restructuring when there are factors indicating a significant increase in credit risk and the recovery condition is not yet met or not met
- ► Restructuring with a partial write-off of the debt (principal amount and/or interest) to the off-balance sheet (forgiveness of debt)
- ► Restructuring results in a decrease in the contractual interest rate to 2/3 or less of the rate set by the Financial Committee of the Bank for the relevant currency for a comparable period.

If the financial asset of a borrower is classified to Stage 3, other available financial instruments of this borrower are also classified to Stage 3. In case of a new loan issued to this borrower, this loan is classified as a credit-impaired financial asset.

The credit quality of a financial asset can be recovered in case of at least three consecutive payments made to the Bank to repay the debt in full and in a timely manner continuously in accordance with the contractual terms during at least 12 months when there were no factors indicating a significant increase in credit risk (for the recovery from Stage 2 to Stage 1) or no impairment indicators (for the recovery from Stage 3 to Stage 2, or, if all of the above recovery conditions are met, to Stage 1).

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognized in the consolidated statement of financial position where:

- ► The rights to receive cash flows from the asset have expired
- ► The Bank 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 Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated allowance for impairment, the difference is at first recorded as an increase in the allowance that is subsequently applied to the gross carrying amount. Any subsequent recoveries are credited to other income. The write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled 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 profit or loss.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Taxation

The income tax expense is the sum of current and deferred income taxes.

The Bank and each of its subsidiaries estimate the current income tax expense separately based on the results recorded in their statements of profit or loss prepared under the requirements of Belarusian legislation and after any adjustments for taxation purposes.

Deferred tax assets and liabilities are calculated in respect of 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 values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

The Republic of Belarus also has various operating taxes, which are assessed on the Bank's activities. These taxes are recorded separately in the consolidated statement of profit or loss within other operating expenses.

Property and equipment

Property and equipment are carried at cost, less the costs of day-to-day servicing, accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of 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.

Following initial recognition at cost, buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the consolidated statement of profit or loss, in which case the increase is taken to the financial result. A revaluation deficit is recognized in the consolidated statement of profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Property and equipment, except for buildings, are carried at cost adjusted for hyperinflation, excluding the cost of day to-day serving, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing the part of property and 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.

3. Summary of accounting policies (continued)

Property and equipment (continued)

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

	Years
Buildings	15-100
Furniture and office supplies	2-10
Computers and equipment	2-8
Motor vehicles	2-10

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.

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition.

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 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

In the reporting period, the Bank participated 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. In addition, the Bank undertook additional pension obligations in the form of payments to former employees who have retired and are unemployed. These expenses are charged in the period the related salaries are earned.

Since 1 January 2013, the Bank has participated in the system of voluntary supplementary pension insurance of employees – the pension plan with defined contribution. Pension insurance expenses are reflected in other operating expenses.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the nominal value of shares issued is recorded as share premium.

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.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses; and for which financial information is available and is regularly reviewed by the entity's chief operating decision maker (a person or a group of persons) responsible for making decisions on allocation of resources and assessing financial performance.

Financial information is to be reported on the same basis as is used internally for assessing the performance of operating segments while making decision on resource allocation between operating segments. The Bank's segment reporting is based on the following operating segments: corporate banking, retail banking and inter-bank operations. Note 5 "Segment information" of these consolidated financial statements contains information relating to profit and loss, assets and liabilities of the Bank's operating segments. This information is provided to persons responsible for making decisions in the Bank.

In addition, the Bank has presented a reconciliation of profit and loss before taxation of the reporting segments, as well as a reconciliation of the gross amount of segment assets to the total amount of the Bank's assets presented in these consolidated financial statements.

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 in the consolidated financial statements 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 Bank 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 and similar income and expense

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than 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 Bank 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 revenue or expense.

In case of a credit-impaired financial asset, the Bank calculates the interest revenue, applying the effective interest rate to the net amortized cost of this asset. If the default on the financial asset is liquidated, and it is no longer a credit-impaired asset, the Bank proceeds to calculate the income revenue on the basis of the gross carrying amount.

In case of purchased or originated credit-impaired (POCI) financial assets, the Bank calculates the interest revenue applying the effective interest rate adjusted for the credit risk to the amortized cost of the financial asset. An effective interest rate adjusted for the credit risk is an interest rate that at initial recognition discounts estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Fee and commission income

The Bank 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 asset management, custody and other management and advisory fees. 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee income from providing transaction services

Fee income 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 – is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance indicator are recognized after fulfilling the corresponding criteria.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

Insurance transactions

Insurance premiums

The premiums on insurance contracts of BelVEB Insurance Unitary Insurance Enterprise, the Bank's subsidiary, are recorded from the date of commencement of the insurance contracts and are recognized within income on a pro rata basis over the term of insurance contracts by changing the amount of provision for unearned premiums.

Provision for unearned premiums

Unearned premium provision is formed as a part of insurance premium accrued under the insurance contract that relates to the contract term after the reporting date and is calculated in proportion to the remaining contractual period.

Insurance claims paid

Claims paid including claims settlement expenses are expensed in the consolidated statement of profit or loss as incurred.

Insurance loss provision

Insurance loss provision is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, cancelled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick.

Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency converted at the rate of exchange effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated 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 historical cost in a foreign currency are translated using the exchange rates as of the date of the initial transaction. 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 exchange rate of the National Bank of the Republic of Belarus on the date of the transaction are included in gains less losses from foreign currencies.

The closing exchange rates that were used in the preparation of these consolidated financial statements are presented in the table below:

	31 December 2019	*31 December 2018*
BYN/USD	2.103600	2.159800
BYN/EUR	2.352400	2.473400
BYN/RUB	0.034043	0.031128

3. Summary of accounting policies (continued)

Standards issued but not yet effective

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

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), 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* (IFRS 4) 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:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Bank will continue to assess the potential effect of IFRS 17 on its 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 Bank 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 Bank's consolidated financial statements.

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

Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 includes a number of reliefs, which apply to all hedging relationships that are directly affected by 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 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 (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The amendments come into effect from 1 January 2020, but entities may choose to apply them earlier. The amendments are not expected to have a significant impact on the Bank's consolidated financial statements.

4. Significant accounting judgments and estimates

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The carrying amounts of financial instruments measured at fair value are as follows: securities - BYN 415,390 thousand; funds in precious metals on correspondent accounts - BYN 28,315 thousand; loans at FVPL - BYN 44,829 thousand; derivative financial assets - BYN 73 thousand; derivative financial liabilities - BYN 1,258 thousand; and funds in precious metals on customers' current accounts - BYN 28,141 thousand. Additional information is presented in Note 29.

Revaluation of buildings

As at 31 December 2019, the Bank's property was not revalued. According to the information from open sources and an analysis of the real estate market, the average sale price of office premises changed insignificantly (by no more than 2%) since the end of 2018.

As at 31 December 2018, buildings were revalued at their fair value using the market approach. This means that valuations performed by the appraiser are based on market transaction prices, significantly adjusted for difference in the nature, location or condition of the specific property. The results obtained from the application of the above valuation method, however, may not always correspond to the prices of current transactions in the real estate market. The results of revaluation are presented in Note 12.

The net book value of the property and equipment revalued at the end of 2019 amounted to BYN 24,791 thousand; at the end of 2018: BYN 81,254 thousand. Movements in balance in 2019 are related to the sale of property (Note 12). The accumulated revaluation reserve for buildings as at 31 December 2019 and 2018 amounted to BYN 2,502 thousand and BYN 12,746 thousand, respectively. Additional information is presented in Note 23.

Insurance loss provision

Insurance loss provision of BelVEB Insurance Unitary Insurance Enterprise, the Bank's subsidiary, is the estimate of liabilities relating to future insurance payments and includes outstanding claims provision and provision for claims incurred but not yet reported. The estimates are based on the information obtained by the Bank in the course of investigation of insurance claims on a claim-by-claim basis. The provision created is recognized by the Bank within liabilities until such liabilities are discharged, cancelled, or expired. Methods to assess and calculate provisions are continuously reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss as they arise. The insurance loss provisions are estimated on an undiscounted basis, as the claim settlement process is relatively quick. As at 31 December 2019, the amount of insurance provisions totaled BYN 7,515 thousand.

Expected credit losses/ impairment losses on financial assets

The measurement of losses under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining ECL/impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank'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 the ECL models that are considered accounting judgments and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk; so, allowances for financial assets should be measured on a lifetime ECL basis, and the qualitative assessment; grouping of financial assets when their ECL are assessed on a collective basis; development of ECL calculation models, including various formulae and the selection of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(Thousands of Belarusian rubles, unless otherwise indicated)

4. Significant accounting judgments and estimates (continued)

Expected credit losses/ impairment losses on financial assets (continued)

The amount of allowance recognized in the consolidated statement of financial position as at 31 December 2019 was BYN 125,177 thousand (2018: BYN 216,642 thousand). More details are provided in Notes 7, 9, 17 and 24.

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. The Bank's management judgment is required to determine the amount of the recognized tax assets based on the timing and the level of future taxable profit. In 2018, the Bank recognized a deferred tax asset in the amount of BYN 3,455 thousand.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. Therefore, the incremental borrowing rate reflects what the Bank "would have to pay", which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank determines the incremental borrowing rate with the use of unobservable inputs. More details are provided in Note 3. As at 31 December 2019, the Bank recognized right-of-use assets in the amount of BYN 4,559 thousand and lease liabilities in the amount of BYN 4,195 thousand.

Significant control

In 2019, the Bank co-founded BelVEB Capital LLC and BelVEB Service LLC, in which it holds a 19% interest in the share capital, and BelVEB Consult LLC (hereinafter, the Companies), in which it holds a 34.39% interest in the share capital. Although its stakes are less than 50%, the Bank believes that the Companies are managed through joint control due to the following factors:

- The Bank and other investors have significant rights (unanimous vote on significant matters), which give powers to investors, i.e. to influence significant operations of the Companies.
- The Bank and other investors are exposed to variable returns.
- The Bank and investors can exercise powers through a unanimous vote with no barriers and can block significant decisions requiring unanimous vote.
- There is no agreement on the settlement of disputes (arbitrage). This can give additional influence to any participant in the Companies should they disagree on significant matters requiring unanimous vote.

Additional information on investments in joint operations is disclosed in Note 11.

5. Segment information

For management purposes, the Bank is organized into three operating segments:

Retail banking	Issuing and servicing retail loans for various purposes, handling individual customers' deposits, cash and settlements operations, currency transactions, the issue and maintenance of payment cards, transactions with precious metals.
Corporate banking	Sales of banking products and providing services (issuing loans and financing) to corporate and private entrepreneurial customers, attracting deposits from corporate customers, cash and settlements operations, currency and documentary transactions.
Interbank operations	Handling accounts of other banks, transactions of allocation/raising funds in the interbank market, including transactions with the National Bank of the Republic of Belarus, currency conversion operations with other banks, transactions with derivatives, bank securities transactions.

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

(Thousands of Belarusian rubles, unless otherwise indicated)

5. Segment information (continued)

In 2019 and 2018, no revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue. Non-current non-financial assets and deferred tax assets are related to the Republic of Belarus. Generally, revenue is earned from sources in the Republic of Belarus.

Segment reporting of the Bank's assets and liabilities as at 31 December 2019 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	3,267,207	339,220	814,390	240,989	**4,661,806**
Segment liabilities	1,412,382	1,209,090	1,399,575	59,934	**4,080,981**

Segment reporting of the Bank's assets and liabilities as at 31 December 2018 is as follows:

	Corporate banking	*Retail banking*	*Interbank operations*	*Other*	*Total*
Segment assets	3,069,181	255,354	681,242	267,811	**4,273,588**
Segment liabilities	1,053,943	1,268,136	1,369,063	43,169	**3,734,311**

A reconciliation of assets and liabilities as per the reportable segments with the Bank's assets and liabilities under IFRS as at 31 December 2019 and 2018 is as follows:

	Total assets		*Total liabilities*	
	2019	*2018*	*2019*	*2018*
Reported segments, total	**4,661,806**	**4,273,588**	**4,080,981**	**3,734,311**
Adjustment to credit loss expense and other impairment	72,871	(13,113)	3,311	(3,922)
Recognition of loans previously written-off	24,669	32,176	20	(39)
Accrued personnel expenses	–	–	962	382
Adjustment to amortized cost of loans issued under state programs	–	(1,305)	–	(1,258)
Adjustment to amortized cost of borrowings and subordinated debt	–	–	(1,630)	1,487
Adjustment to other impairment and provisions	–	–	(14,239)	–
Adjustment to historical cost and depreciation of property and equipment	201	3,528	–	–
Adjustment to transit accounts and other temporary differences	13,125	(1,866)	(4,198)	(22,764)
Adjustment to reclassify corporate bonds to loans to customers	–	5	–	–
Recognition of derivative financial instruments at fair value	(912)	–	1,034	–
Consolidation effect	1,255	(1,402)	(8,743)	–
Securities revaluation	8,701	5,204	–	–
Other adjustments	(163)	(165)	–	–
Adjustment with regard to loans to employees	(2,506)	(1,687)	–	–
Adjustment to recognition of letters of credit as loans to customers	101,252	161,046	101,285	160,912
Share of profit of an associate	225	3,890	–	–
Adjustment to income tax	(10)	11,618	16,807	(4,793)
Recognition of fees and commissions received under partner programs	(7,036)	–	–	–
Adjustment to amortized cost of securities issued	–	–	(152)	(61)
Recognition of POCI	(14,303)	–	–	–
Addition of net assets of the subsidiary disposed of in 2018	137	5,875	–	–
Effect from initial recognition	(10,973)	(36,330)	(1,632)	–
Effect from modification of loans	(14,887)	(38,212)	–	–
Recognition of loans to customers issued on non-market terms from the funds of interbank lending	(1,102)	(1,102)	–	–
Adjustments to lease and leaseback transactions	3,622	–	3,275	–
Total IFRS	**4,835,972**	**4,401,748**	**4,177,081**	**3,864,255**

(Thousands of Belarusian rubles, unless otherwise indicated)

5. Segment information (continued)

Revenue and profit information of the Bank's operating segments for the years ended 31 December 2019 and 2018, respectively, is presented below:

2019	*Corporate banking*	*Retail banking*	*Interbank operations*	*Other*	*Total*
Revenue from operations with external customers					
Interest income	201,687	39,084	40,474	–	**281,245**
Net fee and commission income/(expense)	33,569	38,925	(821)	(1,001)	**70,672**
Net gains from foreign currencies	8,266	6,400	3,270	–	**17,936**
Other income	13,685	1,408	24,012	81,322	**120,427**
Total revenue	**257,207**	**85,817**	**66,935**	**80,321**	**490,280**
Interest expense	(30,620)	(35,720)	(69,911)	–	**(136,251)**
Allowance for loan impairment	(45,311)	(5,672)	(4,661)	453	**(55,191)**
Segment profit/(loss) before non-interest expense	**181,276**	**44,425**	**(7,637)**	**80,774**	**298,838**
Non-interest expense	(24,011)	(31,224)	(23,244)	(178,276)	**(256,755)**
Income tax expense	(6,933)	(4,062)	2,590	4,746	**(3,659)**
Profit for the year	**150,332**	**9,139**	**(28,291)**	**(92,756)**	**38,424**

2018	*Corporate banking*	*Retail banking*	*Interbank operations*	*Other*	*Total*
Revenue from operations with external customers					
Interest income	211,987	28,716	36,425	–	**277,128**
Net fee and commission income/(expense)	30,852	33,251	(764)	(212)	**63,127**
Net gains from foreign currencies	5,649	6,889	3,890	–	**16,428**
Other income	1,863	683	8,751	2,895	**14,192**
Total revenue	**250,351**	**69,539**	**48,302**	**2,683**	**370,875**
Interest expense	(26,965)	(35,558)	(64,183)	–	**(126,706)**
Allowance for loan impairment	(14,549)	4,221	(2,157)	(240)	**(12,725)**
Segment profit/(loss) before non-interest expense	**208,837**	**38,202**	**(18,038)**	**2,443**	**231,444**
Non-interest expense	(17,488)	(31,625)	(11,216)	(103,948)	**(164,277)**
Income tax expense	(13,034)	(8,942)	5,280	1,385	**(15,311)**
Profit for the year	**178,315**	**(2,365)**	**(23,974)**	**(100,120)**	**51,856**

(Thousands of Belarusian rubles, unless otherwise indicated)

