

Closed Joint-Stock Company “MTBank”

Financial statements

*prepared in accordance with IFRS and Independent Auditors' Report
for the year ended December 31, 2021*

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Our. ref. № 05-01/39 of March 18, 2022

INDEPENDENT AUDITORS' REPORT

*To the shareholders, Supervisory Board and Management Board
of Closed Joint-Stock Company "MTBank"*

Opinion

We have audited the financial statements of Closed Joint-Stock Company "MTBank" (hereinafter – "the Bank"), which comprise the statement of financial position as at December 31, 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereinafter – "IFRS").

Basis for opinion

We conducted our audit in accordance with the Law of the Republic of Belarus of July 12, 2013 "On Auditing Activities" and the National Regulations on Auditing Activities, International Standards on Auditing (hereinafter – "ISAs"). Our responsibilities under those standards are further described in the section "Auditor's responsibilities for the audit of the financial statements" of this auditor's report.

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

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

Key audit matters of financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the current period. The below matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Allowance for expected credit losses on loans to customers in accordance with IFRS 9 "Financial Instruments"

We focused on this matter due to significance of loans to customers and significance of professional judgement and estimates required for calculation of expected credit losses in accordance with the IFRS 9 "Financial Instruments"

The identification of impairment, significant increase in credit risk, determination of probability of default and loss given default, determination of the recoverable amount and forecast of macroeconomic variables require a high level of professional judgement.

Assessment of expected credit losses involves estimation techniques including internal credit ratings for calculation probability of default, historical data for determination of loss given default and forecasting of macroeconomic variables. Signs of significant increase in credit risk are also judgmental and are based on extent of downgrade in internal credit ratings, days overdue and other factors.

The use of various models and assumptions in the calculation of expected credit losses can significantly affect the level of the allowance for expected credit losses on loans to customers.

Note 3 "Summary of accounting policies", Note 5 "Significant accounting estimates and assumptions", Note 9 "Loans to customers" and Note 27 "Risk management" included in the financial statements, provide detailed information on the allowance for expected credit losses and the Bank's management approach to assessing and managing risk.

During the audit we examined and assessed the methodologies of the Bank used for assessing the allowance for expected credit losses on loans to individuals and legal entities.

We assessed credit risk factors used by the Bank for determining significant increase in credit risk.

We analyzed rating models, key inputs and assumptions, model for assessing the probability of default, the level of recovery and adjustments due to macroeconomic factors, used for calculation of expected credit losses.

We tested (on a sample basis) valuation models for sampled loans. Our work included assessment if the models and inputs are appropriate, re-performance of sampled calculations, and various analytical and other procedures.

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

Emphasis of Matter

We draw attention to Note 5 of the financial statements "Business Combination", which states that in 2021 the Bank reorganized in the form of joining the Closed Joint Stock Company "Idea Bank" to the Closed Joint Stock Company "MTBank". CJSC "MTBank" is the legal successor of CJSC "Idea Bank" for all its obligations, in respect of all its creditors and debtors, including obligations disputed by the parties.

Other Matter

The Bank's financial statements for the year ended December 31, 2020 were audited by another audit firm, that expressed an unmodified opinion in its auditor's report dated March 24, 2021 with respect to those financial statements.

Responsibilities of Management and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's responsibilities for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Law of the Republic of Belarus of July 12, 2013 "On Auditing Activities" and the National Regulations on Auditing Activities, ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Law of the Republic of Belarus of July 12, 2013 "On Auditing Activities" and the National Regulations on Auditing Activities, ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our audit independent 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.

Engagement partner,
Deputy Director



Alexey G. Petuh

Auditor in-charge,
Deputy Director for Bank Auditing

Renata V. Kirs-lite

Audited organisation

Closed Joint-Stock Company "MTBank" (CJSC "MTBank");
10 Tolstogo street., 220007, Republic of Belarus;

Information on state registration: registered by the National Bank of the Republic of Belarus in the Unified State Register of Legal Entities and Individual Entrepreneurs at 14 March, 1994 under No. №100394906.

Auditing organisation

FBK-Bel LLC;

office 201, 22A Logoisky highway, Minsk, 220090, Republic of Belarus;

Information on state registration: registered by the Minsk City Executive Committee in the Unified State Register of Legal Entities and Individual Entrepreneurs on 06 February 2009 under No. 690398039.

Date of signing the auditor's report March 18, 2022.

Independent auditors' report received on March 18, 2022.

Chairman of the Board of JSC "MTBank", Shidlovich D.P.



(signature)

Statement of Financial Position**As at December 31, 2021***(in thousands of Belarusian rubles)*

	Note	December 31, 2021	December 31, 2020
Assets			
Cash and cash equivalents	6	462 905	339 986
Due from credit institutions	7	22 734	19 292
Derivative financial assets	8	99	50
Loans to customers	9	1 352 258	1 162 668
Investment securities	10	40 441	49 034
Property and equipment and right-of-use assets	11	50 141	26 733
Intangible assets	12	33 826	25 190
Other assets	14	13 520	9 325
Total assets		1 975 924	1 632 278
Liabilities			
Due to credit institutions	15	87 124	131 734
Derivative financial liabilities	8	121	255
Customer accounts	16	1 335 444	987 352
Debt securities issued	17	58 117	78 653
Other borrowings	18	-	20 672
Current income tax liabilities		167	5 357
Deferred income tax liabilities	13	14 521	12 889
Subordinated debt	19	32 491	32 783
Other liabilities	14	25 361	25 858
Total liabilities		1 553 346	1 295 553
Equity			
Share capital	20	110 426	110 426
Fair value reserve of investment securities	10	614	670
Retained earnings		311 538	225 629
Total equity		422 578	336 725
Total equity and liabilities		1 975 924	1 632 278

Signed and approved for issue on behalf of the Management Board of CJSC "MTBank"

D.P. Shidlovich



Chairman of the Management Board

Y.G. Zakhvatovich

Chief Financial Officer

March 18, 2022

Statement of Comprehensive Income**For the year ended December 31, 2021***(in thousands of Belarusian rubles)*

	<i>Note</i>	2021	2020
Interest income calculated using the effective interest method			
Loans to customers		188 277	154 030
Investment securities		2 029	3 837
Due from credit institutions		3 019	3 731
		193 325	161 598
Other interest income		6 040	5 547
Interest expenses			
Customer accounts		(66 322)	(36 680)
Debt securities issued		(9 158)	(8 604)
Other borrowings		(1 876)	(5 563)
Due to credit institutions		(9 466)	(6 034)
Subordinated debt		(1 962)	(1 932)
Operating lease liabilities		(30)	(231)
		(88 814)	(59 044)
Net interest income before allowance for expected credit losses for financial instruments		110 551	108 101
Allowance for expected credit losses for financial instruments	6, 7, 9, 10, 14	(1 788)	(22 354)
Net interest income		108 763	85 747
Fee and commission income	24	123 271	92 987
Fee and commission expenses	24	(70 170)	(50 535)
Realized income/(loss) on investment securities reclassified to profit or loss		(106)	(34)
Net gain from foreign currency transactions	23	32 347	24 571
Net gain/(loss) from initial recognition of financial instruments at fair value	9, 15	(141)	(305)
Income from business acquisition	5	27 771	-
Other income	25	15 440	10 728
Non-interest income		128 412	77 412
Staff costs	26	(61 012)	(47 239)
Depreciation and amortization	11, 12	(21 184)	(17 747)
Other operating expenses	26	(47 437)	(37 316)
Other impairment expenses	14	-	(40)
Non-interest expenses		(129 633)	(102 342)
Profit before income tax expenses		107 542	60 817
Income tax expenses	13	(21 633)	(14 305)
Profit for the year		85 909	46 512

Statement of Comprehensive Income**For the year ended December 31, 2021 (continued)***(in thousands of Belarusian rubles)*

	<i>Note</i>	2021	2020
Profit for the year		85 909	46 512
Other comprehensive income/(loss)			
<i>Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</i>			
Realized income/(loss) on investment securities reclassified to profit or loss		106	34
Unrealized income/(loss) on investment securities		(106)	(34)
Changes in allowance for expected credit losses for investment securities		(56)	(707)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(56)	(707)
Other comprehensive income for the year		(56)	(707)
Total comprehensive income for the year		85 853	45 805

Signed and approved for issue on behalf of the Management Board of CJSC "MTBank"

D.P. Shidlovich



Chairman of the Management Board

Y.G. Zakhvatovich

Chief Financial Officer

March 18, 2022

Statement of Changes in Equity**For the year ended December 31, 2021***(in thousands of Belarusian rubles)*

	<i>Share capital</i>	<i>Revaluation reserve of investment securities</i>	<i>Retained earnings</i>	<i>Total</i>
As at January 1, 2020	110 426	1 377	179 117	290 920
Profit for the year	-	-	46 512	46 512
<i>Other comprehensive income</i>				
Changes in allowance for expected credit losses for investment securities	-	(707)	-	(707)
Total other comprehensive income	-	(707)	-	(707)
Total comprehensive income for the year		(707)	46 512	45 805
As at December 31, 2020	110 426	670	225 629	336 725
Profit for the year	-	-	85 909	85 909
<i>Other comprehensive income</i>				
Changes in allowance for expected credit losses for investment securities	-	(56)	-	(56)
Total other comprehensive income	-	(56)	-	(56)
Total comprehensive income for the year	-	(56)	85 909	85 853
As at December 31, 2021	110 426	614	311 538	422 578

Signed and approved for issue on behalf of the Management Board of CJSC "MTBank"

D.P. Shidlovich

Y.G. Zakhvatovich

March 18, 2022



Chairman of the Management Board

Chief Financial Officer

Statement of Cash Flows**For the year ended December 31, 2021***(in thousands of Belarusian rubles)*

	<i>Note</i>	2021	2020
Cash flows from operating activities			
Interest received		206 846	165 777
Interest paid		(88 768)	(59 933)
Commission received		123 892	92 133
Commission paid		(70 316)	(50 437)
Realized net gain on foreign currency transactions		32 206	16 711
Other income received		14 929	10 590
Personnel expenses paid		(60 953)	(46 683)
Other operating expenses paid		(43 923)	(36 882)
Cash flows from operating activities before changes in operating assets and liabilities		113 913	91 276
<i>Net increase/(decrease) in operating assets</i>			
Due from credit institutions		2 110	(3 228)
Loans to customers		28 936	(126 748)
Other assets		4 987	1 806
<i>Net increase/(decrease) in operating liabilities</i>			
Due to credit institutions		(49 880)	63 839
Customer accounts		78 267	54 268
Other liabilities		(217)	(14 008)
Net cash flows from operating activities before income tax		178 117	67 205
Income tax paid		(21 076)	(10 593)
Net cash inflows from operating activities		157 041	56 612
Cash flows from investing activities			
Purchase of investment securities		(155 498)	(186 060)
Proceeds from sale and repayment of investment securities		162 672	253 382
Acquisition of property and equipment and intangible assets	11, 12	(19 043)	(15 193)
Proceeds from sale of property and equipment and intangible assets		1 050	133
Business acquisition	5	44 762	-
Net cash inflow/(outflow) from investing activities		33 943	52 262
Cash flows from financing activities			
Proceeds from debt securities issued		393 866	264 904
Repayment of debt securities issued		(427 871)	(268 617)
Repayment of other borrowings		(20 000)	(29 585)
Proceeds from other borrowings		-	10 000
Lease liability payments	14	(10 505)	(9 699)
Net cash inflow/(outflow) from financing activities		(64 510)	(32 997)

Statement of Cash Flows (continued)

	<i>Note</i>	2021	2020
Effect of exchange rate changes on the balance of cash and cash equivalents		(3 542)	24 819
Net increase in cash and cash equivalents		122 932	100 696
Cash and cash equivalents at the beginning of the year		339 986	239 283
Recovery of provision for expected credit losses	6	(13)	7
Cash and cash equivalents at the end of the period	6	462 905	339 986

Reconciliation of changes in liabilities to cash flows arising from financing activities is presented below.

	December 31, 2020	Proceeds	Repayments	Non-cash changes Exchange rate changes	Other changes Interest paid	Interest received	December 31, 2021
Debt securities issued	78 653	393 866	(427 871)	(195)	4 506	9 158	58 117
Other borrowings	20 672	-	(20 000)	-	(2 548)	1 876	-
Subordinated debt	32 783	-	-	(381)	(1 873)	1 962	32 491
Total	132 108	408 262	(447 871)	(576)	85	12 996	90 608

	December 31, 2019	Proceeds	Repayments	Non-cash changes Exchange rate changes	Other changes Interest paid	Interest received	December 31, 2020
Debt securities issued	83 460	264 905	(268 617)	174	(9 873)	8 604	78 653
Other borrowings	40 928	10 000	(29 585)	109	(6 343)	5 563	20 672
Subordinated debt	26 825	-	-	5 882	(1 856)	1 932	32 783
Total	151 213	274 905	(298 202)	6 165	(18 072)	16 099	132 108

The movement of liabilities and cash flows on lease are disclosed in Note 14.

Signed and approved for issue on behalf of the Management Board of CJSC "MTBank"

D.P. Shidlovich



Y.G. Zakhvatovich

Chairman of the Management Board

Chief Financial Officer

March 18, 2022

(in thousands of Belarusian rubles)

1. Business

Closed Joint-Stock Company “Minsk Transit Bank” (hereinafter – “CJSC “MTBank”” or the “Bank”) was registered under the laws of the Republic of Belarus by the National Bank of the Republic of Belarus (hereinafter – the “National Bank”) on March 14, 1994 as a closed joint-stock commercial bank with foreign investment. The Bank’s activities are regulated by the National Bank. The Bank operates under banking license No. 13 issued by the National Bank of the Republic of Belarus on May 6, 2013. The Bank also possesses permit (license) No. 02200/5200-1246-1112 for securities operations issued by the Ministry of Finance of the Republic of Belarus (extended until July 29, 2022 based on Decision No. 145 of May 16, 2012).

The Bank accepts deposits from the public, grants loans and transfers cash within the Republic of Belarus and abroad, exchanges currencies and provides other banking services to its corporate clients and individuals. The Bank’s head office is located in Minsk. During the reporting period, the Bank didn’t change its legal address.

The legal address as at December 31, 2021 and December 31, 2020 was 10 Tolstogo Str., Minsk.

As at December 31, 2021 the Bank had the following structure: the headquarters, 3 banking service centers and 43 settlement and cash desks, 49 remote work places, 6 movable banking service centers.

As at December 31, 2020 the Bank had the following structure: the headquarters, 5 banking service centers and 46 settlement and cash desks, 53 remote work places, 5 movable banking service centers.

As at December 31, 2021 and 2020 the Bank had neither subsidiaries nor associates.