5. Segment information (continued)

A reconciliation of profit before tax, interest income and expense, net fee and commission income, net gains from dealing in foreign currencies as per the reportable segments with the IFRS consolidated statement of profit or loss for the year ended 31 December 2019 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**42,083**	**281,245**	**(136,251)**	**70,672**	**120,427**	**(256,755)**	**17,936**
Adjustment to other impairment and provisions	14,239	–	–	–	–	20,212	–
Adjustment to amortized cost of borrowings and subordinated debt	1,859	–	1,944	–	–	–	(85)
Recognition of loans previously written-off	(8,992)	120	18	(517)	(5,170)	(3,853)	(60)
Adjustment to reclassify corporate bonds to loans to customers	(5)	(5)	–	–	–	–	–
Share of loss of an associate, impairment of investments	(3,664)	–	–	–	(567)	(3,098)	–
(Charge)/reversal of allowance for impairment of interest-earning assets	74,314	–	–	–	(8,089)	(892)	(12,832)
Recognition of derivative financial instruments at fair value	(1,946)	–	–	–	–	–	(1,946)
Accrued personnel expenses	(1,251)	–	–	–	–	(1,251)	–
Adjustment to historical cost and depreciation of property and equipment	(3,326)	–	–	–	(13,833)	10,506	–
Adjustment to loans to employees	(818)	(332)	–	–	–	(486)	–
Effect from initial recognition	(8,037)	340	(1,258)	–	–	(7,118)	–
Adjustment to transit accounts and other temporary differences	(3,144)	(3,919)	–	66	–	771	(62)
Securities revaluation	91	582	(258)	–	(238)	5	–
Netting of financial result from disposal of property and equipment	–	–	–	–	(52,130)	52,130	–
Reclassification of repayment amount for debt previously written off	–	172	–	(172)	40,511	–	–
Recognition of fees and commissions received under the partners' programs	(7,036)	771	–	(7,807)	–	–	–
Recognition of POCI	22,027	4,512	522	–	–	–	–
Addition of net assets of the subsidiary disposed of in 2018	(5,738)	–	–	–	(5,738)	–	–
Adjustments to lease and leaseback transactions	346	–	(111)	–	(56)	210	303
Adjustment to recognition of letters of credit as loans to customers	(167)	(5,558)	1,194	1,459	–	–	2,738
Effect from modification	23,325	27,225	(3,900)	–	–	–	–
Consolidation effect and other adjustments	7,618	1,603	2,352	(646)	(4,294)	17,587	2,962
Total IFRS	**141,778**	**306,756**	**(135,748)**	**63,055**	**70,823**	**(172,032)**	**8,954**

(Thousands of Belarusian rubles, unless otherwise indicated)

5. Segment information (continued)

A reconciliation of profit before tax, interest income and expense, net fee and commission income, net gains from dealing in foreign currencies as per the reportable segments with the IFRS consolidated statement of profit or loss for the year ended 31 December 2018 is as follows:

	Profit before tax	*Interest income*	*Interest expense*	*Net fee and commission income*	*Other income*	*Non-interest expense*	*Net gains from foreign currencies*
Reported segments, total	**67,168**	**277,128**	**(126,706)**	**63,127**	**14,192**	**(164,277)**	**16,428**
Adjustment to other impairment and provisions	(9,178)	–	–	–	–	(9,178)	–
Adjustment to amortized cost of borrowings and subordinated debt	(2,227)	–	4,881	–	–	–	(7,108)
Recognition of loans previously written-off	21,057	956	(435)	–	(4,034)	167	101
Adjustment to reclassify corporate bonds to loans to customers	5	5	–	–	–	–	–
Share of profit of an associate	39	–	–	–	39	–	–
Adjustment to amortized cost of loans issued under state programs	3,578	2,329	–	–	–	1,249	–
Reclassification of fee and commission income from loans to interest income	–	222	–	(222)	–	–	–
(Charge)/reversal of allowance for impairment of interest-earning assets	(263,021)	–	–	–	–	3,137	–
Accrued personnel expenses	(1,003)	–	–	–	–	(1,003)	–
Adjustment to historical cost and depreciation of property and equipment	(1,031)	–	–	–	(520)	(511)	–
Adjustment to allowance for impairment	274,170	–	–	–	–	498	(4,835)
Adjustment to amortized cost of participation loan	–	(632)	632	–	–	–	–
Adjustment to amortized cost of securities issued	61	–	61	–	–	–	–
Effect from initial recognition	(36,330)	–	–	–	–	–	–
Effect from modification of loans	(5,687)	15,028	–	–	–	–	–
Adjustment to transit accounts and other temporary differences	10,234	7,912	–	61	(131)	2,400	(9)
Adjustment to loans to employees	1,985	2,829	–	–	–	(844)	–
Adjustment to recognition of letters of credit as loans to customers	134	4,982	(3,389)	(1,459)	–	–	–
Adjustments to recognition of loans on non-market conditions	(1,102)	(1,102)	–	–	–	–	–
Addition of net assets of the disposed-of subsidiary	5,875	–	–	–	5,875	–	–
Recognition of securities at fair value	–	353	–	–	(354)	1	–
Reclassification of repayment amount for debt previously written off	–	–	–	–	20,758	–	–
Other adjustments	(51)	(10)	(278)	(337)	(8,525)	17,393	437
Consolidation effect and other adjustments	430	1,821	(810)	(20)	9,132	(10,578)	819
Total IFRS	**65,106**	**311,821**	**(126,044)**	**61,150**	**36,432**	**(161,546)**	**5,833**

(Thousands of Belarusian rubles, unless otherwise indicated)

5. Segment information (continued)

Segment revenue from contracts with customers within the scope of IFRS 15 *Revenue* for the year ended 31 December 2019 and 2018 is as follows:

2019	*Services to individuals*	*Services to legal entities*	*Total*
Fee and commission income			
Settlement transactions	49,803	29,359	**79,162**
Guarantees and letters of credit	66	16,123	**16,189**
Operations with securities	32	54	**86**
Other fee and commission income	8,061	3,883	**11,944**
Total revenues from contracts with customers	**57,962**	**49,419**	**107,381**

2018	*Services to individuals*	*Services to legal entities*	*Total*
Fee and commission income			
Settlement transactions	58,525	18,617	**77,142**
Guarantees and letters of credit	69	13,306	**13,375**
Operations with securities	36	59	**95**
Other fee and commission income	1,695	2,253	**3,948**
Total revenues from contracts with customers	**60,325**	**34,235**	**94,560**

6. Cash and cash equivalents

Cash comprises:

	2019	*2018*
Current accounts with the National Bank of the Republic of Belarus	570,615	437,394
Current accounts with credit institutions	141,310	173,954
Cash on hand	47,635	61,819
Time deposits for up to 90 days	50,073	12,457
Cash and cash equivalents	**809,633**	**685,624**

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2019	*2018*
Obligatory reserve with the National Bank of the Republic of Belarus	31,159	26,373
Funds in precious metals on accounts	28,315	29,158
Time deposits for more than 90 days	1,630	2,401
Other amounts	4,603	4,282
	65,707	**62,214**
Less: allowance for impairment	(284)	(109)
Amounts due from credit institutions	**65,423**	**62,105**

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

As at 31 December 2019 and 2018, “Funds in precious metals on accounts” included funds in precious metals on current accounts designated as at fair value through profit or loss. Amounts due from credit institutions that are included in "Other amounts" are funds transferred to banks as guarantee deposits for transactions involving payment cards.

(Thousands of Belarusian rubles, unless otherwise indicated)

7. Amounts due from credit institutions (continued)

Allowance for impairment of amounts due from credit institutions at amortized cost

Movements in the gross carrying amount and relevant allowances for ECL for the year ended 31 December 2019 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2019	**33,056**	**–**	**–**	**33,056**
New purchased or originated assets	6,762	–	–	**6,762**
Assets redeemed	(2,401)	–	–	**(2,401)**
Exchange differences	(25)	–	–	**(25)**
31 December 2019	**37,392**	**–**	**–**	**37,392**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**109**	**–**	**–**	**109**
New purchased or originated assets	15	–	–	**15**
Assets redeemed	(22)	–	–	**(22)**
Reversal of allowance	176	–	–	**176**
Exchange differences	6	–	–	**6**
На 31 декабря 2019 г.	**284**	**–**	**–**	**284**

Movements in the gross carrying amount and relevant allowances for ECL for the year ended 31 December 2018 are as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount at 1 January 2018	**32,363**	**–**	**–**	**32,363**
New purchased or originated assets	2,177	–	–	**2,177**
Assets redeemed	(2,614)	–	–	**(2,614)**
Exchange differences	1,130	–	–	**1,130**
31 December 2018	**33,056**	**–**	**–**	**33,056**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**78**	**–**	**–**	**78**
New purchased or originated assets	19	–	–	**19**
Assets redeemed	(65)	–	–	**(65)**
Reversal of allowance	(14)	–	–	**(14)**
Exchange differences	91	–	–	**91**
31 December 2018	**109**	**–**	**–**	**109**

(Thousands of Belarusian rubles, unless otherwise indicated)

8. Derivative financial instruments

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

	2019			*2018*		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Forwards and swaps – foreign	302,197	73	1,258	–	–	–
Total derivative asset/liabilities		**73**	**1,258**		**–**	**–**

Foreign contracts in the table above are contracts with non-residents of the Republic of Belarus.

As at 31 December 2019, the Bank has positions in the following types of derivatives.

Forwards

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

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign exchange rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

9. Loans to customers

Loans to customers comprise:

	2019	*2018*
Corporate lending	2,416,627	2,228,318
Small and medium business lending	733,432	604,579
Consumer lending	255,345	187,014
Residential mortgages	81,795	68,451
Total loans to customers at amortized cost	**3,487,199**	**3,088,362**
Less: allowance for impairment	(121,436)	(205,185)
Loans to customers at amortized cost	**3,365,763**	**2,883,177**
Corporate lending	44,829	–
Loans to customers at fair value through profit or loss	**44,829**	**–**
Total loans to customers	**3,410,592**	**2,883,177**

Loans to customers at FVPL

Loans to customers at FVPL are installments for items of property and equipment sold. Information about the fair value measurement of loans to customers at FVPL is disclosed in Note 29.

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortized cost

Movements in the gross carrying amount and relevant ECL related to corporate lending for the year ended 31 December 2019 are as follows:

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**1,638,429**	**313,437**	**249,490**	**26,962**	**2,228,318**
New purchased or originated assets	995,275	129,883	280	6,182	**1,131,620**
Assets redeemed	(719,005)	(91,237)	(81,705)	–	**(891,947)**
Changes resulting from issue/redemption	1,050	14,531	(568)	(521)	**14,492**
Transfers to Stage 1	149,545	(148,064)	(1,481)	–	**–**
Transfers to Stage 2	(98,445)	98,445	–	–	**–**
Transfers to Stage 3	–	(3,656)	3,656	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(2,070)	(749)	(1,409)	–	**(4,228)**
Amounts written off	–	–	(31,558)	–	**(31,558)**
Exchange differences	(24,148)	(3,841)	(1,680)	(401)	**(30,070)**
31 December 2019	**1,940,631**	**308,749**	**135,025**	**32,222**	**2,416,627**

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**8,431**	**12,810**	**127,943**	**9,754**	**158,938**
New purchased or originated assets	4,989	2,053	103	–	**7,145**
Assets redeemed	(2,567)	(4,864)	(37,262)	–	**(44,693)**
Transfers to Stage 1	2,583	(2,276)	(307)	–	**–**
Transfers to Stage 2	(681)	681	–	–	**–**
Transfers to Stage 3	–	(531)	531	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	(2,349)	743	259	–	**(1,347)**
Changes in models and inputs used for ECL calculations	(1,568)	(3,800)	2,837	–	**(2,531)**
Charge/(reversal) of allowance	(25)	222	4,243	(856)	**3,584**
Amounts written off	–	–	(31,558)	–	**(31,558)**
Exchange differences	(499)	(285)	(3,778)	(503)	**(5,065)**
31 December 2019	**8,314**	**4,753**	**63,011**	**8,395**	**84,473**

Movements in the gross carrying amount and relevant ECL related to small business lending for the year ended 31 December 2019 are as follows:

Small and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**401,653**	**130,367**	**33,477**	**39,082**	**604,579**
New purchased or originated assets	364,034	2,402	4,463	1,335	**372,234**
Assets redeemed	(109,689)	(10,545)	807	–	**(119,427)**
Changes resulting from issue/redemption	(57,446)	1,604	(2,507)	(2,326)	**(60,675)**
Transfers to Stage 1	111,713	(111,713)	–	–	**–**
Transfers to Stage 2	(61,108)	61,108	–	–	**–**
Transfers to Stage 3	(2,181)	(2,218)	4,399	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(2,128)	(8,518)	210	–	**(10,436)**
Amounts written off	–	–	(6,980)	(36,738)	**(43,718)**
Exchange differences	(7,924)	(768)	(416)	(17)	**(9,125)**
31 December 2019	**636,924**	**61,719**	**33,453**	**1,336**	**733,432**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers measured at amortized cost (continued)

Small and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**3,283**	**14,996**	**18,983**	**8,391**	**45,653**
New purchased or originated assets	2,593	89	741	–	**3,423**
Assets redeemed	(216)	(847)	4,484	–	**3,421**
Transfers to Stage 1	13,690	(13,690)	–	–	**–**
Transfers to Stage 2	(2,063)	2,063	–	–	**–**
Transfers to Stage 3	(18)	(56)	74	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	(12,083)	9,092	1,454	–	**(1,537)**
Changes in models and inputs used for ECL calculations	(11,038)	9,082	(3,731)	–	**(5,687)**
Charge/(reversal) of allowance	10,755	(8,787)	1,734	28,279	**31,981**
Amounts written off	–	–	(6,980)	(36,739)	**(43,719)**
Exchange differences	(277)	(676)	(1,013)	69	**(1,897)**
31 December 2019	**4,626**	**11,266**	**15,746**	**–**	**31,638**

Movements in the gross carrying amount and relevant ECL related to consumer lending for the year ended 31 December 2019 are as follows:

Consumer lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**185,888**	**557**	**569**	**–**	**187,014**
New purchased or originated assets	125,798	1,420	3,383	–	**130,601**
Assets redeemed	(25,228)	(132)	388	–	**(24,972)**
Changes resulting from issue/redemption	(35,721)	(241)	(611)	–	**(36,573)**
Transfers to Stage 1	118	(87)	(31)	–	**–**
Transfers to Stage 2	(789)	789	–	–	**–**
Transfers to Stage 3	(980)	(193)	1,173	–	**–**
Amounts written off	–	–	(725)	–	**(725)**
Exchange differences	–	–	–	–	**–**
31 December 2019	**249,086**	**2,113**	**4,146**	**–**	**255,345**

Consumer lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**159**	**101**	**309**	**–**	**569**
New purchased or originated assets	334	757	3,128	–	**4,219**
Assets redeemed	(17)	(22)	489	–	**450**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(13)	13	–	–	**–**
Transfers to Stage 3	(26)	(49)	75	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	–	229	521	–	**750**
Changes in models and inputs used for ECL calculations	103	(14)	(49)	–	**40**
Amounts written off	–	–	(725)	–	**(725)**
Exchange differences	–	–	–	–	**–**
31 December 2019	**540**	**1,015**	**3,748**	**–**	**5,303**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

Movements in the gross carrying amount and relevant ECL related to residential mortgages for the year ended 31 December 2019 are as follows:

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2019	**68,343**	**55**	**53**	**–**	**68,451**
New purchased or originated assets	21,431	–	–	–	**21,431**
Assets redeemed	(2,621)	(2)	(2)	–	**(2,625)**
Changes resulting from issue/redemption	(5,434)	(17)	3	–	**(5,448)**
Transfers to Stage 1	61	(24)	(37)	–	**–**
Transfers to Stage 2	(34)	34	–	–	**–**
Transfers to Stage 3	(3)	–	3	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	–	–	**–**
Amounts written off	–	–	(14)	–	**(14)**
Exchange differences	–	–	–	–	**–**
31 December 2019	**81,743**	**46**	**6**	**–**	**81,795**

Residential mortgages	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2019	**12**	**1**	**12**	**–**	**25**
New purchased or originated assets	–	–	–	–	**–**
Assets redeemed	–	–	7	–	**7**
Transfers to Stage 1	5	–	(5)	–	**–**
Transfers to Stage 2	(1)	1	–	–	**–**
Transfers to Stage 3	–	–	–	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	–	2	3	–	**5**
Changes in models and inputs used for ECL calculations	(9)	5	3	–	**(1)**
Amounts written off	–	–	(14)	–	**(14)**
Exchange differences	–	–	–	–	**–**
31 December 2019	**7**	**9**	**6**	**–**	**22**

Movements in the gross carrying amount and relevant ECL related to corporate lending for the year ended 31 December 2018 are as follows:

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**1,641,447**	**125,351**	**146,398**	**–**	**1,913,196**
New purchased or originated assets	947,490	186,687	–	26,962	**1,161,139**
Assets redeemed	(830,645)	(105,999)	(19,764)	–	**(956,408)**
Changes resulting from issue/redemption	(44,019)	(9,987)	111,410	–	**57,404**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(121,834)	121,834	–	–	**–**
Transfers to Stage 3	(3,438)	(15,810)	19,248	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(8,259)	186	(10,377)	–	**(18,450)**
Amounts written off	–	–	(6,291)	–	**(6,291)**
Exchange differences	57,687	11,175	8,866	–	**77,728**
31 December 2018	**1,638,429**	**313,437**	**249,490**	**26,962**	**2,228,318**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