As at December 31, 2021 and 2020 the Bank’s issued shares were owned by the following shareholders:

Shareholder	December 31, 2021	December 31, 2020
MTB Investments Holdings Limited (Cyprus)	99,1326%	40,3395%
Other	0,8674%	0,8668%
BELNEFTEGAZ ALC	-	58,7937%
	100,000%	100,000%

The Bank’s ultimate controlling owner was Abdo Romeo Abdo.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Bank is required to maintain accounting and prepare financial statements for regulatory purposes in Belarusian Rubles in accordance with Belarusian accounting and banking legislation and regulations (hereinafter - “BAS”). These financial statements are based on the Bank’s BAS accounting data, as adjusted and reclassified in order to comply with IFRS.

The functional currency of the Bank is the Belarusian Ruble (BYN).

The financial statements have been prepared on a historical cost basis except for the estimate of non-monetary items recognized before December 31 2014, which were accounted for in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies and items measured at fair value.

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

The Bank’s shares are not traded in a public market, the securities issued by the Bank are not included in the quotation sheets of OJSC Belarusian Currency and Stock Exchange, the Bank is not recognized as

(in thousands of Belarusian rubles)

listed company and, accordingly, does not apply IAS 33 Earnings per Share and IFRS 8 Operating Segments.

Impact of COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in 2020, which continued in 2021, many governments have taken different measures to combat the outburst, including imposing limitations on traveling, quarantine, entities and other organizations and isolating certain areas. These measures have had some influence on the global procurement system, on the demand on services and goods, as well as on the amount of business activity in general. It is expected that the pandemic itself and the corresponding public health protection measures and social measures may affect the activity of organizations in different economic spheres.

The government of the Republic of Belarus and the National Bank of the Republic of Belarus have taken supporting measures to avoid significant decrease of the economic indicators as a result of COVID-19 outburst. These measures include, but are not limited to, repayment holidays and relaxation of certain regulatory limitations to support the financial sector and its ability to provide funds and help their clients to avoid liquidity deficit as a result of the measures to counter the spreading of COVID-19.

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

Going concern

The Bank has assessed its possibility to continue as a going concern considering all available information about future. The Bank developed and approved adequate and realistic action plans to ensure compliance with the development direction set forth by the strategic goals, and to ensure the Bank's operation during the epidemiological threat, as well as financing plans within crisis events. Based on the analysis of the factors relevant to the current and expected profitability of the Bank's operations, debt repayment schedules and potential sources of replacement financing, the Bank considers that use of the going concern assumption in foreseeable future is appropriate.

As for the effect of the epidemiological situation, the Bank designed and approved the Action plan to ensure uninterrupted operation and recovery of the Bank's operations in case of force majeure (epidemiological threat). The specified Plan provides for measures on the organization of remote work, mutual isolation of the personnel, procurement of individual protection means and disinfectants, sanitization, sending newsletters, holding the meetings of collective bodies in remote format, systemization of the information on diseases in the Bank, revision of the holiday schedules, limitation on personal contacts with external parties with a priority given to remote communication and sale channels, performance of the Bank's internal procedures in a remote format, increase of the payment limits for contactless cards. All the procedures provided for by the Plan are being followed.

Considering the measures taken, the Bank assesses that simultaneous illness and unavailability of considerable amount of employees, which might threaten the Bank's going concern, are unlikely.

The Bank can use the following alternative funding sources:

Limitations on loan issue to new customers, decrease in the individual debt limits on newly issued loans to current customers;

Increase in the portfolio of individual and corporate deposits by increasing the interest rates;

Attraction of interbank loans, resources of the National Bank of the Republic of Belarus, including pledge of securities from the Bank's portfolio.

Inflation accounting

Up to December 31, 2014, the economy of the Republic of Belarus was considered to be hyperinflationary in accordance with the criteria of IAS 29 Financial Reporting in Hyperinflationary Economies (hereinafter – "IAS 29"). Accordingly, the adjustments and the reclassifications of items for the purposes of presentation of IFRS

(in thousands of Belarusian rubles)

financial statements include restatement, in accordance with IAS 29, taking into account changes in the general purchasing power of the Belarusian Ruble.

Starting from January 1, 2015, the economy of the Republic of Belarus is no longer considered hyperinflationary. The value of non-monetary assets, liabilities and equity of the Bank, presented in measuring units as at December 31, 2014, was used to form the opening balances as at January 1, 2015.

The Bank operates in the Republic of Belarus. Consequently, the Bank is exposed to the economy and financial markets of the Republic of Belarus, which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Republic of Belarus. The methods of monetary policy regulation, adopted by the National Bank, made it possible to reduce both the volatility of the Belarusian Ruble and the level of inflation over the past several years. Despite this, the period of depreciation of the Belarusian Ruble and the period of high inflation that followed the stabilization, still lead to some uncertainty in the conditions of economic activity in the Republic of Belarus.

The presented financial statements reflect management's assessment of the impact of the business environment in the Republic of Belarus on the operations and the financial position of the Bank. The actual impact of the future business environment may differ from management's assessment.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of acquisition is estimated as the sum of the transferred compensation, estimated at fair value at the date of acquisition, and non-controlling interests in the object of acquisition. Acquisition-related costs are included in expenses.

The Bank classifies the acquired financial Assets and assumed liabilities accordingly, depending on the terms of the contract, the economic situation and the relevant conditions at the date of acquisition. In the case of a phased business combination, the acquirer's previously owned interest in the acquisition object is estimated at fair value at the acquisition date through profit or loss.

Conditional compensation to be transferred by the acquirer is recognized at fair value at the date of acquisition. Subsequent changes in the fair value of a contingent consideration, which may be an asset or liability, should be recognized in accordance with IFRS 9 either in profit or loss or in other comprehensive income. If a conditional refund is classified as its own equity, it should not be revalued until its full repayments as part of its own equity.

Goodwill is initially measured at cost, defined as the excess of the amount of the transferred compensation over the amount of net identifiable assets acquired by the Bank and the liabilities assumed by it. If this compensation is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized in profit or loss. Subsequently, goodwill is measured at cost less accumulated impairment losses. Before recognizing a gain on a bargain purchase, the Bank re-examines whether it has correctly identified all Assets acquired and all liabilities assumed, and recognizes any additional Assets or liabilities identified during such a review.

If the initial accounting of the business combination is not completed by the end of the reporting period in which the merger takes place, the Bank reflects in its financial statements notional amounts in respect of those items whose accounting has not been completed. During the period, the Bank reflects a retrospective adjustment of the notional amounts recognized at the acquisition date to reflect new information received about facts and circumstances that existed at the acquisition date and, if known at that time, would affect the valuation of amounts recognized at that date. During the evaluation period, the Bank also recognizes additional Assets or liabilities in the event of new information about facts and circumstances that existed at the acquisition date and, if known at that time, would have led to the recognition of such assets and liabilities at that date. The evaluation period ends as soon as the Bank receives the information it was looking for about the facts and circumstances that existed at the acquisition date, or learns that there is no more information available. The period of such evaluation is limited to one year from the date of acquisition.

(in thousands of Belarusian rubles)

3. Significant accounting policies

Financial assets and financial liabilities

a) Classification of financial instruments

Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost or at fair value through other comprehensive income ("FVTOCI") or at fair value through profit or loss ("FVTPL").

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated by the Bank as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

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

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

For debt financial assets measured at fair value through other comprehensive income, gains and losses are recognized in other comprehensive income, except for the following items that are recognized in profit or loss as well as financial assets measured at amortized cost:

- Interest income calculated using the effective interest method;
- Expected credit losses and recovered impairment losses; and
- Profit or loss from changes in exchange rates.

Upon derecognition of a debt financial asset measured at FVTOCI, accumulated profit or loss previously recognized as part of other comprehensive income is reclassified from equity to profit or loss.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

For such equity instruments, profits and losses are never reclassified to profit or loss and no impairment is recognized in profit or loss.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information that is provided to management. The Bank considers the following information:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;

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- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how flows are realized..

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

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

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

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making assessment, the Bank considers:

- Contingent events that would change the amount or timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period when the Bank changes its business model for managing financial assets.

Financial assets measured at amortized cost are initially measured at fair value including additional direct transaction costs and subsequently measured at their amortized cost using the effective interest method.

Financial assets measured at fair value are initially measured at fair value plus, if the financial assets are not measured at FVTPL, the relevant transaction costs are subsequently recognized at fair value.

In regard to financial assets measured at FVTOCI gains or losses are recognized at other comprehensive income less interest income calculated using effective interest method, expected credit losses and recovery of amounts written-off on losses and exchange rates, recognized in profit or loss.

Gains and losses on financial assets measured at FVTPL are recognized in profit or loss at subsequent restatement of a financial instrument.

Financial liabilities

The Bank classifies financial liabilities, other than financial guarantee contracts and loan commitments, as measured at amortized cost or at FVTPL.

Reclassification

The classification of financial liabilities after their initial recognition is not subject to change.

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b) Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends to realize the asset and settle the liability simultaneously. The right to set-off should not be subject to an event in the future and should have legal force in all the following circumstances:

- In the ordinary course of business;
- In case of non-compliance with the obligation; and
- In the event of insolvency or bankruptcy of the entity or any of the counterparties.

These conditions are generally not met for master netting agreements, and the assets and liabilities are recognized in the statement of financial position in full.

c) Derecognition of financial instruments

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any accumulated gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Any accumulated gain/loss recognized in other comprehensive income in respect of equity investment securities designated by the Bank as FVTOCI is not subject to reclassification to profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Modifications of financial assets and financial liabilities

Modification of financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered modifications if they are a consequence of current contract terms, for example, changes in interest rates by the Bank due to

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changes in the refinancing rate of the National Bank of Belarus, if the corresponding loan agreement provides for the Bank to change interest rates.

The Bank conducts a quantitative and qualitative assessment of whether the modification is significant, i.e. whether cash flows for the initial financial asset and cash flows on modified or replacing financial asset are significantly different. The Bank conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. If the cash flows differ significantly, it is considered that the rights to the contractual cash flows of the original financial asset have expired. In conducting this assessment, the Bank is guided by instructions regarding the derecognition of financial liabilities by analogy.

The Bank concludes that the modification is considered significant based on the following qualitative factors:

- Change in the currency of a financial asset;
- Change in the terms of a financial asset leading to SPPI discrepancy..

If cash flows are modified when the borrower has financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. Additionally, the Bank performs a qualitative evaluation of the significance of modification of terms.

If the modification of a financial asset measured at amortized cost or FVTOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the assets and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For loans with a fixed interest rate, the terms of which stipulate the borrower's right to early repayment at nominal value without significant fines, the change in the interest rate to the market level in response to changing market conditions is taken into account by the Bank in the same way as for accounting instruments with a floating interest rate, i.e. the effective interest rate is revised prospectively.

Modification of financial liabilities

The Bank derecognizes a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumed liabilities, including the new modified financial liability.

The Bank conducts a quantitative and qualitative assessment of the modification significance, analyzing the qualitative factors, quantitative factors and the cumulative effect of qualitative and quantitative factors. The Bank concludes that the modification is considered significant, based on the following qualitative factors:

- Change in the currency of the financial liability;
- Conversion condition;
- A change in the subordination of a financial liability.

For the purpose of quantification, conditions are considered to be significantly different if the present value of cash flows in accordance with new conditions, including payments of commissions less commissions received, discounted at the initial effective interest rate, differs by at least 10% of the discounted present value remaining cash flows from the original financial liability.

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If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

e) Impairment

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

- Financial assets that are debt instruments;
- Net investments in finance leases;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank recognizes loss allowances in an amount equal to the lifetime expected credit losses, excluding financial instruments for which credit risk has not increased significantly since their initial recognition.

The Bank does not apply exemptions associated with low credit risk.

12-month expected credit losses (12-month ECL) are the portion of ECL that result from default events on a financial instrument, possible within 12 months after the reporting date. Financial instruments and associated with them 12-month ECL are classified as "Stage 1" financial instruments.

Lifetime expected credit losses (lifetime ECL) are defined as ECL as a result of all possible events of default of the financial instrument throughout its expected duration. Financial instruments that are not purchased or originated credit-impaired assets and associated with them lifetime ECL are classified as "Stage 2" financial instruments (if the credit risk has increased significantly since its initial recognition, but is not credit-impaired) and "Stage 3" (in case if the financial instrument is credit-impaired).

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash insufficient receipts (i.e. the difference between the contractual cash flows due to the Bank and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If under the parties' mutual agreement the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost, debt financial assets measured at FVTOCI and financial guarantees, loan commitments, as well as net investments in finance leases are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The list of impairment events used by the Bank when analyzing borrowers is given in Note 27.

A loan that has been renegotiated due to a deterioration in the borrower's financial position is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

Purchased or originated credit-impaired financial assets (POCI-Assets)

POCI-assets are assets that are credit-impaired at initial recognition. POCI-assets include the following assets of the Bank:

- New financial assets issued by the Bank in the framework of restructuring a credit-impaired asset (replacement of a credit-impaired asset by another asset with a similar level of credit risk);
- An asset that arose when the financial asset was derecognized as a result of a significant modification of the terms of the contracts in the framework of the restructuring of the credit-impaired financial assets;
- Acquired credit-impaired financial assets.

POCI-assets do not have an allowance for impairment at the initial recognition. Instead, the amount of ECL for the entire period is included in the calculation of the effective interest rate.

For the calculation of the effective interest rate on purchased or originated credit-impaired financial assets, the expected cash flows are used, taking into account the initial assessment of the ECL for the entire period. The estimated value of the contractual cash flows for the asset is reduced by the amount of ECL for the entire period of its validity.

The EPS calculated in this way is called the EPS adjusted for credit risk. Upon initial recognition of POCI assets (usually created Assets), the fair value of such loans is determined based on the cash flows that are expected to be received by the Bank as a result of receiving cash flows and/or the sale of collateral.

The subsequent assessment of expected credit losses on POCI assets is always made in an amount equal to the expected credit losses for the entire term. The amount in which the estimated provision for losses in respect of such assets is recognized is equal to the sum of changes in the amount of expected credit losses for the entire period since the initial recognition of the corresponding asset.

The amount reflecting positive changes in the amount of lifetime ECL is recognized as an impairment gain, even if the amount of these changes is greater than the amount previously recognized in profit or loss as an impairment loss.

Interest on POCI-assets is accrued at effective interest rate, adjusted for credit risk, determined at the time of initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

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- Debt instruments measured at FVTOCI: no allowance for ECL is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the allowance for ECL is disclosed and is recognized in the fair value reserve.

Write-offs

Loans and debt securities are written-off (either partially or in full) when there is no realistic prospect of recovery.

Reimbursement of previously written-off amounts is recognized in the "other income" item in the statement of comprehensive income.

In regard to written-off financial assets, the Bank may continue to carry out debt collection activities in accordance with its internal policies.

f) Measurement of fair value of financial instruments

The Bank measures such financial instruments as investment securities and derivatives at fair value at each reporting date. The information about the fair value of financial instruments measured at amortized cost is disclosed in Note 28.

Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the sale of an asset or the transfer of a liability takes place either:

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

The principal or the most advantageous market should 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. 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 prices (unadjusted) 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 financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels of 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.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from the National Bank of the Republic of Belarus (excluding mandatory cash balances) and amounts due from credit institutions that initially mature within 90 days and are free from contractual encumbrances.