Corporate lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**13,510**	**6,076**	**50,208**	**–**	**69,794**
New purchased or originated assets	4,692	4,254	–	9,754	**18,700**
Assets redeemed	(6,897)	(2,742)	(8,582)	–	**(18,221)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(1,571)	1,571	–	–	**–**
Transfers to Stage 3	(33)	(3,295)	3,328	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	–	6,826	6,036	–	**12,862**
Changes in models and inputs used for ECL calculations	(1,843)	(750)	73,874	–	**71,281**
Amounts written off	–	–	(6,291)	–	**(6,291)**
Exchange differences	574	870	9,370	–	**10,814**
31 December 2018	**8,432**	**12,810**	**127,943**	**9,754**	**158,939**

Movements in the gross carrying amount and relevant ECL related to small business lending for the year ended 31 December 2018 are as follows:

Small and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying amount at 1 January 2018	**332,035**	**104,197**	**317,236**	**–**	**753,468**
New purchased or originated assets	206,798	112,919	–	39,082	**358,799**
Assets redeemed	(142,204)	(86,538)	(178,456)	–	**(407,198)**
Changes resulting from issue/redemption	(51,285)	(6,184)	(31,760)	–	**(89,229)**
Transfers to Stage 1	50,300	(806)	(49,494)	–	**–**
Transfers to Stage 2	(6,306)	6,306	–	–	**–**
Transfers to Stage 3	(669)	(2,462)	3,131	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	(1,013)	(1,608)	356	–	**(2,265)**
Amounts written off	–	–	(30,065)	–	**(30,065)**
Exchange differences	13,997	4,543	2,529	–	**21,069**
31 December 2018	**401,653**	**130,367**	**33,477**	**39,082**	**604,579**

Small and medium business lending	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL at 1 January 2018	**1,505**	**9,226**	**121,941**	**–**	**132,672**
New purchased or originated assets	837	13,474	–	8,391	**22,702**
Assets redeemed	(543)	(6,941)	(65,467)	–	**(72,951)**
Transfers to Stage 1	24,823	(174)	(24,649)	–	**–**
Transfers to Stage 2	(160)	160	–	–	**–**
Transfers to Stage 3	(8)	(304)	312	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	(22,724)	132	(231)	–	**(22,823)**
Changes in models and inputs used for ECL calculations	(670)	(1,597)	15,278	–	**13,011**
Amounts written off	–	–	(30,065)	–	**(30,065)**
Exchange differences	223	1,020	1,863	–	**3,106**
31 December 2018	**3,283**	**14,996**	**18,982**	**8,391**	**45,652**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

Movements in the gross carrying amount and relevant ECL related to consumer lending for the year ended 31 December 2018 are as follows:

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January 2018	**132,506**	**251**	**516**	**–**	**133,273**
New purchased or originated assets	100,553	80	–	–	**100,633**
Assets redeemed	(22,791)	(91)	(434)	–	**(23,316)**
Changes resulting from issue/redemption	(29,538)	(179)	276	–	**(29,441)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(593)	593	–	–	**–**
Transfers to Stage 3	(727)	(116)	843	–	**–**
Amounts written off	–	–	(652)	–	**(652)**
Exchange differences	6,478	19	20	–	**6,517**
31 December 2018	**185,888**	**557**	**569**	**–**	**187,014**

Consumer lending	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	**257**	**78**	**347**	**–**	**682**
New purchased or originated assets	60	27	–	–	**87**
Assets redeemed	(44)	(28)	(298)	–	**(370)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(15)	15	–	–	**–**
Transfers to Stage 3	(30)	(37)	67	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	–	55	201	–	**256**
Changes in models and inputs used for ECL calculations	(80)	(16)	623	–	**527**
Amounts written off	–	–	(652)	–	**(652)**
Exchange differences	11	7	21	–	**39**
31 December 2018	**159**	**101**	**309**	**–**	**569**

Movements in the gross carrying amount and relevant ECL related to residential mortgages for the year ended 31 December 2018 are as follows:

Residential mortgages	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying amount at 1 January 2018	**35,966**	**8**	**39**	**–**	**36,013**
New purchased or originated assets	33,329	–	–	–	**33,329**
Assets redeemed	(1,406)	–	(28)	–	**(1,434)**
Changes resulting from issue/redemption	(1,837)	7	4	–	**(1,826)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	(38)	38	–	–	**–**
Transfers to Stage 3	(53)	–	53	–	**–**
Changes in contractual cash flows due to modification not resulting in derecognition	–	–	–	–	**–**
Amounts written off	–	–	(17)	–	**(17)**
Exchange differences	2,382	2	2	–	**2,386**
31 December 2018	**68,343**	**55**	**53**	**–**	**68,451**

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortized cost (continued)

Residential mortgages	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL at 1 January 2018	**8**	**1**	**18**	**–**	**27**
New purchased or originated assets	3	–	–	–	**3**
Assets redeemed	–	–	(10)	–	**(10)**
Transfers to Stage 1	–	–	–	–	**–**
Transfers to Stage 2	–	–	–	–	**–**
Transfers to Stage 3	–	–	–	–	**–**
Effect on ECL at the period-end due to transfers between stages during the period	–	–	7	–	**7**
Changes in models and inputs used for ECL calculations	–	–	13	–	**13**
Amounts written off	–	–	(17)	–	**(17)**
Exchange differences	1	–	1	–	**2**
31 December 2018	**12**	**1**	**12**	**–**	**25**

The undiscounted ECL at initial recognition on acquired credit-impaired loans and advances to customers that were initially recognized during the year ended 31 December 2019 and 2018 are as follows:

	2019	***2018***
Corporate lending	8,395	2,375
Small business lending	(1,148)	16,294
Total undiscounted ECL at initial recognition of POCI financial assets	**7,247**	**18,669**

Modified and restructured loans

The table below includes Stage 2 and Stage 3 assets that were renegotiated during the period and, as a result, recognized as restructured assets, and the associated losses incurred by the Bank due to the modification.

	2019	***2018***
Loans to customers modified during the period	**193,837**	**355,997**
Amortized cost before modification	204,631	367,439
Net loss/gain from modification	(10,794)	(11,442)
Loans to customers modified since initial recognition	**216,355**	**389,831**
The gross carrying amount of loans to customers as at 1 January, for which the calculation of the allowance for impairment was changed to 12-month ECL	83,066	50,300

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For securities lending – cash or securities
- For corporate lending – charges over real estate property, equipment, vehicles, inventory, rights to claim future proceeds on accounts receivables or surety of third parties
- For consumer lending – mortgages over residential properties, pledges of vehicles and surety of third parties.

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 impairment losses.

In the absence of collateral or other credit enhancements, ECL on Stage 3 loans to customers as at 31 December 2019 would have increased by BYN 12,073 thousand (2018: BYN 7,680 thousand).

(Thousands of Belarusian rubles, unless otherwise indicated)

9. Loans to customers (continued)

Concentration of loans to customers

As at 31 December 2019, the Bank had a concentration of loans represented by BYN 1,087,568 thousand due from the ten largest borrowers (groups of related borrowers) (31% of the gross loan portfolio) (2018: BYN 1,021,066 thousand, or 33%). An allowance of BYN 8,257 thousand was recognized against these loans (2018: BYN 15,851 thousand).

Loans have been issued to the following types of customers:

	2019	*2018*
State-controlled companies (state ownership of more than 50%)	1,762,145	1,703,050
Private companies	1,432,742	1,129,848
Individuals	337,141	255,464
Total loans to customers	**3,532,028**	**3,088,362**

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

	2019	*2018*
Manufacturing	1,778,025	1,553,044
Trading enterprises	560,181	538,873
Individuals	337,141	255,464
Agriculture and food processing	252,407	309,864
Real estate construction	257,216	132,855
Transport	184,940	156,542
Financial sector	137,475	121,713
Science and education	3,387	4,294
Other	21,256	15,713
	3,532,028	**3,088,362**

Finance lease receivables

Finance lease receivables are included in the corporate lending portfolio. The analysis of finance lease receivables as at 31 December 2019 is as follows:

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investments in finance leases	221	146	–	**367**
Unearned future finance income on finance leases	(46)	(18)	–	**(64)**
Net investment in finance leases	**175**	**128**	**–**	**303**

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

	Not later than 1 year	*Later than 1 year and not later than 5 years*	*Later than 5 years*	*Total*
Total investments in finance leases	3,786	251	–	**4,037**
Unearned future finance income on finance leases	(1,841)	(41)	–	**(1,882)**
Net investment in finance leases	**1,945**	**210**	**–**	**2,155**

(Thousands of Belarusian rubles, unless otherwise indicated)

10. Investment securities

Investment securities comprise:

	2019	*2018*
Debt securities at FVOCI		
Bonds of the Ministry of Finance of the Republic of Belarus	289,287	468,716
Bonds of the Development Bank	94,107	–
Bonds of the National Bank of the Republic of Belarus	10,904	72,512
Bonds of local authorities of the Republic of Belarus	12,549	14,609
Bonds of resident banks of the Republic of Belarus	8,055	–
Debt securities at FVOCI	**414,902**	**555,837**
Equity securities at FVOCI		
Participation shares	367	328
Corporate shares	121	121
Equity securities at FVOCI	**488**	**449**

Movements in the gross carrying amount on debt securities at FVOCI for the year ended 31 December 2019 are as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying amount at 1 January 2019	**556,286**	**556,286**
New purchased or originated assets	195,155	**195,155**
Assets redeemed	(320,212)	**(320,212)**
Assets sold	(857)	**(857)**
Change in fair value	6,982	**6,982**
Exchange differences	(21,964)	**(21,964)**
31 December 2019	**415,390**	**415,390**

Movements in the allowance for ECL on debt securities at FVOCI for the year ended 31 December 2019 are as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Allowance for ECL at 1 January 2019	**5,695**	**5,695**
New purchased or originated assets	1,600	**1,600**
Assets redeemed	(2,913)	**(2,913)**
Assets sold	(113)	**(113)**
Reversal of allowance	(865)	**(865)**
31 December 2019	**3,404**	**3,404**

Movements in the gross carrying amount on debt securities at FVOCI for the year ended 31 December 2018 are as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Gross carrying amount at 1 January 2018	**537,413**	**537,413**
New purchased or originated assets	158,152	**158,152**
Assets redeemed	(65,502)	**(65,502)**
Assets sold	(90,296)	**(90,296)**
Change in fair value	(18,026)	**(18,026)**
Exchange differences	34,545	**34,545**
31 December 2018	**556,286**	**556,286**

(Thousands of Belarusian rubles, unless otherwise indicated)

10. Investment securities (continued)

Movements in the allowances for ECL on debt securities at FVOCI for the year ended 31 December 2018 are as follows:

Debt securities at FVOCI	***Stage 1***	***Total***
Allowance for ECL at 1 January 2018	**6,347**	**6,347**
New purchased or originated assets	1,958	**1,958**
Assets redeemed	(232)	**(232)**
Assets sold	(1,091)	**(1,091)**
Reversal of allowance	(1,287)	**(1,287)**
31 December 2018	**5,695**	**5,695**

In 2018, after the adoption of IFRS 9 the Bank at its discretion designated the investments in equity instruments as investments in equity instruments at FVOCI based on the fact that they are not held for trading.

In 2019, the Bank received dividends on equity instruments at FVOCI in the amount of BYN 79 thousand (2018: BYN 73 thousand), which were recognized within other income in the consolidated statement of profit or loss.

11. Investments in associates and jointly controlled entities

The following associates and jointly controlled entities are accounted under the equity method:

Associate	***Ownership/voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***	***Carrying amount***
2019						
Sivelga CJSC	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006	265

Jointly controlled entities	***Ownership/voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***	***Carrying amount***
2019						
BelVEB Capital LLC	19.00	Republic of Belarus	10 July 2019	Other	10 July 2019	4,892
BelVEB Service LLC	19.00	Republic of Belarus	1 October 2019	Other	1 October 2019	100
BelVEB Consult LLC	34.39	Republic of Belarus	18 December 2019	Other	18 December 2019	–

Associate	***Ownership/voting, %***	***Country***	***Date of incorporation***	***Industry***	***Date of acquisition***	***Carrying amount***
2018						
Sivelga CJSC	25.002	Republic of Belarus	30 April 1996	Manufacturing	3 October 2006	3,921
BelVEBleasing LLC	49.00	Republic of Belarus	6 March 2018	Finance	6 March 2018	108

In 2019, the Bank co-founded three companies, which are jointly controlled entities: BelVEB Capital LLC, BelVEB Service LLC and BelVEB Consult LLC, and sold a 30% stake in BelVEBleasing LLC and that company is no longer accounted for as an associate.

(Thousands of Belarusian rubles, unless otherwise indicated)

11. Investments in associates and jointly controlled entities (continued)

Movements in investments in associates were as follows:

	2019	*2018*
Balance, beginning of the period	**4,029**	**3,891**
Acquisition cost	–	100
Disposals	(69)	–
Relcassification	(39)	–
Share of (loss)/profit	(558)	38
Impairment (Note 27)	(3,098)	–
Investments in associates, end of the period	**265**	**4,029**

The impairment of investments in associates is related to a significant deterioration of the financial position and a decrease in net assets of Sivelga CJSC.

Movements in investments in jointly controlled entities were as follows:

	2019	*2018*
Balance, beginning of the period	**–**	**–**
Acquisition cost	21	–
Additional contribution	4,900	–
Share of profit	71	–
Investments in jointly controlled entities, end of the period	**4,992**	**–**

12. Property and equipment

During 2019, movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2018	**81,254**	**45,796**	**44,100**	**3,382**	**4,274**	**178,806**
Additions	–	4,202	1,936	538	3,070	**9,746**
Disposals	(56,189)	(11,951)	(1,584)	(430)	(5,577)	**(75,731)**
31 December 2019	**25,065**	**38,047**	**44,452**	**3,490**	**1,767**	**112,821**
Accumulated depreciation and impairment						
31 December 2018	**–**	**(23,934)**	**(32,244)**	**(2,245)**	**–**	**(58,423)**
Depreciation charge	(976)	(4,156)	(5,893)	(665)	–	**(11,690)**
Disposals	702	6,669	1,310	372	–	**9,053**
31 December 2019	**(274)**	**(21,421)**	**(36,827)**	**(2,538)**	**–**	**(61,060)**
Net book value						
31 December 2018	**81,254**	**21,862**	**11,856**	**1,137**	**4,274**	**120,383**
31 December 2019	**24,791**	**16,626**	**7,625**	**952**	**1,767**	**51,761**

(Thousands of Belarusian rubles, unless otherwise indicated)

12. Property and equipment (continued)

During 2018, movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and office equipment*	*Motor vehicles*	*Assets under construction*	*Total*
Cost or revalued amount						
31 December 2017	**97,606**	**50,679**	**44,370**	**3,323**	**3,831**	**199,809**
Additions	–	2,847	1,601	332	1,494	**6,274**
Disposals	–	(7,624)	(1,854)	(136)	(201)	**(9,815)**
Disposal as a result of discontinued participation in the subsidiary	(948)	(106)	(17)	(137)	–	**(1,208)**
Transfers between categories	850	–	–	–	(850)	–
Effect of revaluation	(16,254)	–	–	–	–	**(16,254)**
31 December 2018	**81,254**	**45,796**	**44,100**	**3,382**	**4,274**	**178,806**
Accumulated depreciation and impairment						
31 December 2017	**(1,135)**	**(24,490)**	**(24,855)**	**(1,957)**	**–**	**(52,437)**
Depreciation charge	(1,172)	(4,158)	(7,601)	(489)	–	**(13,420)**
Disposals	–	4,741	195	130	–	**5,066**
Disposal as a result of discontinued participation in the subsidiary	16	74	17	71	–	**178**
Effect of revaluation	2,291	–	–	–	–	**2,291**
Impairment	–	(101)	–	–	–	**(101)**
31 December 2018	**–**	**(23,934)**	**(32,244)**	**(2,245)**	**–**	**(58,423)**
Net book value						
31 December 2017	**96,471**	**26,189**	**19,515**	**1,366**	**3,831**	**147,372**
31 December 2018	**81,254**	**21,862**	**11,856**	**1,137**	**4,274**	**120,383**

As at 31 December 2018, the Bank restated the fair value of buildings based on their market value. The Bank engaged an independent appraiser to determine the fair value of its buildings. Fair value is determined by reference to market-based evidence. The date of the revaluation was 31 December 2018. More details about the fair value of buildings are disclosed in Note 29.

As at 31 December 2019, the Bank decided against restating the value of buildings since according to the results of real estate market research, management did not identify significant differences between fair value and carrying amount of property and equipment.

In November-December 2019, as part of the property portfolio optimization, the Bank sold items of property and equipment and related property with a carrying amount of BYN 59,893 thousand. Part of the property with a carrying amount of BYN 45,182 thousand was sold on installment plans. Revenue from sale of property and equipment through payment in installments amounted to BYN 50,082 thousand.