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Repurchase and reverse repurchase agreements and securities lending

Repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and reclassified as securities pledged under sale and repurchase agreements, in case if the counterparty has the right to sell or repledge them under the contract terms. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as amounts due from credit institutions or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless they are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of comprehensive income. The obligation to return them is recorded at fair value as a trading liability.

Derivative financial instruments

In the normal course of business, the Bank uses various derivative financial instruments (including foreign exchange forwards and swaps). These financial instruments are held for trading and are initially recorded at fair value. Fair value is determined on the basis of market quotations or valuation models based on the current market and contractual value of the underlying instruments and other factors.

Derivative financial instruments with positive fair values are recorded as assets, and with negative fair value as liabilities. Gains and losses arising from transactions with these instruments are recorded in the statement of comprehensive income in net income/(expense) on foreign currency transactions.

Taxation

Current income tax expenses are calculated in accordance with the legislation of the Republic of Belarus.

Deferred tax assets and liabilities are calculated for all temporary differences using the balance sheet liability method. Deferred income taxes are recognized 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 recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be offset and carried over future losses. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the period in which the liability is settled or the asset realized, based on the tax laws that have been enacted or substantively enacted as at the reporting date.

The Republic of Belarus also has various operating taxes that are applicable to the Bank's activities. These taxes are recognized as other operating expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and impairment losses, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the equipment that is recorded 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 amount may not be recoverable.

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

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	<u>Years</u>
Buildings	84-101
Computers and office equipment	2-11
Motor vehicles	6-9
Furniture and fixtures	1-52

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each reporting 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 software and licenses for software and activities that should be licensed. Intangible assets acquired separately are initially measured at cost adjusted for hyperinflation.

Following initial recognition, intangible assets are carried at cost less accumulated amortization and impairment losses. Intangible assets have finite useful lives and are amortized over the periods of 1 to 20 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Leases

i. Bank as a lessee

The Bank recognizes right-of-use assets and lease liabilities at the lease commencement date in respect of all operating leases, except for short-term leases. Initial cost of right-of-use assets is recognized in the amount of initial cost of lease liabilities adjusted for lease payments made as at the lease commencement date or before such date, increased by the initial direct costs incurred and the estimated costs that will arise from dismantling and relocation of the underlying asset, restoration of the underlying asset or the site on which it is located, less the lease incentives received.

Right-of-use assets

The Bank recognizes right-of-use assets at the lease commencement date (from the date when the use of the underlying asset is commenced). Subsequently, right-of-use assets are recognized less accumulated amortization and accumulated impairment losses, if any. Initial cost of right-of-use assets is formed from the amount of initially measured lease liability; any initial direct costs incurred by the lessee, less the amount of lease payments at the lease commencement date. Recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the following: the date of expiration of the useful life of the right-of-use asset or the lease term expiration. The right-of-use asset is assessed for impairment.

Lease liability

The lease liability is measured at amortized cost using the effective interest method. Lease payments include fixed payments less any lease incentives receivable, variable lease payments based on an index or rate at the lease commencement date, amounts expected to be paid by the Bank under residual value guarantees. Lease payments also include the call option strike price if there is reasonable certainty that the Bank will exercise the option, and penalties for termination if the lease term reflects potential exercise by the Bank of the lease termination option. Variable lease payments, which do not depend on an index or rate, are recognized as an expense on a non-recurring basis in the period to which they relate. In determining the present value of lease payments, the Bank uses the incremental borrowing rate as at the date of the lease agreement. After the date of commencement of the lease agreement, the lease liability increases by the amount of accrued interest expenses and decreases by the amount of actually made lease payments. In addition, the amount of the lease liability is revalued if the lease contract is modified or if the lease term or the amount of substantially fixed payments is changed. Where the lease liability is revised in this way, the corresponding adjustment is made to the carrying amount of the right-of-use asset, or is charged to profit or loss if the carrying amount of the right-of-use asset was previously reduced to zero.

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Short-term leases and low value leases

The Bank applies the exemption not to recognize short-term leases (for those leases where the lease term is less than 12 months from the lease commencement date, there is no option to renew the lease and purchase the underlying asset). The Bank can also apply practical expedient to leases with an underlying asset of low value (the cost of the underlying asset is less than USD 5 000 at the exchange rate effective at the reporting date).

For short-term leases and low value leases, the Bank recognizes lease payments under such leases as expenses on a straight-line basis over the lease term.

Significant judgements in determining the term of leases with a renewal option

The Bank determines the lease term as the lease period during which the Bank has sufficient assurance that the lease relations will not be terminated, together with the periods in respect of which a lease renewal option is provided for if there is sufficient assurance that the Bank will exercise this option, and the periods in respect of which a lease termination option is provided for if there is sufficient assurance that the Bank will not exercise this option. The Bank considers all relevant facts and circumstances that give rise to an economic incentive to exercise or not exercise the option. Subsequent to the lease commencement date, the Bank reassesses the lease term if there is either a significant event or a significant change in circumstances that are under the control of the Bank and affect the assessment of whether there is sufficient assurance that the option will be exercised or will not be exercised (for example, change of the business strategy).

ii. Financial lease – Bank as a lessor

At the inception or modification of the agreement containing a lease, the Bank allocates the compensation stipulated in the agreement to each lease component based on the existing relative prices of a separate transaction for such components.

Where the Bank is a lessor, at the inception of lease relationships it determines whether each of the agreements is a financial lease or an operating lease.

In order to classify a lease agreement, the Bank makes an overall assessment of whether the lease agreement transfers substantially all of the risks and rewards of ownership of the underlying asset. If this is the case, then the lease is a finance lease; otherwise, the lease is an operating lease. As part of this assessment, the Bank considers certain indicators, in particular, whether the lease term constitutes a significant part of the economic life of the asset.

The Bank recognizes lease payments receivable in the amount equal to net investments in the lease from the lease commencement date. Finance income is calculated based on a pattern reflecting a constant periodic rate of return on the carrying amount of net investments. Initial direct costs are included in the initial measurement of the lease receivables.

The Bank applies the requirements of IFRS 9 in respect of derecognition and impairment to the net investment in lease. In addition, the Bank regularly reviews the estimated unguaranteed residual values used in the calculation of the gross investment in leases to determine if changes are required.

Due to credit institutions, customers, debt securities issued and subordinated debt

Deposits, debt securities issued and subordinated liabilities are initially measured at fair value less relevant transaction costs and subsequently at their amortized cost using the effective interest method.

Contingent assets and liabilities

Contingent liabilities are not recognized in the statement of financial position, and information about them is disclosed in the financial statements, apart from cases where the disposal of resources due to their redemption is unlikely. Contingent assets are not recognized in the statement of financial position, and information about them is disclosed in the financial statements in cases where it is probable that the economic benefits associated with them will be received.

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Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL. For other loan commitments the Bank recognizes a loss allowance.

Financial liabilities recognized in relation to financial guarantees and loan commitments are included in other liabilities.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and that can be estimated reliably.

Obligations with regard to retirement and other benefits

The Bank does not have other pension arrangements other than the state pension system of the Republic of Belarus, which provides for calculating current pension funds contributions by the employer as a percentage of current total payments to the employees. These expenses are recognized in the same reporting period as the payroll to which they relate. In addition, the Bank has no significant post-retirement benefits.

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 recognized as a decrease in the amount received from the issue.

Non-monetary contributions are included in the share capital at fair value of the contributed assets as of the contribution date.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared prior to 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 financial statements are authorized for issue.