Measured using the cost model, the carrying amounts would be as follows:

	2019	*2018*
Cost	**23,932**	**83,039**
Accumulated depreciation and impairment	(11,445)	(27,596)
Net book value	**12,487**	**55,443**

(Thousands of Belarusian rubles, unless otherwise indicated)

13. Right-of-use assets

Movements in right-of-use assets were as follows:

	Buildings	*Equipment*	*Motor vehicles*	*Total*
Cost				
1 January 2019	**3,056**	**6**	**–**	**3,062**
Additions	1,894	–	1,217	**3,111**
Disposals	(120)	–	–	**(120)**
31 December 2019	**4,830**	**6**	**1,217**	**6,053**
Accumulated depreciation and impairment				
1 January 2019	**–**	**–**	**–**	**–**
Depreciation charge	(1,402)	(3)	(141)	**(1,546)**
Disposals	52	–	–	**52**
31 December 2019	**(1,350)**	**(3)**	**(141)**	**(1,494)**
Net book value				
1 January 2019	**3,056**	**6**	**–**	**3,062**
31 December 2019	**3,480**	**3**	**1,076**	**4,559**

14. Intangible assets

Movements in intangible assets were as follows:

	Licenses	*Computer software*	*Investments in intangible assets*	*Total*
Cost				
31 December 2018	**26,770**	**51,142**	**3,239**	**81,151**
Additions	1,727	2,747	4,661	**9,135**
Disposals	(93)	(163)	–	**(256)**
Transfers between categories	711	2,088	(2,799)	**–**
31 December 2019	**29,115**	**55,814**	**5,101**	**90,030**
Accumulated amortization and impairment				
31 December 2018	**(11,362)**	**(25,413)**	**–**	**(36,775)**
Amortization charge	(4,254)	(7,518)	–	**(11,772)**
Disposals	88	49	–	**137**
31 December 2019	**(15,528)**	**(32,882)**	**–**	**(48,410)**
Net book value				
31 December 2018	**15,408**	**25,729**	**3,239**	**44,376**
31 December 2019	**13,587**	**22,932**	**5,101**	**41,620**
Cost				
31 December 2017	**19,461**	**43,078**	**202**	**62,741**
Additions	7,551	8,271	5,651	**21,473**
Disposals	(422)	(988)	(1,104)	**(2,514)**
Disposal as a result of discontinued participation in the subsidiary	(549)	–	–	**(549)**
Transfers between categories	729	781	(1,510)	**–**
31 December 2018	**26,770**	**51,142**	**3,239**	**81,151**
Accumulated amortization				
31 December 2017	**(7,852)**	**(18,793)**	**–**	**(26,645)**
Amortization charge	(3,838)	(7,464)	–	**(11,302)**
Disposals	307	844	–	**1,151**
Disposal as a result of discontinued participation in the subsidiary	21	–	–	**21**
31 December 2018	**(11,362)**	**(25,413)**	**–**	**(36,775)**
Net book value				
31 December 2017	**11,609**	**24,285**	**202**	**36,096**
31 December 2018	**15,408**	**25,729**	**3,239**	**44,376**

(Thousands of Belarusian rubles, unless otherwise indicated)

15. Taxation

The income tax expense comprises:

	2019	2018
Current tax charge	3,631	16,286
Deferred tax charge – origination and reversal of temporary differences	21,440	3,110
Less: deferred tax recognized directly in equity	−	(226)
Less: amortization of deferred tax recognized directly in equity	−	7
Income tax expense	**25,071**	**19,177**

The Bank accounts for taxes based on the tax accounting maintained in accordance with the Belarusian tax legislation. In 2019, income tax rate for Bank BelVEB OJSC and its subsidiary, BelVEB Insurance Unitary Insurance Enterprise, was 25% (2018: 25%). VEB Technologies LLC, the Bank's subsidiary, is a resident of the Hi-Tech Park and is entitled to the exemption from the income tax on principal activity. The entity applies a reduced rate of 9% for other non-operating and operating income.

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

	2019	2018
Profit before tax	**141,778**	**65,106**
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	**35,445**	**16,277**
Investment tax credits	−	(38)
Non-taxable income from securities	(14,497)	(10,754)
Non-taxable income	(1,106)	(573)
Income taxed at different rates	−	(566)
Effect of investment deduction	216	(103)
Non-deductible expenditures	5,850	7,463
Change in unrecognized deferred tax assets	−	−
Effect of statutory revaluation and impairment of property and equipment in compliance with legislation of the Republic of Belarus	(63)	6,636
Effect of disposal of subsidiaries	−	463
Tax effect of other permanent differences	(774)	372
Income tax expense	**25,071**	**19,177**

(Thousands of Belarusian rubles, unless otherwise indicated)

15. Taxation (continued)

As at 31 December, deferred tax assets and liabilities and their movements for the respective years comprise:

			Origination and reversal of temporary differences			*Origination and reversal of temporary differences*	
	1 January 2018	***Effect of transition to IFRS 9***	***In the statement of profit or loss***	***In other comprehensive income***	***31 December 2018***	***In the statement of profit or loss***	***31 December 2019***
Tax effect of deductible temporary differences							
Cash and cash equivalents	–	–	–	–	–	1	1
Investment securities	–	–	–	–	–	23	23
Property and equipment, intangible assets and assets constructed for sale	3,265	–	(2,948)	(244)	73	(46)	27
Derivative financial instruments	–	–	–	–	–	486	486
Amounts due to customers	–	–	–	–	–	80	80
Amounts due to credit institutions	–	–	47	–	47	(47)	–
Amounts due from credit institutions	–	19	(1)	–	18	(14)	4
Other assets	1,185	(112)	(820)	–	253	134	387
Loans to customers	20,212	(11,604)	24	–	8,632	(8,632)	–
Deferred tax assets, gross	**24,662**	**(11,697)**	**(3,698)**	**(244)**	**9,023**	**(8,015)**	**1,008**
Unrecognized deferred tax assets	–	–	–	–	–	–	–
Deferred tax asset	**24,662**	**(11,697)**	**(3,698)**	(244)	**9,023**	**(8,015)**	**1,008**
Tax effect of taxable temporary differences							
Provisions for potential losses	(6,251)	3,539	1,361	–	(1,351)	(1,740)	(3,091)
Amounts due to credit institutions	(283)	–	283	–	–	(802)	(802)
Amounts due from credit institutions	(1300)	–	1300	–	–	(718)	(718)
Loans to customers	–	–	–	–	–	(13,224)	(13,224)
Investments in associates and jointly controlled entities	–	–	–	–	–	(1,281)	(1,281)
Debt securities issued	–	–	–	–	–	(38)	(38)
Property and equipment, intangible assets and assets constructed for sale	(634)	–	(275)	25	(884)	884	0
Other assets	(1,797)	7	(1,862)	–	(3,652)	3,494	(158)
Deferred tax liability	**(10,265)**	**3,546**	**807**	**25**	**(5,887)**	**(13,425)**	**(19,312)**
Deferred tax asset	**14,397**	**(8,151)**	**(2,891)**	**(219)**	**3,136**	**(21,440)**	**(18,304)**

As at 31 December 2019, Bank BelVEB OJSC recognized a deferred tax liability in the amount of BYN 16,807 thousand. BelVEB Insurance UIE, the Bank's subsidiary, recognized deferred tax liabilities in the amount of BYN 1,497 thousand.

As at 31 December 2018, Bank BelVEB OJSC recognized a deferred tax asset in the amount of BYN 3,455 thousand. BelVEB Insurance UIE, the Bank's subsidiary, recognized deferred tax liabilities in the amount of BYN 319 thousand.

16. Credit loss expense and other impairment

The table below shows credit loss expense and other impairment recorded in the consolidated statement of profit or loss for the year ended 31 December 2019:

	Notes	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Amounts due from credit institutions	7	169	–	–	–	**169**
Loans to customers at amortized cost	9	2,378	(9,904)	(20,668)	27,423	**(771)**
Debt securities at FVOCI	10	(2,291)	–	–	–	**(2,291)**
Other financial assets	17	(4)	3	(443)	–	**(444)**
Financial guarantees	24	(120)	(2,435)	(302)	–	**(2,857)**
Undrawn loan commitments	24	(675)	4	(620)	–	**(1,291)**
Letters of credit	24	133	1	(3,630)	–	**(3,496)**
Total credit loss expense		**(410)**	**(12,331)**	**(25,663)**	**27,423**	**(10,981)**

(Thousands of Belarusian rubles, unless otherwise indicated)

16. Credit loss expense and other impairment (continued)

The table below shows credit loss expense and other impairment recorded in the consolidated statement of profit or loss for the year ended 31 December 2018:

	Notes	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Amounts due from credit institutions	8	(60)	–	–	–	**(60)**
Loans to customers at amortized cost	9	(4,203)	10,630	502	18,145	**25,074**
Debt securities at FVOCI	10	(652)	–	–	–	**(652)**
Other non-financial assets	18	186	–	–	–	**186**
Other financial assets	18	(28)	–	(363)	–	**(391)**
Financial guarantees	25	(210)	(1,953)	(1,177)	–	**(3,340)**
Undrawn loan commitments	25	46	(395)	(3,173)	–	**(3,522)**
Letters of credit	25	(221)	(32)	3,300	–	**3,047**
Total credit loss expense		**(5,142)**	**8,250**	**(911)**	**18,145**	**20,342**

Movements in allowances for impairment were as follows:

	Other non-financial assets	*Total*
31 December 2017	**–**	**–**
Charge (reversal)	186	**186**
31 December 2018	**186**	**186**
Charge (reversal)	–	**–**
31 December 2019	**186**	**186**

17. Other assets and liabilities

Other assets comprise:

	2019	*2018*
Other financial assets		
Accrued income	2,795	1,245
Other receivables	464	6,606
Less: allowance for impairment of other financial assets	(40)	(484)
Total other financial assets	**3,219**	**7,367**
Advances issued	10,217	13,588
Other non-financial assets	5,937	4,645
Prepaid expenses	5,340	6,112
Prepaid taxes other than income tax	2,533	2,288
Government grants	2,149	3,942
Repossessed collateral	1,066	1,301
Re-insurer's share in unearned insurance premium reserves	577	595
Less: allowance for impairment of other financial assets	(186)	(186)
Total other non-financial assets	**27,633**	**32,285**
Other assets	**30,852**	**39,652**

(Thousands of Belarusian rubles, unless otherwise indicated)

17. Other assets and liabilities

Movements in allowances for ECL on other financial assets for the year ended 31 December 2019 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**4**	**–**	**480**	**484**
New purchased or originated assets	–	3	22	**25**
Reversal of allowance	(4)	–	(465)	**(469)**
31 December 2019	**–**	**3**	**37**	**40**

Movements in allowances for ECL on other financial assets for the year ended 31 December 2018 were as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**32**	**4**	**843**	**879**
New purchased or originated assets	5	4	170	**179**
Reversal of allowance	(33)	(4)	(533)	**(570)**
Amounts written off	–	(4)	–	**(4)**
31 December 2018	**4**	**–**	**480**	**484**

Other liabilities and provisions comprise:

	2019	*2018*
Other financial liabilities	**22,429**	**16,943**
Settlements with suppliers	9,217	11,069
Amounts in settlements under confirmed letters of credit	7,351	–
Accrued expenses	5,843	3,562
Dividends payable	18	21
Other financial liabilities	–	922
Amounts in settlement	–	1,369
Other non-financial liabilities	**33,489**	**26,461**
Taxes payable other than income tax	14,896	902
Insurance loss provision	7,515	8,411
Other deferred income	5,205	4,044
Provisions for contingent liabilities	3,415	10,864
Settlements with employees	2,458	2,240
Other liabilities and provisions	**55,918**	**43,404**

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2019	*2018*
Time deposits and loans	1,231,960	1,184,655
Current accounts	53,512	106,840
Other accounts	7,903	8,745
Amounts due to credit institutions	**1,293,375**	**1,300,240**

As at 31 December 2019, time deposits and loans included cash received from the parent company in the amount of BYN 573,535 thousand (46.55% of time deposits and loans) (2018: BYN 528,097 thousand or 51.58% of time deposits and loans) for project financing in the Republic of Belarus

As at 31 December 2019 and 2018, amounts due to credit institutions included into "Other accounts" are represented by guarantee deposits for transactions using the payment cards.

(Thousands of Belarusian rubles, unless otherwise indicated)

19. Amounts due to the National Bank of the Republic of Belarus

Amounts due to the National Bank of the Republic of Belarus comprise:

	2019	*2018*
Other	21	22
Amounts due to the National Bank of the Republic of Belarus	**21**	**22**

20. Amounts due to customers

Amounts due to customers include the following:

	2019	*2018*
Time deposits	1,767,475	1,692,325
Current accounts	773,525	500,379
Amounts due to customers	**2,541,000**	**2,192,704**
Held as collateral against letters of credit	–	30,050
Held as collateral against guarantees	2,666	27,515

As at 31 December 2019, amounts due to customers of BYN 406,849 thousand (16%) were due to the ten largest customers (2018: BYN 218,208 thousand or 10%).

Included in time deposits are deposits of individuals in the amount of BYN 944,031 thousand (2018: BYN 1,050,041 thousand).

As at 31 December 2019, the amounts due to customers included funds in precious metals on current accounts of individuals designated as at fair value through profit or loss totaling BYN 28,141 thousand (2018: BYN 28,816 thousand).

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

	2019	*2018*
Individuals, other than employees	1,185,705	1,231,615
Private companies	1,039,996	663,862
State and budgetary organizations	293,324	268,525
Employees	21,975	28,702
Amounts due to customers	**2,541,000**	**2,192,704**

The category "State and budgetary organizations" includes only state and budgetary organizations of the Republic of Belarus. Foreign state enterprises are included in the "Private companies" category.

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

	2019	*2018*
Individuals	1,207,680	1,260,317
Manufacturing	376,878	259,196
Trade	178,853	138,772
Agriculture and food processing	124,892	91,903
Real estate and construction	108,718	78,164
Transport	98,980	65,960
Science and education	85,102	42,480
Finance	82,278	40,120
Mining	27,310	8,096
Logistics	15,046	13,092
Regional authorities	8,604	8,299
Health care, physical training and sport	5,869	3,501
Mass media	3,574	2,362
Telecommunications	3,290	27,080
Water supply	199	605
Other	213,727	152,757
Amounts due to customers	**2,541,000**	**2,192,704**

(Thousands of Belarusian rubles, unless otherwise indicated)

21. Debt securities issued

Debt securities issued are denominated in BYN and USD and comprise:

	2019	*2018*
Domestic bonds issued	46,767	102,928
Debt securities issued	**46,767**	**102,928**

As at 31 December 2019, the Bank issued registered interest-bearing bonds with a total nominal value of BYN 46,240 thousand (2018: BYN 102,634 thousand) having the offer date in March 2020 for the amount of BYN 8,023 thousand, in December 2020 for the amount of BYN 25,157 thousand; and maturing in January 2024 for the amount of BYN 13,060 thousand. As at 31 December 2019, the interest rate on domestic bonds is 7.0% p.a. for the sixth issue and 9.0% p.a. for the eighth issue of BYN-denominated bonds (2018: 8.05% p.a.) and 3.2% p.a. for the seventh issue of USD-denominated bonds.

22. Subordinated debt

Subordinated debt comprises:

	2019	*2018*
Subordinated loans received from State Development Corporation VEB.RF	212,600	220,461
Subordinated loans	**212,600**	**220,461**

Subordinated loans comprise USD-denominated loans from the parent company maturing in 2021-2024.

23. Equity

Movements in shares issued, fully paid and outstanding were as follows:

	Number of shares (all ordinary)	*Nominal value (all ordinary)*	*Inflation adjustment*	*Total*
1 January 2018	11,740,750,000	117,408	355,649	**473,057**
31 December 2018	11,740,750,000	117,408	355,649	**473,057**
31 December 2019	11,740,750,000	117,408	355,649	**473,057**

The share capital of Bank BelVEB OJSC was contributed by the shareholders in Belarusian rubles and they are entitled to dividends and any capital distribution in Belarusian rubles. All shares are ordinary with the nominal value of BYN 0.01.

At the Shareholders' Meeting in March 2019, the Bank did not declare dividends in respect of the year ended 31 December 2018. At the Shareholders' Meeting in March 2018, the Bank declared dividends in respect of the year ended 31 December 2017 in the amount of BYN 10,931 thousand. According to the laws of the Republic of Belarus, the Bank withholds tax on income from dividends accrued, which in 2018 amounted to BYN 1,150 thousand. In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from accumulated undistributed and unreserved earnings as shown in financial statements of the Bank prepared in accordance with Belarusian rules for maintaining accounting records. The Bank had BYN 375,352 thousand of undistributed and unreserved earnings as at 31 December 2019 (2018: BYN 303,746 thousand).

Nature and purpose of other reserves

The revaluation reserve for buildings is used to record increases in the fair value of buildings and decreases to the extent that such decrease relates to an increase on the same asset previously recognized in equity.

The revaluation reserve for securities records changes in the fair value investments available for sale (before 1 January 2018) and financial assets at FVOCI (after 1 January 2018).

(Thousands of Belarusian rubles, unless otherwise indicated)

23. Equity (continued)

Nature and purpose of other reserves (continued)

Movements in other reserves were as follows:

	Revaluation reserve for buildings	*Revaluation reserve for securities*	*Total*
1 January 2018	**22,771**	**22,953**	**45,724**
Revaluation of buildings	(9,429)	–	**(9,429)**
Tax effect of revaluation of buildings	(219)	–	**(219)**
Amortization of revaluation reserve	(305)	–	**(305)**
Amortization of income tax	7	–	**7**
Decrease of revaluation reserve and tax effect of revaluation of buildings due to disposal of a subsidiary	(79)	–	**(79)**
Net change in the fair value of debt instruments at FVOCI	–	(11,375)	**(11,375)**
Change in the allowance for ECL on debt instruments at FVOCI	–	(652)	**(652)**
31 December 2018	**12,746**	**10,926**	**23,672**
Effect of adoption of IFRS 9	–	–	**–**
Balance at 1 January 2019 restated in accordance with IFRS 9	**12,746**	**10,926**	**23,672**
Revaluation of buildings	–	–	**–**
Tax effect of revaluation of buildings	–	–	**–**
Amortization of revaluation reserve	(198)	–	**(198)**
Amortization of income tax	9	–	**9**
Decrease of revaluation reserve and tax effect of revaluation of buildings due to disposal of property and equipment	(10,055)	–	**(10,055)**
Net change in the fair value of debt instruments at FVOCI	–	6,982	**6,982**
Change in the allowance for ECL on debt instruments at FVOCI	–	(2,291)	**(2,291)**
31 December 2019	**2,502**	**15,617**	**18,119**

24. 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. 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

24. Commitments and contingencies (continued)

Operating environment (continued)

In 2019, the Belarusian government and the National Bank of the Republic of Belarus remained focused on the stabilization of the financial market. The National Bank of the Republic of Belarus lowered key interest rates in 2019. 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 – 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 Belarusian government's debt continued to increase. As at 1 January 2020, it totaled BYN 44.8 billion. That was BYN 0.6 billion less than at the beginning of the year. In 2019, the Bank'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 in 2019 (2018: 3% year-on-year). In 2019, the consumer price index for goods and services was 4.7%; gold and foreign currency reserves of the Republic of Belarus increased by USD 2.2 billion, or 31.2%, in 2019 to USD 9.394 billion as at 1 January 2020 (in 2018, the reserves decreased by USD 157.7 million, or 2.2%). Apart from that, the National Bank of Republic of Belarus and the Ministry of Finance issued foreign currency bonds on the domestic market and placed Eurobonds on external financial markets. In 2019, the BYN value to a foreign currency basket decreased by 2.74% (2018: decreased by 1.1%) as follows: EUR/BYN exchange rate rose by 4.89% (2018: 5%), USD/BYN exchange rate increased by 2.60% (2018: 9.5%), RUB/BYN exchange rate decreased by 9.36% (2018: decreased by 9.2%). Uncertainty in relations with the Russian Federation created additional negative pressure on the economy. For the first time in recent years, the Republic of Belarus did not enter into long-term oil supply contracts with the Russian Federation in 2020. That will result in inevitable losses for refineries and petrochemical industry in general. If the oil dispute with the Russian Federation is protracted, the government will need to act decisively to achieve economic targets. The partial replacement of Russian oil with more expensive oil from other countries will inevitably lead to a rise in fuel prices in the domestic market; and therefore, it may accelerate inflation. While management of the Bank believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected deterioration in the areas described above could negatively affect the performance and financial position of the Bank and its counterparties. The degree of such impact on the Bank's consolidated financial statements cannot currently be determined.

Legal

In the ordinary course of business, the Bank 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 Bank.

Taxation

Belarusian legislation and regulations regarding taxation and other operational matters, including currency exchange control and customs regulations, continue to evolve. Legislation and regulations are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are usual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. Fiscal periods remain open to review for a period of five calendar years immediately preceding the year of review, and the expired period of the current calendar year. Under certain circumstances, reviews may cover longer periods. As a result, additional taxes, penalties and interest may be assessed by the supervisory authorities. The Belarusian tax legislation ensures control over transfer pricing and sets out requirements to transfer pricing reporting. Tax authorities may assess additional income tax liabilities in respect of all controlled transactions if they believe that prices applied in such transactions differ from market prices. Due to the uncertainty and absence of current practice of application of the current transfer pricing legislation in the Republic of Belarus, it is impossible to rule out that the tax authorities will challenge the level of prices applied under controlled transactions and assess additional income tax liabilities unless the Bank is able to prove the arm's length nature of prices used in controlled transactions and submits the respective documentary evidence to the tax authorities. However, it is impossible to determine the amount of potential claims from the tax authorities in connection with transfer pricing.

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

Taxes are accrued and settled in accordance with tax legislation of the Republic of Belarus. As at 31 December 2019, management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

(Thousands of Belarusian rubles, unless otherwise indicated)

24. Commitments and contingencies (continued)

Commitments and contingencies

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

	2019	*2018*
Credit related commitments		
Undrawn loan commitments	72,372	524,519
Guarantees	340,919	518,541
Letters of credit	75,215	99,105
	488,506	**1,142,165**
Operating lease commitments		
Not later than 1 year	X	1,458
Later than 1 year and not later than 5 years	X	1,370
More than 5 years	X	–
	X	**2,828**
Commitments and contingencies (before deducting collateral)	**488,506**	**1,144,993**
Less: cash held as security against letters of credit and guarantees	(2,666)	(57,565)
Commitments and contingencies	**485,840**	**1,087,428**

Movements in allowances for ECL for the year ended 31 December 2019 were as follows:

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2019	**741**	**5**	**630**	**1,376**
New exposures	43	1	3	**47**
Expired exposures	(410)	(3)	(432)	**(845)**
Transfers to Stage 1	197	(1)	(196)	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Charge	(505)	7	5	**(493)**
Exchange differences	4	1	1	**6**
31 December 2019	**70**	**10**	**11**	**91**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Allowance for ECL at 1 January 2019	**190**	**–**	**3,630**	**3,820**
New exposures	329	–	–	**329**
Expired exposures	(119)	–	(3,630)	**(3,749)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Charge	(77)	1	–	**(76)**
Exchange differences	20	–	–	**20**
31 December 2019	**343**	**1**	**–**	**344**

(Thousands of Belarusian rubles, unless otherwise indicated)

24. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2019	**1,854**	**3,022**	**792**	**5,668**
New exposures	1,472	–	–	**1,472**
Expired exposures	(1,318)	(15)	(68)	**(1,401)**
Transfers to Stage 1	1,973	(1,874)	(99)	**–**
Transfers to Stage 2	(40)	40	–	**–**
Transfers to Stage 3	–	–	–	**–**
Reversal	(2,207)	(586)	(135)	**(2,928)**
Exchange differences	105	36	30	**171**
31 December 2019	**1,839**	**623**	**520**	**2,982**

Movements in allowances for ECL for the year ended 31 December 2018 were as follows:

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**659**	**400**	**3,773**	**4,832**
New exposures	653	4	428	**1,085**
Expired exposures	(381)	(143)	(3,556)	**(4,080)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(1)	1	–	**–**
Transfers to Stage 3	(1)	–	1	**–**
Reversal	(224)	(257)	(46)	**(527)**
Exchange differences	36	–	30	**66**
31 December 2018	**741**	**5**	**630**	**1,376**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**402**	**32**	**155**	**589**
New exposures	180	–	3,630	**3,810**
Expired exposures	(248)	(32)	(155)	**(435)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	–	–	–	**–**
Reversal	(153)	–	(175)	**(328)**
Exchange differences	9	–	175	**184**
31 December 2018	**190**	**–**	**3,630**	**3,820**

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Allowance for ECL at 1 January 2018	**1,975**	**4,830**	**1,931**	**8,736**
New exposures	1,165	341	36	**1,542**
Expired exposures	(1,075)	(33)	(1,629)	**(2,737)**
Transfers to Stage 1	3,472	(3,472)	–	**–**
Transfers to Stage 2	(150)	150	–	**–**
Transfers to Stage 3	(77)	–	77	**–**
Reversal	(342)	(636)	(31)	**(1,009)**
Effect on ECL at the period-end due to transfers between stages during the period	(3,203)	1,697	370	**(1,136)**
Exchange differences	89	145	38	**272**
31 December 2018	**1,854**	**3,022**	**792**	**5,668**

(Thousands of Belarusian rubles, unless otherwise indicated)

24. Commitments and contingencies (continued)

Commitments and contingencies (continued)

Many of the above credit related commitments may be terminated without being performed partially or in full. Therefore, the above credit related commitments do not represent an expected cash outflow. Majority of loan and credit line commitments are not absolute covenants of the Bank.

Capital expenditures

As at 31 December 2019, Bank BelVEB OJSC had no capital expenditure commitments.

As at 31 December 2018, Bank BelVEB OJSC had capital expenditure commitments in the amount of BYN 25 thousand, related to the renovation of its office building.

25. Net fee and commission income

Net fee and commission income comprises:

	2019	*2018*
Settlement transactions	80,295	77,142
Guarantees and letters of credit	16,189	13,375
Operations with securities	86	95
Other	4,210	3,948
Fee and commission income	**100,780**	**94,560**
Settlement transactions	(28,172)	(28,259)
Guarantees and letters of credit	(2,916)	(3,709)
Operations with securities	(65)	(53)
Other	(6,572)	(1,389)
Fee and commission expense	**(37,725)**	**(33,410)**
Net fee and commission income	**63,055**	**61,150**

Revenue from contracts with customers

The Bank's revenue from contracts with customers is mainly presented by fee and commission income. Revenue from contracts with customers recorded in the consolidated statement of profit or loss for the year ended 31 December 2019 and 2018 was as follows:

	2019	*2018*
Fee and commission income	100,780	94,560
Total revenues from contracts with customers	**100,780**	**94,560**

The Bank recognized the following contractual liability related to contracts with buyers/customers in the consolidated statement of financial position:

	2019	*2018*
Deferred income (presented within other liabilities)	4,496	4,044

(Thousands of Belarusian rubles, unless otherwise indicated)

26. Other income

	2019	*2018*
Collection of debts previously written off	57,838	16,747
Income of subsidiaries from sales of goods / provision of services	6,711	7,455
Insurance income	4,371	4,311
Penalties received	1,439	1,095
Dividends	79	73
Income from lease of investment property	–	243
Other	385	1,790
Total other income	**70,823**	**31,714**

27. Personnel and other operating expenses

Personnel expenses, other employee benefits and other operating expenses comprise:

	2019	*2018*
Salaries and bonuses	58,166	52,776
Social security costs	14,821	15,347
Provision for future payments	98	293
Personnel expenses	**73,085**	**68,416**
Data processing	17,711	14,940
Contributions to the Agency of Deposits Compensation	7,375	7,173
Maintenance of property and equipment	6,164	5,460
Insurance	5,466	5,079
Loss from disposal of property and equipment, intangible assets and other assets	3,623	4,266
Entertainment	3,408	802
Office supplies, maintenance and rent	3,570	5,154
Professional services	3,396	2,331
Loss on impairment of investments in an associate	3,098	–
Consultancy and information costs	1,571	776
Telecommunication services	1,510	1,231
Contributions to trade union	1,470	1,351
Security	1,392	1,698
Transportation of cash	1,370	1,065
Expenses related to material assistance payments to retired employees	1,363	920
Transportation expenses	731	542
Expenses on pension insurance	509	1,242
Charity	297	210
Expenses related to current activities of subsidiaries	283	2,536
Expenses on disposal of non-current assets held for sale	23	71
Other	6,489	7,349
Loss from impairment of property and equipment	–	101
Loss from revaluation of property and equipment	–	4,534
Free of charge transfer of assets	–	50
Other operating expenses	**70,819**	**68,881**

28. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank’s continuing activity and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Bank is also subject to operating risks and other non-financial risks (reputation and strategic risks).

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Introduction (continued)

Risk management structure

Supervisory Board

The Supervisory Board of Bank BelVEB OJSC ensures the risk management system organization, controls the overall level of risk and the state of risk management system of the Bank, approves the limits system, states risk tolerance, risk-appetite, makes other decisions concerning risk management covering its terms of reference.

Risk Committee of the Supervisory Board

The Risk Committee of the Supervisory Board of Bank BelVEB OJSC provides the qualitative preparation of Supervisory Board decisions under the issues of organization and improvement of risk management system, submits the report to the Supervisory Board about risk management system position and the level of risk of the Bank together with recommendation under the management of the risk at least once a year.

Strategic Planning Committee of the Supervisory Board

The Committee is primarily responsible for providing recommendations to the Supervisory Board for determining the strategic goals of the Bank, as well as its key objectives and priority areas.

Management Board

The Management Board is responsible for organizing the risk management framework and ensuring the Bank's compliance with relevant objectives and goals set by the Supervisory Board of Bank BelVEB OJSC.

Risk Management Officer

Risk management officer is responsible for the risk management system, timely identification, assessment and measures to limit the risks, controlling the risks level and the key risk indicators of the Bank.

Financial Committee

The Financial Committee of the Bank develops and implements the current and long-term asset and liability management policies, including an interest rates policy, a tariff policy, a liquidity risk and liquidity management policy. It manages portfolio interest rate and market risks to ensure operational efficiency. The Committee manages equity and maintains capital adequacy to cover risks.

Large Credit Committee

The Large Credit Committee of Bank BelVEB OJSC provides effective and immediate activities to negotiate credit policy of the Bank, makes decisions within its competence on carrying out active operations.

Small Credit Committee

The Small Credit Committee of Bank BelVEB OJSC makes decisions within its competence on carrying out active operations.

Distressed Assets Committee

The Committee's aim is to ensure efficient management of doubtful and potentially doubtful debt of the Bank.

Operational Risk Committee

The Committee coordinates operational risk management to ensure the Bank's financial stability.

Risk Management Department

The Risk Management Department is responsible for independent assessment of banking risks together with methodological and analytical support of risk management process.

28. Risk management (continued)

Introduction (continued)

Underwriting Department

The Underwriting Department performs an independent assessment of applications for lending transactions with corporate customers and individuals for possible risks.

Treasury

Bank Treasury takes part in processes of managing liquidity risk, interest rates risk of the bank portfolio and currency risk.

Audit Committee of the Supervisory Board

The Audit Committee of the Supervisory Board of Bank BelVEB OJSC performs the overall management of internal control system, the Internal Audit Department of the Bank.

Internal Audit Department

The Internal Audit Department assesses the effectiveness of the risk management system, including the verification of the completeness and correctness of the application of the banking risks methods and the process of the Bank risk management, proposes variants of increasing the effectiveness of the Bank risk management during the audit. The Internal Audit Department informs the Risk Committee of the Supervisory Board and the Risk Management Department about the audit results.

Risk assessment and reporting systems

The risk assessment is performed by the Bank for each major type of risk.

Together with the standard evaluation methods regarding the determination of regulatory capital adequacy set by the National Bank of the Republic of Belarus and applied to credit, market, operational and liquidity risks, the Bank also uses the following methods of assessment:

- value-at-Risk (VaR) (currency risk)
- approach based on the internal credit ratings of the borrower, scoring (credit risk)
- gap analysis, duration (interest rate risk of the bank portfolio)
- gap analysis, ratio analysis, the method of analysis of expected cash (payment) flows (liquidity risk)
- analysis of operational risk implementation facts per risk objects and expert assessment (operational risk)

Risk calculation methods based on key risk indicators that have been developed for significant types of risks (operational, strategic, currency, interest rate, commodity, liquidity and reputational risks).

The Bank performs stress-testing procedures of banking risks, which allow estimating the potential impact of number of shocks, i.e. changes in risk factors representing exceptional but probable events on the Bank's financial performance. Valuation techniques for every type of risks, including their composition and sources used in assessment for each of them, as well as stress-testing methodology, are specified in local normative documents of the Bank relating to management of different risk types. Monitoring and controlling risks is primarily based on the limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition the Bank monitors and estimates the overall risk bearing capacity in relation to the aggregate risk exposure across the basic risk types.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented to the Management Board, the Supervisory Board, appropriate committees and to the heads of the departments according to the period defined by the separate local normative documents.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that the Bank's departments have an access to extensive, necessary and up-to-date information.

In the reporting period, the Bank changed approaches to the preparation of management reports (focus on decision-making, use of graphic visualization, mainly in the form of presentations).

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Introduction (continued)

Risk mitigation

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

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to condition changes affecting a particular industry or geographical location. In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

Identified concentrations of credit risks are controlled and managed accordingly.

The Bank is subject to a credit risk, it means a risk of loss, failure to obtain the planned revenues because its customers, clients or counterparties failed to discharge their financial and other property obligations stated in contracts or by the legislation of the Republic of Belarus.

Credit risk is the most significant type of the risk for the Bank. Its management, as well as monitoring the quality of loan portfolio is given a special attention.

Credit risk

The Bank manages credit risk by:

- diversification of duties and responsibilities between representatives and executives bodies, committees, officials and Bank`s departments in sphere of the credit risk management
- set-up of adequate and appropriate to interests of the Bank system of lending to legal entities and individual entrepreneurs, individuals, the limits setting system for transactions subject to credit risk
- establishment the unified methodology of credit risk identification and assessment
- realization of the interest rates policy, that allows to cover a loss and Bank's debt capital cost
- implementation of qualitative and timely analysis of the state and dynamics loan portfolio, secure functioning thresholds, which characterize the level of credit risk
- the implementation of stress-testing and identification the factors which influence the changes of credit risk level
- formation of fulfillment of obligations during the active operations
- creation of the regular and timely system of providing with the information about the level of credit risk to the Superior Credit Committee, the Management Board and the Supervisory Board.