Interest and similar income and expense

Effective interest rate

Interest income and expenses are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

(in thousands of Belarusian rubles)

The calculation of the effective interest rate on financial assets except for those measured at FVTPL includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any allowance for expected credit losses.

The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any allowance for expected credit losses.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

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

- Interest income on financial assets measured at amortized cost;
- Interest income on debt instruments measured at FVTOCI.

Other interest income presented in the statement of comprehensive income includes interest income on net finance leases.

Interest expense presented in the statement of comprehensive income includes interest expenses on financial liabilities measured at amortized cost.

Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income — including account servicing fees, investment management fees, sales commission— is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank

(in thousands of Belarusian rubles)

first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Net income from transactions with financial instruments measured at FVTPL

Net income from transactions with financial instruments measured at FVTPL includes gains less losses related to assets and liabilities available for trading, and all fair values changes and foreign exchange differences.

Effect of foreign currency exchange differences

The financial statements are presented in Belarusian Rubles, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially translated to the functional currency at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate as at the reporting date. Gains and losses resulting from foreign currency transactions are recognized in the statement of comprehensive income as net gains from foreign currency transactions. Non-monetary items measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the exchange rate 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 at the date of the transaction are included in net gains from transactions in foreign currencies.

As at December 31, 2021 and 2020 the official exchange rate applied in the preparation of the financial statements is as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
USD / BYN	2,5481	2,5789
EUR / BYN	2,8826	3,1680
RUB / BYN	0,034322	0,034871

New standards and interpretations not yet adopted

New standard and amendments are effective for annual periods beginning after December 31, 2021 with early application permitted. However, the Bank has not early adopted the new and amended standards in preparation of these financial statements.

The following new standards and amendments are not expected to have a significant impact on the Bank's financial statements:

- IFRS 17 Insurance Contracts;
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-current;
- Amendments to IFRS 3 – Reference to the Conceptual Framework;
- Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use;
- Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract;
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-Time Adopter;
- IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities;
- Amendments to IAS 8 – Definition of Accounting Estimates;
- Amendments to IAS 1 and IFRS Practice Statement 2 – «Disclosure of Accounting Policies.

(in thousands of Belarusian rubles)

4. Significant judgements and estimates

In preparing these financial statements, the management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on a regular basis. Adjusted estimates are recognized in a reviewed reporting period, including any other subsequent periods adjustments may impact.

Judgements

Information about assumptions used in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is disclosed in the following notes:

- Classification of financial assets: business-model valuation, within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding – Note 3.
- Establishing the criteria for determining whether credit risk on the financial assets has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 27.
- When assessing the loss given default (LGD) of individually significant borrowers the Bank applies judgment on the term of sale for the real estate taken as collateral under a corresponding loan under 12 months. If the specified term increases to 24 months, the effect to allowance for ECL will comprise BYN 407 thousand.
- For the purpose of determining the levels of the fair value hierarchy, the Bank applies judgment in regard to the active market definition. Description of the valuation methods and key inputs on financial instruments measured at fair value is given in Note 28.
- Operating lease: The Bank cannot determine easily the interest rate stipulated in the lease agreement, which is why it uses the incremental borrowing rate to measure lease commitments. The lessee's incremental borrowing rate is the rate of interest that the Bank would have to pay at the inception of a lease 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. The Bank determines incremental borrowing rate using observable inputs (such as market interest rates), if any, and uses specific estimates. With respect to the lease term, the Bank determines whether there is reasonable certainty that the Bank will exercise options to extend and terminate the lease. For detailed information, see Note 3.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the financial statements for the year ended December 31, 2021 is disclosed in the following notes:

- ECL assessment for financial instruments: determining inputs into the ECL measurement model, including incorporation of forecast information – Note 27.
- Impairment of financial instruments – Notes 6, 7, 9, 10, 14.
- Fair value measurement of financial assets and financial liabilities – Note 28.

5. Business combinations

On April 1, 2021, the Bank acquired 99.99% of the voting shares of Idea Bank CJSC, having received permission from the relevant regulatory authorities. The main purpose of the acquisition of Idea Bank CJSC was the subsequent reorganization in the form of joining Idea Bank CJSC to the Bank. The reorganization procedure in the form of accession was completed on October 29, 2021.

The fair value of the acquired identifiable assets and liabilities, as well as the income arising from the acquisition, amounted to:

(in thousands of Belarusian rubles)

	<i>Fair value recognized upon acquisition</i>
Cash and cash equivalents	94 762
Due from credit institutions	5 808
Loans to customers	248 173
Investment securities	-
Property and equipment (Note 11)	30 428
Intangible assets (Note 12)	2 229
Other assets	3 533
	<hr/>
Due to credit institutions	6 457
Customer accounts	287 321
Deferred tax liability	2 201
Other liabilities	2 502
	<hr/>
Total identifiable net assets	77 771
	<hr/>
Income arising from acquisition	27 771
Refund transferred upon acquisition	50 000
	<hr/>

The compensation paid at the time of purchase is represented by cash.

Cash outflow analysis upon subsidiary acquisition

Net cash received with the subsidiary (included in cash flows from investment activity)	94 762
Cash paid upon acquisition (included in cash flows from investment activity)	50 000
Net cash outflow	44 762

6. Cash and cash equivalents

Cash and cash equivalents include:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Current accounts with the National Bank of the Republic of Belarus	230 080	176 566
Cash on hand	120 071	98 789
Current accounts with other credit institutions	91 981	42 313
Term deposits with credit institutions up to 90 days	20 866	22 398
Total cash and cash equivalent	462 998	340 066
	<hr/>	<hr/>
Net of loss allowance	(93)	(80)
Cash and cash equivalents	462 905	339 986

As at December 31, 2021 current accounts with credit institutions include BYN 56 187 thousand, placed with twelve banks in the Republic of Belarus (as at December 31, 2020: BYN 20 649 thousand, placed with four banks in the member countries of the Organization for Economic Co-operation and Development (hereinafter – "OECD").

All balances of cash equivalents are recognized as Stage 1 for ECL calculation. Movements in the loss allowance for funds placed in current accounts with credit institutions and short-term deposits are presented in the table below:

(in thousands of Belarusian rubles)

	Stage 1	Total 2021
Allowance for ECL as at January 1	80	80
New financial assets originated or purchased	93	93
Repaid financial assets	(80)	(80)
Allowance for ECL as at December 31, 2021	93	93

Movements in the loss allowance for funds placed in current accounts with credit institutions and short-term deposits for the year ended December 31, 2020 are presented in the table below:

	Stage 1	Total 2020
Allowance for ECL as at January 1	87	87
New financial assets originated or purchased	72	72
Repaid financial assets	(79)	(79)
Allowance for ECL as at December 31, 2020	80	80

Movement in the loss allowance is associated with the changes in the amount of funds placed on current accounts in credit institutions and the National Bank of the Republic of Belarus, and short-term deposits:

	Stage 1	Total 2021
Debt as at January 1	241 277	241 277
New financial assets originated or purchased	342 928	342 928
Repayment	(241 278)	(241 278)
Debt as at December 31	342 927	342 927

The movement specified above was provided to prove the change in the amount of ECL during the year and does not reflect any movement, if the Bank placed funds to its current accounts with credit institutions and the National Bank of the Republic of Belarus, as well as short-term deposits within the year.