The Bank has established the system of internal ratings of corporate clients, which provides a differentiated assessment of the probability of the debtors default based on the analysis of qualitative and quantitative credit risk factors, their impact on the debtor's ability to maintain and repay the liabilities.

Decisions on separate standard products for individuals are made based on the scoring model of individual solvency assessment developed in the Bank.

To improve quality of the new credit products the Bank working further on the ratings and scoring models. For the purpose of improvement of the reliability and efficiency of the process of credit risk assessment the methods of calculation and assignment of the internal ratings for the legal entities has been developed by the Bank. The scoring card has been amended based on statistical analysis of the issued loans in order to improve the classifying ability and the efficiency of the scoring model.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

The Bank controls credit risk by setting limits per borrower or group of related borrowers, concentration limits for the 20 largest corporate customers, for industries and others.

Concentration of credit risk limits are approved by the credit policy of the Bank and undergo regular review (at least once a year). Monitoring of these limits is made on a monthly basis as part of the preparation of management reports on the quality of the Bank's loan portfolio.

Covering accepted credit risk is carried out by formation of special allowances. The risk assessment is carried out by the Bank individually for each borrower on the basis of criteria of debtor's ability to meet its obligations, the quality and adequacy of submitted collateral and duration of overdue debt. The Underwriting Department controls the completeness and accuracy of judgment for the classification (reclassification) of assets and contingencies of the corporate clients by their risk groups.

For contingencies the Bank uses the same credit policy as it does for on-balance financial instruments, which is based on transaction approving procedures, procedures of using restricting risk limits, and monitoring procedures.

Credit related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the concluded agreements. They expose the Bank to similar risks to loans and these are mitigated by the same control procedures and the risk control policy.

The carrying amount of the consolidated statement of financial position, including derivative financial instruments, excluding the effect of risk mitigation through the use of master netting and collateral agreements, most accurately reflects the maximum credit risk exposure for these lines. 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 detailed information on the maximum exposure to credit risk for each class of financial instruments are provided in the specific notes.

Impairment assessment

In accordance with IFRS 9 the Bank applies the expected credit losses model to provide for financial instruments. The core principle of the model is timely recognition of deterioration or improvement of the credit quality of financial instruments taking into account current information and forecasts. The amount of expected credit losses recorded as an allowance for impairment is based on the degree of deterioration in the credit quality of the financial instrument after its initial recognition.

As part of an overall approach, the allowance for impairment is accrued based on the following:

- ► Expected credit losses during the year - for financial instruments, for which there are no factors indicating a significant deterioration in the credit quality after the initial recognition and no impairment indicators
- ► Expected credit losses during the lifetime of a financial instrument - for financial instruments, for which factors indicating a significant increase in credit risk or impairment indicators were identified.

The key elements of the expected credit losses (ECL) model in accordance with IFRS 9 are as follows:

Probability of default (PD)	The *probability of default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the asset has not been previously derecognized and is still in the portfolio.
Exposure at default (EAD)	The *exposure at default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
Loss given default (LGD)	The *loss given default* is an estimate of the loss arising in the case where 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.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since the initial recognition, otherwise the allowance is based on the amount equal to 12-month expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either a collective basis (for financial instruments, for which no impairment indicators have been identified (Stage 1 and Stage 2) and for financial instruments related to retail business), or on an individual basis (for financial instruments, for which impairment indicators have been identified (Stage 3)).

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the changes in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans as follows:

Stage 1: When a financial instrument is first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 also includes financial instruments, for which there are no factors indicating an increase in credit risk and no impairment indicators, and financial instruments, for which credit quality has improved (recovery condition has been met) to reach the level of Stage 1 financial instruments, if factors indicating a significant increase in credit risk (Stage 2) were identified at prior reporting dates.

Stage 2: If there has been a significant increase in credit risk for the loan since its initial recognition, the Bank recognizes an estimated allowance in the amount equal to LTECL. Stage 2 also includes financial instruments, for which credit quality has improved to reach the level of Stage 2 financial instruments, if impairment indicators were identified at prior reporting dates (Stage 3).

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. The allowance for ECL is only recognized or derecognized to the extent that there is a subsequent change in the lifetime expected credit losses.

Internal rating and PD estimation process

The internal rating models are developed and applied by the Bank's Risk Management Department. The rating model represents a set of rules for customer sampling, obtaining quantitative and qualitative indicators, indicator intervals and points assigned within an interval, weight coefficients for quantitative and qualitative indicators and for total quantitative and qualitative assessments, logistic function coefficients and rating scale.

The rating scale comprises ten rating categories. The first category corresponds to the lowest risk level and the tenth category corresponds to the highest risk level (default). The rating category is determined based on the interval where the customer's PD is located between upper and lower values of the PD range. The tenth category (default) is assigned in case of customer default and based on the results of rating calculation.

The rating model parameters (qualitative and quantitative indicators used to calculate the final rating point, their intervals, assigned points, weight coefficients, logistic function coefficients by group of customers), the indicator that shows whether the government is ready to support the client, and the levels of increase or decrease in customer's rating in case of alerts that indicate deterioration in customer's financial position and that can be used to forecast default or a significant increase in the probability of default, are approved by the Management Board of the Bank based on suggestions of the Risk Management Department and represent restricted information.

Definition of default and recovery of credit quality

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired assets) for ECL calculations in all cases when the borrower becomes more than 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations. Such events include the following:

- The procedure for default restructuring was initiated and/or implemented
- The borrower (individual) is deceased
- The borrower's property is taken to the balance sheet of the Bank to pay off the debt (including a portion of the debt)
- Negative information exists regarding the borrower's ability to fulfill its obligations to the Bank
- Internal rating of the borrower indicates default or near-default.

In accordance with the Bank's policy and provided that recovery conditions are met, when at least three consecutive payments are made to the Bank to repay the debt in full and in a timely manner continuously in accordance with the contractual terms during at least 12 months when there were no factors indicating a significant increase in credit risk (for the recovery from Stage 2 to Stage 1) or no impairment indicators (for the recovery from Stage 3 to Stage 2), financial instruments can be included in Stage 2 or Stage 1, respectively.

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 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

Loss given default

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. There is a standard LGD indicator for each quality category of security and internal rating of the counterparty. A 100% LGD is used for financial institutions.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers that there has been a significant increase in credit risk for the financial instrument since its initial recognition, when there is an actual and/or expected decrease in internal rating to 7 and lower for the clients having the internal ratings of 1-5, to 8 and lower for the clients having the internal rating of 6, or a decrease by one or more categories for the clients having the internal ratings 7-9.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The class of assets that is used to calculate ECL on an individual basis includes all Stage 3 assets and POCI assets.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- Real GDP growth rate for 12 months, %
- BYN/USD exchange rate
- Average interest rate on loans, %
- Increase in CPI for 12 months, %

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

The Bank uses the forward-looking information from third party sources (external rating agencies, governmental bodies, central banks, and international financial institutions) and makes a short-term macroeconomic forecast. The results of the macroeconomic forecast are used in the ECL model. Weight coefficients attributable to multiple scenarios are determined using an expert judgment. The tables show the values of the key forward-looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

Key drivers	*ECL scenario*	*Assigned probability, %*	*Q1 2020*	*Q2 2020*	*Q3 2020*	*Q4 2020*
Real GDP growth rate for 12 months, %			101.5	102.0	102.5	102.8
Average interest rate on loans, %	Base case	0.6	11.0	10.8	10.6	10.5
Increase in CPI for 12 months, %			4.7	4.8	4.9	5.0
BYN/USD exchange rate			2.23	2.24	2.24	2.2447
Real GDP growth rate for 12 months, %			101.0	100.5	100.0	99.5
Average interest rate on loans, %	Stressed	0.2	11.0	11.2	11.4	11.5
Increase in CPI for 12 months, %			4.6	4.4	4.2	4.0
BYN/USD exchange rate			2.25	2.35	2.40	2.45
Real GDP growth rate for 12 months, %			102.0	102.5	103.0	103.5
Average interest rate on loans, %	Upside	0.2	10.9	10.6	10.3	10.0
Increase in CPI for 12 months, %			5.0	5.2	5.4	5.5
BYN/USD exchange rate			2.20	2.20	2.20	2.20

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The grade is assigned based on the probability of default. Stage 3 loans and POCI assets have low grade.

The Bank uses the following quality categories for financial assets.

Minimal estimated PD	*Maximum estimated PD*	*Quality scale*
0.00%	2.00%	High grade
2.00%	12.50%	Standard grade
12.50%	33.00%	Substandard grade
33.00%	100.00%	Low grade

The table below shows the credit quality by class of assets for loan-related lines in the consolidated statement of financial position, based on the Bank's credit grading system. The gross carrying amount was calculated in accordance with IFRS 9 at 31 December 2019 based on the Bank's credit grading system.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

	Note	*Stage*	*High grade*	*Standard grade*	*Substan-dard grade*	*Low grade*	*Total*
Cash and cash equivalents	6	Stage 1	**761,998**	**–**	**–**	**–**	**761,998**
Amounts due from credit institutions	7						
		Stage 1	–	37,108	–	–	**37,108**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	–	**–**
Total amounts due from credit institutions at amortized cost			**–**	**37,108**	**–**	**–**	**37,108**
Investment securities	10						
Debt securities at FVOCI		Stage 1	414,902	–	–	–	**414,902**
		Stage 2	–	–	–	–	**–**
		Stage 3	–	–	–	–	**–**
Total investment securities			**414,902**	**–**	**–**	**–**	**414,902**
Loans to customers at amortized cost	9						
Corporate lending							
		Stage 1	1,648,589	292,041	–	–	**1,940,630**
		Stage 2	116,319	192,431	–	–	**308,750**
		Stage 3	662	12,487	–	121,877	**135,026**
		POCI	–	3,221	–	29,001	**32,222**
Small and medium business lending							
		Stage 1	536,488	99,988	448	–	**636,924**
		Stage 2	9,241	52,345	96	37	**61,719**
		Stage 3	180	17,196	–	16,078	**33,454**
		POCI	–	168	–	1,166	**1,334**
Consumer lending							
		Stage 1	246,472	60	2,552	2	**249,086**
		Stage 2	307	–	348	1,458	**2,113**
		Stage 3	96	–	26	4,024	**4,146**
		POCI	–	–	–	–	**–**
Residential mortgages							
		Stage 1	81,586	157	–	–	**81,743**
		Stage 2	20	12	14	–	**46**
		Stage 3	–	–	–	6	**6**
		POCI	–	–	–	–	**–**
Total loans to customers at amortized cost			**2,639,960**	**670,106**	**3,484**	**173,649**	**3,487,199**
Credit related commitments and contingencies	24						
Undrawn loan commitments		Stage 1	51,283	19,196	196	1,469	**72,144**
		Stage 2	9	175	–	4	**188**
		Stage 3	40	–	–	–	**40**
Letters of credit		Stage 1	74,748	208	–	–	**74,956**
		Stage 2	260	–	–	–	**260**
		Stage 3	–	–	–	–	**–**
Guarantees		Stage 1	288,000	33,820	10,454.00	–	**332,274**
		Stage 2	–	6,527	–	1,252	**7,779**
		Stage 3	–	–	–	865	**865**
Total credit related commitments and contingencies			**414,340**	**59,926**	**10,650**	**3,590**	**488,506**

The table below shows the credit quality by class of assets for loan-related lines in the consolidated statement of financial position, based on the Bank's credit grading system. The gross carrying amount was calculated in accordance with IFRS 9 at 31 December 2018 based on the Bank's credit grading system.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

	Note	*Stage*		*High grade*	*Standard grade*	*Substandard grade*	*Low grade*	*Total*
Cash and cash equivalents	7	Stage	1	**–**	**623,805**	**–**	**–**	**623,805**
Amounts due from credit institutions	8							
		Stage	1	–	62,214	–	–	**62,214**
		Stage	2	–	–	–	–	**–**
		Stage	3	–	–	–	–	**–**
Total amounts due from credit institutions				**–**	**62,214**	**–**	**–**	**62,214**
Investment securities	10							
Debt securities at FVOCI		Stage	1	555,837	–	–	–	**555,837**
		Stage	2	–	–	–	–	**–**
		Stage	3	–	–	–	–	**–**
Total investment securities				**555,837**	**–**	**–**	**–**	**555,837**
Loans to customers at amortized cost	9							
Corporate lending				**1,263,936**	**680,509**	**7,421**	**276,452**	**2,228,318**
		Stage	1	1,194,542	443,870	17	–	**1,638,429**
		Stage	2	69,394	236,639	7,404	–	**313,437**
		Stage	3	–	–	–	249,490	**249,490**
			POCI	–	–	–	26,962	**26,962**
Small and medium business lending				**375,545**	**89,626**	**66,849**	**72,559**	**604,579**
		Stage	1	326,609	75,044	–	–	**401,653**
		Stage	2	48,936	14,582	66,849	–	**130,367**
		Stage	3	–	–	–	33,477	**33,477**
			POCI	–	–	–	39,082	**39,082**
Consumer lending				**185,206**	**–**	**1,082**	**726**	**187,014**
		Stage	1	184,984	–	894	10	**185,888**
		Stage	2	222	–	188	147	**557**
		Stage	3	–	–	–	569	**569**
			POCI	–	–	–	–	–
Residential mortgages				**67,982**	**414**	**2**	**53**	**68,451**
		Stage	1	67,935	408	–	–	**68,343**
		Stage	2	47	6	2	–	**55**
		Stage	3	–	–	–	53	**53**
			POCI	–	–	–	–	**–**
Total loans to customers at amortized cost				**1,892,669**	**770,549**	**75,354**	**349,790**	**3,088,362**
Total				**2,448,506**	**1,456,568**	**75,354**	**349,790**	**4,330,218**
Credit related commitments and contingencies	25							
Undrawn loan commitments		Stage	1	484,042	35,208	641	723	**520,614**
		Stage	2	3,251	–	–	–	**3,251**
		Stage	3	–	–	–	654	**654**
Letters of credit		Stage	1	63,432	29,605	–	–	**93,037**
		Stage	2	–	–	–	–	–
		Stage	3	–	–	–	6,068	**6,068**
Guarantees		Stage	1	326,792	164,222	–	–	**491,014**
		Stage	2	6	19,496	6,695	–	**26,197**
		Stage	3	–	–	–	1,330	**1,330**
Total credit related commitments and contingencies				**877,523**	**248,531**	**7,336**	**8,775**	**1,142,165**

In the tables above, loans to banks and customers of high grade are those having a minimal level of credit risk. Other borrowers with good financial position and good debt service are included in the standard grade. Substandard grade comprises loans below the standard grade but not individually impaired. For debt securities high grade is equivalent to Moody's Baa3 rating and above, standard –below Baa3 but above B3, substandard – below B3.

An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Credit risk (continued)

Aging analysis of past due but not impaired loans by class of financial assets

	Less than 30 days 2019	*31 to 60 days 2019*	*61 to 90 days 2019*	*More than 90 days 2019*	*Total 2019*
Loans to customers					
Corporate lending	178	64	1	–	**243**
Residential mortgages	169	22	12	–	**203**
Consumer lending	2,818	851	670	–	**4,339**
Small and medium business lending	242	340	96	–	**678**
Total	**3,407**	**1,277**	**779**	**–**	**5,463**

	Less than 30 days 2018	*31-60 days 2018*	*61 to 90 days 2018*	*More than 90 days 2018*	*Total 2018*
Loans to customers					
Residential mortgages	431	5	2	–	**438**
Consumer lending	999	151	180	–	**1,330**
Small and medium business lending	338	5	–	–	**343**
Total	**1,768**	**161**	**182**	**–**	**2,111**

See Note 9 for information with respect to the allowance for impairment of loans to customers.

Financial guarantees and letters of credit are also tested for impairment, and provisions are made in a similar manner as for loans.