Analysis of changes in gross carrying amount for the year ended December 31, 2020 is presented below:

	Stage 1	Total 2020
Debt as at January 1	170 682	170 682
New financial assets originated or purchased	139 756	139 756
Repayment	(72 276)	(72 276)
Foreign exchange rates change and other changes	3 115	3 115
Debt as at December 31	241 277	241 277

7. Due from credit institutions

Due from credit institutions comprise:

	December 31, 2021	December 31, 2020
Mandatory reserve deposit with the National Bank of the Republic of Belarus	13 800	11 262
Term deposits placed for more than 90 days	9 124	8 199
Total due from credit institutions	22 924	19 461
Net of loss allowance	(190)	(169)
Due from credit institutions	22 734	19 292

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

As at December 31, 2021, 60% (2020: 75%) of the term deposits placed for a period exceeding 90 days were placed with one Belarusian bank.

(in thousands of Belarusian rubles)

As at December 31, 2021, due from credit institutions included BYN 4 325 thousand, placed as collateral for obligations under settlements using payment cards and international payment systems (2020: BYN 1 271 thousand).

Analysis of changes in ECL for the year ended December 31, 2021 is presented below:

	Stage 1	Stage 2	Total 2021
Allowance for ECL as at January 1	130	39	169
Transition to Stage 1	39	(39)	-
Net change in loss allowance	(3)	-	(3)
New financial assets originated or purchased	44	-	44
Financial assets that have been derecognized	(19)	-	(19)
Foreign exchange rates change and other changes	(1)	-	(1)
Allowance for ECLas at December 31	190	-	190

The movements above were disclosed to prove the change in the amount of ECL during the year and does not reflect any movements if the Bank placed funds with credit institutions and the National Bank of the Republic of Belarus, as well as deposits within the year.

Analysis of ECL movements for the year ended December 31, 2020 is presented below:

	Stage 1	Stage 2	Total 2020
Allowance for ECLas at January 1	103	16	119
Net change in loss allowance	(10)	-	(10)
New financial assets originated or purchased	48	19	67
Financial assets that have been derecognized	(13)	-	(13)
Foreign exchange rates change and other changes	2	4	6
Allowance for ECL as at December 31	130	39	169

Analysis of changes in gross carrying amount for the year ended December 31, 2021 is presented below:

	Stage 1	Stage 2	Total 2021
Debt as at January 1	19 049	412	19 461
Transition to Stage 1	412	(412)	-
New financial assets originated or purchased	2 367	-	2 367
Financial assets that have been derecognized	(4 467)	-	(4 467)
Changes in foreign exchange rates and other changes	5 563	-	5 563
Debt as at December 31	22 924	-	22 924

Analysis of changes in gross carrying amount for the year ended December 31, 2020 is presented below:

	Stage 1	Stage 2	Total 2020
Debt as at January 1	14 944	173	15 117
New financial assets originated or purchased	8 046	200	8 246
Financial assets that have been derecognized	(4 492)	-	(4 492)
Changes in foreign exchange rates and other changes	551	39	590
Debt as at December 31	19 049	412	19 461

8. Derivative financial instruments

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

(in thousands of Belarusian rubles)

	December 31, 2021			December 31, 2020		
	Notional amount, equivalent	Fair value		Notional amount, equivalent	Fair value	
		Asset	Liability		Asset	Liability
Currency contracts						
Swaps – foreign contracts	16 728	6	(1)	47 731	12	(45)
Swaps – domestic contracts	51 477	93	(120)	66 144	38	(210)
Total derivative assets/ (liabilities)	68 205	99	(121)	113 875	50	(255)

Foreign contracts are contracts concluded with non-residents of the Republic of Belarus, whereas domestic contracts are contracts concluded with residents of the Republic of Belarus represented in the table above.

As at December 31, 2021 and December 31, 2020, the Bank has positions in the following types of derivatives:

Swaps

Swaps are contractual agreements between two parties about the exchange of amounts comprising change in the interest rate, foreign currency exchange rate or stock market indices and (for credit default swaps) on making payments when certain events for loans based on the notional amounts arise.

9. Loans to customers

Loans to customers include:

	December 31, 2021	December 31, 2020
Loans to legal entities	727 360	690 224
Loans to individuals	585 762	449 348
Financial lease	64 720	54 906
Total loans to customers	1 377 842	1 194 478
Net of loss allowance	(25 584)	(31 810)
Loans to customers	1 352 258	1 162 668

Analysis of changes in loss allowance for loans to legal entities and individuals for the year ended December 31, 2021 is presented below. The movements above were disclosed to prove the change in the amount of ECL during the year and do not reflect any movements if the debt was originated or settled within the year.

	Stage 1	Stage 2	Stage 3	Total 2021
Allowance for ECL on loans to individuals as at January 1				
Balance as at January 1	2 207	430	5 346	7 983
Transfer into Stage 1	421	(89)	(332)	-
Transfer into Stage 2	(449)	468	(19)	-
Transfer into Stage 3	(2 704)	(220)	2 924	-
Net change in loss allowance	(218)	490	12 436	12 708
New financial assets originated or purchased	4 458	-	-	4 458
Financial assets that have been derecognized	(919)	(306)	(3 767)	(4 992)
Write-offs	-	-	(10 284)	(10 284)
Unwinding of discount	-	-	328	328
Allowance for ECL on loans to individuals as at December 31	2 796	773	6 632	10 201

(in thousands of Belarusian rubles)

	Stage 1	Stage 2	Stage 3	Total 2021
Allowance for ECL on loans to legal entities as at January 1				
Balance as at January 1	10 676	768	10 936	22 380
Transfer into Stage 1	6 467	(112)	(6 355)	-
Transfer into Stage 2	(514)	929	(415)	-
Transfer into Stage 3	(3 696)	(231)	3 927	-
Net change in loss allowance	(4 037)	392	7 171	3 526
New financial assets originated or purchased	6 937	-	-	6 937
Financial assets that have been derecognized	(6 705)	(601)	-	(7 306)
Write-offs	-	-	(10 550)	(10 550)
Unwinding of discount	-	-	648	648
Changes in foreign exchange rates and other changes	(810)	(14)	(69)	(893)
Allowance for ECL on loans to legal entities as at December 31	8 318	1 131	5 293	14 742

Analysis of changes in loss allowance for loans to legal entities and individuals for the year ended December 31 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2020
Allowance for ECL as at January 1 on loans to individuals				
Balance as at January 1	3 020	674	2 154	5 848
Transfer into Stage 1	152	(116)	(36)	-
Transfer into Stage 2	(193)	193	-	-
Transfer into Stage 3	(1 887)	(76)	1 953	-
Net change in loss allowance	(517)	229	6 991	6 703
New financial assets originated or purchased	2 704	-	-	2 704
Financial assets that have been derecognized	(1 082)	(474)	(2 053)	(3 609)
Write-offs	-	-	(3 685)	(3 690)
Unwinding of discount	-	-	22	22
Allowance for ECL on loans to individuals as at December 31	2 207	430	5 346	7 983

	Stage 1	Stage 2	Stage 3	Total 2020
Allowance for ECL as at January 1 on loans to legal entities				
Balance as at January 1	5 925	48	1 666	7 639
Transfer into Stage 1	342	(9)	(333)	-
Transfer into Stage 2	(606)	789	(183)	-
Transfer into Stage 3	(4 464)	(11)	4 475	-
Net change in loss allowance	(933)	55	6 069	5 191
New financial assets originated or purchased	12 373	-	-	12 373
Financial assets that have been derecognized	(2 654)	(145)	(1 236)	(4 035)
Write-offs	-	-	(245)	(245)
Unwinding of discount	-	-	665	665
Changes in foreign exchange rates and other changes	693	41	58	792
Allowance for ECL on loans to legal entities as at December 31	10 676	768	10 936	22 380

Movement in loss allowance is associated with the changes in gross carrying amount of loans to individuals:

	Stage 1	Stage 2	Stage 3	Total 2021
Debt on loans to individuals, as at January 1				
Balance as at January 1	435 405	3 132	10 811	449 348

(in thousands of Belarusian rubles)

Transfer into Stage 1	918	(382)	(536)	-
Transfer into Stage 2	(5 538)	5 558	(20)	-
Transfer into Stage 3	10 322	(512)	(10 834)	-
New financial assets originated or purchased	290 130	-	-	290 130
Financial assets that have been derecognized	(142 818)	(2 625)	-	(145 443)
Write-offs	-	-	(10 284)	(10 284)
Unwinding of discount	-	-	328	328
Changes in foreign exchange rates and other changes	-	-	1 683	1 683
Debt on loans to individuals, as at December 31	567 775	5 171	12 816	585 762

Decrease in the gross carrying amount on loans to individuals is caused primarily by decrease in the period of turnover on installment credit cards on contracts with individuals.