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

	2019				*2018*			
	Belarus	*OECD*	*CIS and other foreign banks*	*Total*	*Belarus*	*OECD*	*CIS and other foreign banks*	*Total*
Assets								
Cash and cash equivalents	618,250	32,188	159,195	**809,633**	499,212	101,582	84,830	**685,624**
Amounts due from credit institutions	31,160	985	33,278	**65,423**	28,765	992	32,348	**62,105**
Loans to customers	3,406,972	3,484	136	**3,410,592**	2,883,177	–	–	**2,883,177**
Investment securities	414,902	–	–	**414,902**	556,286	–	–	**556,286**
Derivative financial assets	–	–	73	**73**	–	–	–	**–**
Other financial assets	3,215	–	–	**3,215**	16,704	11	–	**16,715**
	4,474,499	**36,657**	**192,682**	**4,703,838**	**3,984,144**	**102,585**	**117,178**	**4,203,907**
Liabilities								
Amounts due to credit institutions	102,322	106,049	1,085,004	**1,293,375**	153,186	212,886	934,168	**1,300,240**
Amounts due to the National Bank of the Republic of Belarus	21	–	–	**21**	22	–	–	**22**
Amounts due to customers	2,271,521	66,367	203,112	**2,541,000**	2,029,081	30,768	132,855	**2,192,704**
Derivative financial liability	–	–	1,258	**1,258**	–	–	–	**–**
Debt securities issued	46,767	–	–	**46,767**	102,928	–	–	**102,928**
Lease liabilities	4,195	–	–	**4,195**	X	X	X	**X**
Other financial liabilities	22,429	–	–	**22,429**	16,943	–	–	**16,943**
Subordinated debt	–	–	212,600	**212,600**	–	–	220,461	**220,461**
	2,447,255	**172,416**	**1,501,974**	**4,121,645**	**2,302,160**	**243,654**	**1,287,484**	**3,833,298**
Net assets and liabilities position	**2,027,244**	**(135,759)**	**(1,309,292)**	**582,193**	**1,681,984**	**(141,069)**	**(1,170,306)**	**370,609**

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Liquidity risk and funding management

Liquidity risk is the probability of the losses, failure to obtain the planned revenues due to the inability to ensure the timely performance of the obligations in full.

Liquidity risk management process includes identification, measurement (assessment) and stress testing, limitation, monitoring and control of the liquidity risk, a system of key indicators, financing plans in crises, the disclosure of liquidity risk.

The Bank has developed a number of documents which regulate issues of liquidity risk management and liquidity position, management define goals, objectives, principles and methods of management, the division of responsibility between departments and procedures of interaction between them on liquidity risk management and liquidity position.

The liquidity risk is managed and controlled by the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board, the Finacial Committee, the official responsible for risk management at Bank BelVEB OJSC, the Risk Management Department, the Bank Treasury, the Department of Operations in the Financial Markets, the Finance and Economic Department and the Internal Audit Department.

Bank BelVEB OJSC performs daily monitoring of the implementation of regulations set by the National Bank of the Republic of Belarus, local liquidity risk limits, prepares a management report on liquidity risk.

The Bank takes into account the interaction between the risk of funding liquidity and market liquidity risk, which it is exposed, and provides a comprehensive assessment of the liquidity risk that includes an analysis of the balance sheet structure, cash flow forecasting, in all material balance and off-balance positions and activities both under normal conditions and in stressful situations.

The Bank uses payment calendars to manage its current liquidity position. To monitor the risk of loss of liquidity, the Bank monitors the limits of liquidity deficit as well as the key indicators of liquidity risk.

The assets and liabilities formation is based on the principle of diversification of sources and destinations, the volume and terms of attraction and allocation. The main external sources of financing are the resources of the parent bank − the State Development Corporation VEB.RF.

Maintaining funding sources and increase in the resource base of the Bank is provided by improving the quality of customer service, offering new products, providing more flexible conditions of deposit contracts.

The Bank maintains a sufficient liquidity to meet all the requirements of the National Bank of the Republic of Belarus and perform its obligations to clients in a timely manner.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on certain liquidity ratios established by the National Bank of the Republic of Belarus. As at 31 December, these ratios were as follows:

	Minimum value	***2019***	***2018***
Liquidity Coverage Ratio	Min. 100%	138.6%	167.1%
Net Stable Funding Ratio	Min. 100%	129.2%	116.7%

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities as at 31 December based on contractual undiscounted repayment obligations. Exception is made for derivatives settled through delivery of their underlying asset which are shown by amounts payable and receivable and contractual maturity. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. The table does not reflect the expected cash flows indicated by the Bank’s deposit retention history.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities At 31 December 2019	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	610,477	497,016	221,449	1,387	**1,330,329**
Amounts due to the National Bank of the Republic of Belarus	21	–	–	–	**21**
Gross settled derivative financial instruments:					
- contractual amounts receivable	(231,608)	(71,350)	–	–	**(302,958)**
- contractual amounts payable	231,625	70,572	–	–	**302,197**
Amounts due to customers	1,287,448	868,957	421,898	2,305	**2,580,608**
Debt securities issued	9,823	27,738	16,828	–	**54,389**
Other liabilities	13,341	3,037	4,461	1,590	**22,429**
Lease liabilities	565	881	2,662	265	**4,373**
Subordinated debt	–	15,343	245,543	–	**260,886**
Total undiscounted financial liabilities	**1,921,692**	**1,412,194**	**912,841**	**5,547**	**4,252,274**

Financial liabilities At 31 December 2018	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Amounts due to credit institutions	365,871	344,988	643,932	3,072	**1,357,863**
Amounts due to the National Bank of the Republic of Belarus	22	–	–	–	**22**
Amounts due to customers	912,249	734,930	577,697	2,974	**2,227,850**
Debt securities issued	100,944	3,678	–	–	**104,622**
Other liabilities	9,261	2,037	5,317	328	**16,943**
Subordinated debt	–	17,286	238,519	35,150	**290,955**
Total undiscounted financial liabilities	**1,388,347**	**1,102,919**	**1,465,465**	**41,524**	**3,998,255**

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

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2019	355,958	56,398	54,623	21,527	**488,506**
2018	327,678	261,090	377,948	175,449	**1,142,165**

Market risk

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

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than 3 months in the tables above.

Market risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions related to the trade portfolio, foreign currency denominated positions and commodities due to changes in market interest rates, exchange rates, securities quotations, commodity prices and other factors.

The Bank is exposed to market risks due to the effect of general or specific market changes on its products. The Bank manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate limits on the tolerable loss. With the exception of foreign currency positions, the Bank has no significant concentration of market risk.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

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 Bank has developed a number of documents which in generally organizes risk management process. The Financial Committee determines process of resource attraction and placement based on monitoring of the corresponding sectors in the banking sector.

Treasury performs analysis of volume-time structure of the Bank's balance and interest rate levels in the context of risk management process. Risk Management Departments performs independent assessment of the Bank's exposure to interest rate risk and stress testing of risk tolerance.

The following table demonstrates the sensitivity to reasonable possible changes in interest rates, with all other variables held constant, of the Bank's consolidated statement of profit or loss.

The sensitivity of the consolidated 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 floating rate non-trading financial assets and financial liabilities held as at 31 December. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets as at 31 December for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2019*	*Sensitivity of profit or loss 2019*	*Sensitivity of equity less effect on profit or loss 2019*
BYN	+250	(2,790)	–
USD	+35	45	(1,219)
EUR	+15	282	(315)

Currency	*Decrease in basis points 2019*	*Sensitivity of profit or loss 2019*	*Sensitivity of equity less effect on profit or loss 2019*
BYN	-250	2,790	–
USD	-35	(45)	1,235
EUR	-15	(282)	318

Currency	*Increase in basis points 2018*	*Sensitivity of profit or loss 2018*	*Sensitivity of equity less effect on profit and loss 2018*
BYN	+250	1,270	–
USD	+50	(2,853)	(2,939)
EUR	+20	(850)	(480)

Currency	*Decrease in basis points 2018*	*Sensitivity of profit or loss 2018*	*Sensitivity of equity less effect on profit or loss 2018*
BYN	-250	(1,270)	–
USD	-15	856	892
EUR	-1	42	24

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Market risk (continued)

Currency risk

Currency risk is the risk of loss resulting from changes in value of on- and off-balance sheet positions nominated in foreign currency, due to the exchange rate changes. The Bank`s positions in precious metals as bank bars are also exposed to currency risk.

Currency risk management system of the Bank provides for the following:

- distributing the responsibilities of currency risk management
- regulating the methods of assessment and stress-testing of currency risk
- preparing daily management reports on currency risk
- setting and controlling position and risk limits and other key indicators to restrict the level of risk.

The table below indicates the currencies to which the Bank had significant exposure as at 31 December 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 ruble, with all other variables held constant, on the consolidated statement of profit or loss. The effect on 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 consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Change in currency rate, % 2019*	*Effect on profit before tax 2019*	*Change in currency rate, % 2018*	*Effect on profit before tax 2018*
USD	+9	750	+10	885
EUR	+9	46	+10	(577)
RUB	+11	901	+13	21

Currency	*Change in currency rate, % 2019*	*Effect on profit before tax 2019*	*Change in currency rate, % 2018*	*Effect on profit before tax 2018*
USD	+4	334	+5	443
EUR	+4	21	+5	(289)
RUB	-11	(901)	-13	(21)

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The management of the Bank believes that the realization of the prepayment risk will not have a material effect on the Bank.

Operational risk

Operational risk is the risk of loss arising from inconsistency of the Bank's local documents of execution banking transactions and operations to the legislation of the Republic of Belarus, or its breach by the employees, incompetence or errors of the Bank's employees, discrepancy or failure the system used by the Bank including information systems, and as result of external factors.

The Bank has established and maintained a comprehensive centralized operational risk management system, which provides for an effective methodology of operational risk management, risk assessment, monitoring, control and restriction of operational risk in accordance with the local documents of the Bank.

Operational risk management functions are fixed at the level of the Bank's management, collegiate bodies, departments and responsible persons.

(Thousands of Belarusian rubles, unless otherwise indicated)

28. Risk management (continued)

Operational risk (continued)

To manage the operational risk, the Bank is maintaining the database of realization of the facts of operational risk. Recommendations for optimization of the business process are generated using this database.

The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks.

29. Fair value measurement

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

		Fair value measurement using			
31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Precious metals	31 December 2019	158	–	–	**158**
Correspondent accounts in precious metals	31 December 2019	28,315	–	–	**28,315**
Investment securities — debt securities at FVOCI	31 December 2019	94,108	320,794	–	**414,902**
Investment securities – equity securities at FVOCI	31 December 2019	–	–	488	**488**
Loans to customers at FVPL	31 December 2019	–	–	44,829	**44,829**
Property and equipment - buildings	31 December 2019	–	–	24,791	**24,791**
Derivative financial assets	31 December 2019	–	73	–	**73**
		122,581	**320,867**	**70,108**	**513,556**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2019	809,633	–	–	**809,633**
Amounts due from credit institutions	31 December 2019	–	37,392	–	**37,392**
Loans to customers	31 December 2019	–	–	3,400,712	**3,400,712**
		809,633	**37,392**	**3,400,712**	**4,247,737**

		Fair value measurement using			
31 December 2019	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities measured at fair value	31 December 2019				
Derivative financial liabilities	31 December 2019	–	1,258	–	**1,258**
Clients' current accounts in precious metals	31 December 2019	28,141	–	–	**28,141**
		28,141	**1,258**	**–**	**29,399**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2019	–	53,512	1,242,660	**1,296,172**
Amounts due to the National Bank of the Republic of Belarus	31 December 2019	–	–	21	**21**
Amounts due to customers	31 December 2019	–	745,384	1,779,992	**2,525,376**
Debt securities issued	31 December 2019	–	–	45,319	**45,319**
Subordinated debt	31 December 2019	–	–	212,251	**212,251**
		–	**798,896**	**3,280,243**	**4,079,139**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Fair value measurement (continued)

31 December 2018	*Date of valuation*	*Fair value measurement using* — *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Precious metals	31 December 2018	334	–	–	**334**
Correspondent accounts in precious metals	31 December 2018	29,158	–	–	**29,158**
Investment securities — debt securities at FVOCI	31 December 2018	–	555,837	–	**555,837**
Investment securities - equity securities at FVOCI	31 December 2018	–	–	449	**449**
Property and equipment - buildings	31 December 2018	–	–	81,254	**81,254**
		29,492	**555,837**	**81,703**	**667,032**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2018	685,624	–	–	**685,624**
Amounts due from credit institutions	31 December 2018	–	32,885	–	**32,885**
Loans to customers	31 December 2018	–	–	2,905,526	**2,905,526**
		685,624	**32,885**	**2,905,526**	**3,624,035**

31 December 2018	*Date of valuation*	*Fair value measurement using* — *Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Liabilities measured at fair value					
Clients' current accounts in precious metals	31 December 2018	28,816	–	–	**28,816**
		28,816	**–**	**–**	**28,816**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2018	–	106,840	1,194,574	**1,301,414**
Amounts due to the National Bank of the Republic of Belarus	31 December 2018	–	–	22	**22**
Amounts due to customers	31 December 2018	–	471,563	1,690,148	**2,161,711**
Debt securities issued	31 December 2018	–	–	102,600	**102,600**
Subordinated debt	31 December 2018	–	–	220,603	**220,603**
		–	**578,403**	**3,207,947**	**3,786,350**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Fair value measurement (continued)

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

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

	Carrying amount 2019	*Fair value 2019*	*Unrecognized gain/loss 2019*	*Carrying amount 2018*	*Fair value 2018*	*Unrecognized gain/loss 2018*
Financial assets						
Cash and cash equivalents	809,633	809,633	–	685,624	685,624	–
Precious metals	158	158	–	334	334	–
Amounts due from credit institutions	65,417	65,392	(25)	62,105	62,043	(62)
Loans to customers	3,410,592	3,445,541	34,949	2,883,177	2,905,526	22,349
Financial liabilities						
Amounts due to credit institutions	1,293,375	1,296,172	(2,797)	1,300,240	1,301,414	(1,174)
Amounts due to the National Bank of the Republic of Belarus	21	21	–	22	22	–
Amounts due to customers	2,541,000	2,553,517	(12,517)	2,192,704	2,190,527	2,177
Debt securities issued	46,767	45,319	1,448	102,928	102,600	328
Subordinated debt	212,600	212,251	349	220,461	220,603	(142)
Total unrecognized change in unrealized fair value			**21,407**			**23,476**

Valuation techniques and assumptions

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

Assets for which fair value approximates their carrying amount

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

Financial assets and financial liabilities carried at amortized cost

Fair value of quoted bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the National Bank of the Republic of Belarus and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Financial assets carried at fair value through profit or loss

The fair value of financial instruments is the present value of all future (expected) cash flows under this instrument at the date of its origination and/or at the reporting date discounted with the market interest rate for this comparable/similar financial instrument.

The market interest rate for this financial instrument or other comparable/similar financial instruments is determined on the basis of available internal and external sources of information depending on the type and nature of a financial instrument.

Movements in Level 3 assets and liabilities at fair value

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

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Fair value measurement (continued)

Movements in Level 3 assets and liabilities at fair value (continued)

	1 January 2019	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*31 December 2019*
Assets							
Investment securities - equity securities at FVOCI	449	–	–	39	–	–	488
Derivative financial assets	–	–	–	73	–	–	73
Loans to customers at FVPL	–	–	–	44,829	–	–	44,829
Property and equipment - buildings	81,254	–	–	–	(55,487)	(976)	24,791
Total Level 3 assets	**81,703**	**–**	**–**	**44,941**	**(55,487)**	**(976)**	**70,181**
Derivative financial liabilities	–	–	–	1,258	–	–	1,258
Total Level 3 liabilities	**–**	**–**	**–**	**1,258**	**–**	**–**	**1,258**
Total Level 3	**81,703**	**–**	**–**	**46,199**	**(55,487)**	**(976)**	**71,439**

	1 January 2018	*Gains recognized in the consolidated statement of profit or loss*	*Gains recognized in other comprehensive income*	*Additions*	*Disposals*	*Depreciation charge*	*31 December 2018*
Assets							
Investment securities available for sale	449	–	–	–	–	–	449
Property and equipment - buildings	96,471	(4,534)	(9,429)	850	(932)	(1,172)	81,254
Total Level 3 assets	**96,920**	**(4,534)**	**(9,429)**	**850**	**(932)**	**(1,172)**	**81,703**
Total Level 3 liabilities	–	–	–	–	–	–	–
Total Level 3	**96,920**	**(4,534)**	**(9,429)**	**850**	**(932)**	**(1,172)**	**81,703**

During the year ended 31 December 2019 and 2018, the Bank did not transfer financial instruments between levels of the fair value hierarchy.

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

	2019			*2018*		
	Realized gains/(losses)	*Unrealized gains/(losses)*	*Total*	*Realized gains/(losses)*	*Unrealized gains/(losses)*	*Total*
Total losses recognized in the consolidated statement of profit or loss	–	–	**–**	–	4,534	**4,534**

(Thousands of Belarusian rubles, unless otherwise indicated)

29. Fair value measurement (continued)

Significant unobservable inputs and sensitivity of Level 3 financial instruments measured at fair value to changes to key assumptions

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

31 December 2019	*Carrying amount*	*Valuation techniques*	*Unobservable inputs*	*Range (weighted average value)*
Loans to customers at FVPL	44,829	Cost is determined using the discounting method on the basis of market interest rates	Discount rate	10.0-12.0
Investment securities at FVOCI				
Equity securities	488	Cost is determined as the cost of investments using appropriate indices	Price of the most recent transaction	Not applicable
Property and equipment				
Buildings	24,791	Cost is determined by an appraiser using the method of comparing sales and capitalization rate of return	Discount for sale	Not applicable
	24,791			

The impact of possible alternative assumptions on measuring the fair value of Level 3 instruments is insignificant.

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

	31 December 2019		*31 December 2018*	
	Carrying amount	*Effect of reasonably possible alternative assumptions*	*Carrying amount*	*Effect of reasonably possible alternative assumptions*
Financial assets				
Loans to customers at FVPL	44,829	from (468) up to 1,020	–	–

Decrease/increase in discount rate (from 9.36% to 13.36%) can result in decrease/increase in the fair value of loans to customers at FVPL.

(Thousands of Belarusian rubles, unless otherwise indicated)

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 based on contractual terms. See Note 28 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Total over 1 year*	*No stated maturity*	*Past due*	*Total*
31 December 2019											
Assets											
Cash and cash equivalents	809,633	–	–	**809,633**	–	–	–	**–**	–	–	**809,633**
Precious metals	158	–	–	**158**	–	–	–	**–**	–	–	**158**
Amounts due from credit institutions	42,848	10,360	6,442	**59,650**	5,589	155	29	**5,773**	–	–	**65,423**
Derivative financial assets	73	–	–	**73**	–	–	–	**–**	–	–	**73**
Loans to customers	272,964	1,227,060	626,695	**2,126,719**	743,887	320,020	204,191	**1,268,098**	–	15,775	**3,410,592**
Investment securities	19,789	6,778	61,009	**87,576**	58,458	145,521	123,346	**327,325**	489	–	**415,390**
Investments in associates and jointly controlled entities	–	–	–	**–**	–	–	–	**–**	5,257	–	**5,257**
Property and equipment	–	–	–	**–**	–	–	–	**–**	51,761	–	**51,761**
Right-of-use assets	–	–	–	**–**	–	–	–	**–**	4,559	–	**4,559**
Intangible assets	–	–	–	**–**	–	–	–	**–**	41,620	–	**41,620**
Income tax assets:											
- current income tax asset	–	654	–	**654**	–	–	–	**–**	–	–	**654**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Other assets	13,789	6,812	2,624	**23,225**	3,555	1,608	554	**5,717**	323	1,587	**30,852**
Total assets	**1,159,254**	**1,251,664**	**696,770**	**3,107,688**	**811,489**	**467,304**	**328,120**	**1,606,913**	**104,009**	**17,362**	**4,835,972**
Liabilities											
Amounts due to credit institutions	318,245	372,826	386,316	**1,077,387**	197,734	16,874	1,380	**215,988**	–	–	**1,293,375**
Amounts due to the National Bank of the Republic of Belarus	21	–	–	**21**	–	–	–	**–**	–	–	**21**
Derivative financial liabilities	269	417	572	**1,258**	–	–	–	**–**	–	–	**1,258**
Amounts due to customers	973,995	677,368	483,944	**2,135,307**	393,166	10,762	1,765	**405,693**	–	–	**2,541,000**
Debt securities issued	–	7,874	25,623	**33,497**	–	13,270	–	**13,270**	–	–	**46,767**
Lease liability	184	788	818	**1,790**	1,418	529	458	**2,405**	–	–	**4,195**
Income tax liabilities:											
- current income tax liabilities	–	3,643	–	**3,643**	–	–	–	**–**	–	–	**3,643**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	18,304	–	**18,304**
Other liabilities	31,840	5,258	1,837	**38,935**	3,970	491	385	**4,846**	–	12,137	**55,918**
Subordinated debt	–	2,661	4,556	**7,217**	94,237	111,146	–	**205,383**	–	–	**212,600**
Total liabilities	**1,324,554**	**1,070,835**	**903,666**	**3,299,055**	**690,525**	**153,072**	**3,988**	**847,585**	**18,304**	**12,137**	**4,177,081**
Net position	**(165,300)**	**180,829**	**(206,896)**	**(191,367)**	**120,964**	**314,232**	**324,132**	**759,328**	**85,705**	**5,225**	**658,891**

(Thousands of Belarusian rubles, unless otherwise indicated)

30. Maturity analysis of assets and liabilities (continued)

	On demand and within 1 month	*1 to 6 months*	*6 to 12 months*	*Total within 1 year*	*1 to 3 years*	*3 to 5 years*	*Over 5 years*	*Total over 1 year*	*No stated maturity*	*Past due*	*Total*
31 December 2018											
Assets											
Cash and cash equivalents	685,624	–	–	**685,624**	–	–	–	**–**	–	–	**685,624**
Precious metals	334	–	–	**334**	–	–	–	**–**	–	–	**334**
Amounts due from credit institutions	42,731	5,539	4,528	**52,798**	9,165	97	45	**9,307**	–	–	**62,105**
Loans to customers	159,490	1,138,249	449,315	**1,747,054**	756,100	234,033	140,721	**1,130,854**	–	5,269	**2,883,177**
Investment securities	3,532	71,357	260,483	**335,372**	75,727	132,528	12,210	**220,465**	449	–	**556,286**
Investments in associate	–	–	–	**–**	–	–	–	**–**	4,029	–	**4,029**
Property and equipment	–	–	–	**–**	–	–	–	**–**	120,383	–	**120,383**
Assets constructed for sale	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Investment property	–	–	–	**–**	–	–	–	**–**	–	–	**–**
Intangible assets	–	–	–	**–**	–	–	–	**–**	44,376	–	**44,376**
Income tax assets:											
- current income tax asset	–	2,327	–	**2,327**	–	–	–	**–**	–	–	**2,327**
- deferred income tax assets	–	–	–	**–**	–	–	–	**–**	3,455	–	**3,455**
Other assets	5,449	731	6,507	**12,687**	2,140	340	110	**2,590**	24,375	–	**39,652**
Total assets	**897,160**	**1,218,203**	**720,833**	**2,836,196**	**843,132**	**366,998**	**153,086**	**1,363,216**	**197,067**	**5,269**	**4,401,748**
Liabilities											
Amounts due to credit institutions	138,438	376,787	173,431	**688,656**	539,629	68,910	3,045	**611,584**	–	–	**1,300,240**
Amounts due to the National Bank of the Republic of Belarus	–	–	–	**–**	–	–	–	**–**	22	–	**22**
Amounts due to customers	710,762	423,257	488,178	**1,622,197**	528,511	38,023	2,514	**569,048**	1,459	–	**2,192,704**
Debt securities issued	–	99,337	3,591	**102,928**	–	–	–	**–**	–	–	**102,928**
Income tax liabilities:											
- current income tax liabilities	–	–	–	**–**	–	–	–	**–**	4,177	–	**4,177**
- deferred income tax liabilities	–	–	–	**–**	–	–	–	**–**	319	–	**319**
Other liabilities	12,528	5,055	892	**18,485**	1,655	3,662	236	**5,553**	19,366	–	**43,404**
Subordinated debt	–	2,765	5,176	**7,941**	73,386	114,972	24,162	**212,520**	–	–	**220,461**
Total liabilities	**861,728**	**907,211**	**671,268**	**2,440,207**	**1,143,181**	**225,567**	**29,957**	**1,398,705**	**25,343**	**–**	**3,864,255**
Net position	**35,432**	**310,992**	**49,565**	**395,989**	**(300,049)**	**141,431**	**123,129**	**(35,489)**	**171,724**	**5,269**	**537,493**

31. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not. Prices and terms of such transactions may differ from prices and terms of transactions between unrelated parties.

Transactions with entities under common control of the Russian Federation, except for VEB.RF group of companies (Russian Federation)

In the ordinary course of business, the Bank effects transactions with the entities that are ultimately controlled by the Russian Government. The balances of transactions with such entities at the reporting date comprised balances on correspondent accounts and loans from credit institutions.

The ”Other related parties” item includes subsidiaries of VEB.RF parent bank.

(Thousands of Belarusian rubles, unless otherwise indicated)

31. Related party disclosures (continued)

Transactions with other related parties, including VEB.RF group of companies

The outstanding balances of transactions with other related parties at the end of the reporting period are as follows:

	2019					*2018*				
	Parent	*Entities under common control of RF*	*Associates and jointly controlled entities*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control of RF*	*Associates*	*Key management personnel*	*Other related parties*
Cash and cash equivalents	18,142	–	–	–	858	402	111,960	–	–	17,130
Loans at 1 January	**–**	**–**	**908**	**1,015**	**–**	**–**	**–**	**–**	**804**	**–**
Loans issued during the year	–	–	44,860	1,734	–	–	63,200	1,599	444	–
Loans repaid during the year	–	–	–	(766)	–	–	(62,985)	–	(497)	–
Other changes	–	–	(987)	(392)	–	–	(215)	–	264	–
Loans outstanding at 31 December	**–**	**–**	**44,781**	**1,591**	–	**–**	**–**	**1,599**	**1,015**	**–**
Less: allowance for impairment at 31 December	–	–	–	–	–	–	–	(691)	–	–
Loans outstanding at 31 December, net	**–**	**–**	**–**	**1,591**	**–**	**–**	**–**	**908**	**1,015**	**–**

	2019					*2018*				
	Parent	*Entities under common control of RF*	*Associates and jointly controlled entities*	*Key management personnel*	*Other related parties*	*Parent*	*Entities under common control of RF*	*Associates*	*Key management personnel*	*Other related parties*
Amounts due to credit institutions at 1 January	**529,354**	**108,883**	**–**	**–**	**235,341**	**444,098**	**70,412**	**–**	**–**	**152,298**
Amounts due to credit institutions received during the year	627,056	4,600,997	–	–	109,496	1,214,915	3,606,191	–	–	127,062
Amounts due to credit institutions repaid during the year	(586,982)	(4,600,701)	–	–	(105,963)	(1,142,011)	3,606,191		–	(51,898)
Other changes	219,600	(37,200)	–	–	(210,383)	12,352	38,471	–	–	7,879
Amounts due to credit institutions at 31 December	**789,028**	**71,979**	**–**	**–**	**28,491**	**529,354**	**108,883**	**–**	**–**	**235,341**
Subordinated debt at 1 January	**220,461**	**–**	**–**	**–**	**–**	**199,340**	**–**	**–**	**–**	**–**
Subordinated debt received during the year	–	–	–	–	–	–	–	–	–	–
Subordinated debt repaid during the year		–	–	–	–	–	–	–	–	–
Other changes	(7,861)	–	–	–	–	21,121	–	–	–	–
Subordinated debt at 31 December	**212,600**	**–**	**–**	**–**	**–**	**220,461**	**–**	**–**	**–**	**–**
Deposits at 1 January				4,257	**520**	**–**	**–**	**–**	**4,686**	**–**
Deposits received during the year	–		740	3,994	1,518	–	–	9,244	4,848	–
Deposits repaid during the year	–	–		(3,927)	(520)	–	–	(8,724)	(5,482)	–
Other changes	–	–	–	(2,392)	–	–	–	–	205	–
Deposits at 31 December	**–**		**740**	**1,932**	**1,518**	**–**	**–**	**520**	**4,257**	**–**
Settlement and current accounts at 31 December	**–**	**–**	**161**	**4,685**	**28,253**	**–**	**–**	**216**	**600**	**–**
Credit related financial commitments	–	–	–	**157**	–	–	–	–	159	–
Derivative financial liabilities	427	–	–	**–**	–	–	–	–	–	–

(Thousands of Belarusian rubles, unless otherwise indicated)

31. Related party disclosures (continued)

Transactions with other related parties, including VEB.RF group of companies (continued)

The “Other changes” item includes translation differences, accrued interest and changes resulting from derecognition of a related party.

Income and expenses arising from related party transactions during the reporting period are as follows:

	For the year ended 31 December									
	2019					*2018*				
	Parent	*Entities under common control of RF*	*Associates and jointly controlled entities*	*Key manage-ment personnel*	*Other related parties*	*Parent*	*Entities under common control of RF*	*Associates*	*Key manage-ment personnel*	*Other related parties*
Interest income on loans	1	90	–	71	306	1	90	–	45	550
Interest expense on deposits	(40,636)	(6,186)	–	(155)	(5,632)	(39,847)	(4,157)	(7)	(186)	(8,441)
Fee and commission income	1	16	–	3	–	–	–	4	2	19
Fee and commission expense	(1,054)	(810)	–	(12)	(197)	(2,117)	(689)	–	(6)	(46)
Income from transactions with foreign currency, precious metals and precious stones	–	4,174	–	–	–	–	5,322	–	–	–
Expenses from transactions with foreign currency, precious metals and precious stones	–	–	–	–	–	–	(3,094)	–	–	–
Income from derivative financial instruments	7,814	–	–	–	–	–	–	–	–	–
Expenses from derivative financial instruments	(8,186)	–	–	–	–	–	–	–	–	–
Other operating expenses	–	–	(1,497)	–	–	–	–	–	–	–

In 2019, the Bank sold entities under common control - property items with the carrying amount of BYN 38,790 thousand for BYN 41,352 thousand.

In 2019, transactions with related parties were made on the following terms: the maturities were from one to seven months; the interest rate on agreements denominated in USD was 3%, in EUR: from 0.5% to 1.6%; period for fund raising was from 1 month to 2 years; the interest rate on agreements denominated in USD was from 3% to 4%, in EUR: from 1.2% to 3.6%; and in RUB: from 5% to 10.6%.

Compensation to key management personnel comprises the following:

	2019	*2018*
Salaries and other short-term employee benefits	6,621	5,149
Other long-term benefits	1,650	–
Social security costs	120	108
Mandatory contributions to the pension fund	559	502
Provision for future payments	102	293
Total compensation to key management personnel	**9,052**	**6,052**

(Thousands of Belarusian rubles, unless otherwise indicated)

32. Changes in liabilities arising from financing activities

	Notes	*Debt securities issued*	*Other borrowed funds*	*Subordinated loans*	*Total liabilities arising from financing activities*
Carrying amount at 31 December 2017		**4,507**	**545,938**	**199,340**	**749,785**
Additions		393,268	538,345	−	**931,613**
Repayment		(295,700)	(417,709)	−	**(713,409)**
Exchange differences		576	22,643	11,221	**34,440**
Other		277	4,669	9,900	**14,846**
Carrying amount at 31 December 2018	18, 21, 22	**102,928**	**693,886**	**220,461**	**1,017,275**
Additions		274,384	218,786	−	**493,170**
Repayment		(327,536)	(264,889)	−	**(592,425)**
Exchange differences		412	(21,512)	(15,379)	**(36,479)**
Other		(3,421)	3,047	7,518	**7,144**
Carrying amount at 31 December 2019	18, 21, 22	**46,767**	**629,318**	**212,600**	**888,685**

The “Other” item comprises the effect of interest on debt securities issued and subordinated loans that was accrued but not paid. The Bank classifies interest paid as cash flows from operating activities.

33. Capital adequacy

Bank BelVEB OJSC maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the capital of Bank BelVEB OJSC is monitored using, among other measures, principals, ratios established by the Basel Capital Accord 1988 and ratios used by the National Bank of the Republic of Belarus in supervising the Bank. At 1 February 2019, Bank BelVEB OJSC was not in compliance with Tier 1 main capital adequacy ratio based on the conservation buffer, countercyclical buffer and the GSIB surcharge. The regulatory authority has not taken action against Bank BelVEB OJSC and the Bank does not expect any action to be taken.

Bank BelVEB OJSC manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Bank BelVEB OJSC may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio of the National Bank of the Republic of Belarus

The National Bank of the Republic of Belarus requires that the amount of regulatory capital based on the conservation buffer of banks should be maintained at the level of 12.5% in 2019 (2018: 11.875%) of credit risk-weighted assets taking into account the amount of market and operating risks calculated under the laws of the Republic of Belarus. As at 31 December 2019 and 2018, the capital adequacy ratio of Bank BelVEB OJSC on this basis was as follows:

	2019	*2018*
Main capital	462,399	366,575
Additional paid-in capital	181,412	272,690
Deductions from capital	(15,096)	(15,717)
Total capital	**628,715**	**623,548**
Risk weighted assets	**4,022,313**	**4,052,223**
Capital adequacy ratio	15.6%	15.4%

(Thousands of Belarusian rubles, unless otherwise indicated)

33. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

As at 31 December 2019 and 2018, the Bank's capital adequacy ratio computed in accordance with Basel Capital Accord 1988, taking into account subsequent amendments relating to the incorporation of market risks, comprised:

	2019	***2018***
Tier 1 capital	640,772	513,821
Tier 2 capital	146,306	198,606
Total capital	**784,078**	**712,427**
Risk weighted assets	**4,839,213**	**4,721,644**
Tier 1 capital adequacy ratio	13.2%	10.9%
Total capital adequacy ratio	16.3%	15.1%

34. Events after the reporting period

On 18 March 2020, the Management Board of the National Bank of the Republic of Belarus announced countercyclical measures aimed at improving the banks' options to sustain their financial support of the real economy being significantly affected by external negative factors. In particular, to enhance the stability and to increase the capitalization of the banking system, the National Bank advised the banks against distributing dividends to shareholders based on results of 2019 and recommended increasing the statutory and reserve fund using their profits for 2019 and retained earnings for prior years.

On 20 March 2020, the Belarusian ruble depreciated against the US dollar and other major currencies. As at 20 March 2020, the exchange rate of the National Bank of the Republic of Belarus was BYN 2.5414 to USD 1.

As the coronavirus pandemic continues to spread throughout the world, the Bank continues to closely monitor the situation with the coronavirus, however, it is impossible to assess its financial effect at this point.