The Bank continued to apply debt collection procedures to all loans to individuals written-off during the years ended December 31, 2021 and December 31, 2020.

Movement in loss allowance is associated with the changes in gross carrying amount of loans to legal entities:

	Stage 1	Stage 2	Stage 3	Total 2021
Debt on loans to legal entities, as at January 1				
Balance as at January 1	639 146	27 138	23 940	690 224
Transfer into Stage 1	25 709	(6 834)	(18 875)	-
Transfer into Stage 2	(7 554)	23 412	(15 858)	-
Transfer into Stage 3	(8 875)	(509)	9 384	-
New financial assets originated or purchased	427 135	-	-	427 135
Financial assets that have been derecognized	(361 201)	(31 361)	-	(392 562)
Write-offs	-	-	(10 550)	(10 550)
Unwinding of discount	-	-	648	648
Changes in foreign exchange rates and other changes	(11 268)	(238)	23 971	12 465
Debt on loans to legal entities, as at December 31	703 092	11 608	12 660	727 360

The Bank continues to apply debt collection procedures to all loans to legal entities written-off during the years ended December 31, 2021 and December 31, 2020.

Analysis of changes in loans to legal entities and individuals for the year ended December 31, 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2020
Debt on loans to individuals, as at January 1				
Balance as at January 1	440 873	3 779	4 560	449 212
Transfer into Stage 1	861	(778)	(83)	-
Transfer into Stage 2	(3 603)	3 604	(1)	-
Transfer into Stage 3	(12 285)	(504)	12 789	-
New financial assets originated or purchased	174 334	-	-	174 334
Financial assets that have been derecognized	(164 801)	(2 969)	(2 791)	(170 561)
Write-offs	-	-	(3 685)	(3 685)
Unwinding of discount	-	-	22	22
Changes in foreign exchange rates and other changes	27	-	-	27
Debt on loans to individuals, as at December 31	435 405	3 132	10 811	449 348

	Stage 1	Stage 2	Stage 3	Total 2020
Debt on loans to legal entities, as at January 1				
Balance as at January 1	484 812	401	4 093	489 306
Transfer into Stage 1	973	(130)	(843)	-
Transfer into Stage 2	(30 715)	31 337	(426)	-
Transfer into Stage 3	(26 175)	(107)	26 947	-
New financial assets originated or purchased	397 504	-	-	397 925
Financial assets that have been derecognized	(202 048)	(5 190)	(7 397)	(214 635)
Write-offs	-	-	(245)	(245)

(in thousands of Belarusian rubles)

	Stage 1	Stage 2	Stage 3	Total 2020
Unwinding of discount	-	-	665	665
Changes in foreign exchange rates and other changes	32 795	1 023	1 811	35 629
Debt on loans to legal entities, as at December 31	639 146	27 138	23 940	690 224

The allowance for impairment in the tables above includes expected credit losses on certain loan commitments to customers, such as lines of credit, credit cards, overdrafts, since the Bank can not determine the expected credit losses on the uncalled component of loan commitments separately from those related to loans already issued within the loan commitments.

As at December 31, 2020 the Bank implemented some changes to the process of assessing expected credit losses due to the continued COVID-19 pandemic. In particular, it revised the indicators of significant increase in the credit risk and did not make automated conclusions on significant increase in credit risk if the credit was modified as a result of implemented state support measures. The Bank unified the approach to the calculating the probability of default of clients for the first and subsequent years of credit life: it selected the chain ladder method as the unified assessment method. For the largest borrowers, the individual assessment of expected credit losses was introduced. The Bank also updated the forecast information, including macroeconomic indicator forecasts and the weight scenarios. To present appropriately the uncertainty related to COVID-19 spreading, the Bank applied additional individual adjustments on the basis of changes in ratings or other parameters subject to stress changes.

The table below discloses additional adjustments introduced by the management when assessing the expected credit losses they have already recognized as at December 31, 2020:

	ECL according to the model	Adjustments to the model and additional adjustments of the management	Total ECL	Adjustments in % from total ECL
Loans to legal entities	23 998	(1 618)	22 380	(6,74)
Loans to individuals	8 520	(537)	7 983	(6,30)
Financial lease	2 346	(899)	1 447	(38,32)
Total	34 864	(3 054)	31 810	(8,76)

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

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions – cash or securities;
- For commercial lending – pledge of real estate, inventory and accounts receivable;
- For car lending – pledge of a car.

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

The information about loans to customers as at December 31 in the context of collateral types is presented below. Information is based on the loans carrying amount before allowance for expected credit losses, rather than the fair value of the collateral:

	December 31, 2021	December 31, 2020
Real property	442 921	363 248
Property and equipment	156 044	127 979
Goods for sale	94 597	77 581
Cash	775	636
Other	97 743	79 950
Unsecured	585 762	545 084
Loans to customers	1 377 842	1 194 478

(in thousands of Belarusian rubles)

The table above excludes the cost of overcollateralization.

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

Since the Bank focuses on the creditworthiness of borrowers, the Bank, as a rule, does not revise the estimated value of collateral, unless the credit risk on a loan has increased significantly and the loan is monitored closely. Accordingly, the Bank does not regularly revise the estimated value of collateral accepted for all loans to customers. For loans for which an evidence of impairment has been identified, the Bank typically revises the estimated value of collateral. As at December 31, 2021 the cost of collateral for credit-impaired debt to legal entities amounted to BYN 12 397 thousand (December 31, 2020: BYN 23 887 thousand).

As at December 31, 2021, 100% of the retail loan portfolio amounting to BYN 585 762 thousand (December 31, 2020: 99,46%, or BYN 446 561 thousand) is represented by unsecured loans.

As at December 31, 2021 loans secured by guarantee deposits amounted to BYN 515 thousand (December 31, 2020: 636 thousand).

Concentration of loans to customers

As at December 31, 2021 the concentration of loans issued by the Bank to ten largest borrowers groups amounted to BYN 302 199 thousand, or 22% of gross loan portfolio. A loss allowance was created for the loans of BYN 4 315 thousand. As at December 31, 2020 the concentration of loans issued by the Bank to ten largest borrowers groups amounted to BYN 310 581 thousand, or 26% of gross loan portfolio. An impairment allowance of BYN 5 348 thousand was created for the loans.

Structure of the loan portfolio by the types of customers is as follows:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Private companies	727 492	645 393
Individuals	585 862	449 348
State organizations	64 488	99 737
Loans to customers	1 377 842	1 194 478

Loans are primarily issued to customers located within the Republic of Belarus, operating in the following industry sectors:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Individuals	585 862	449 348
Wholesale and retail trade	304 494	336 267
Transportation	172 996	55 129
Manufacturing	104 360	142 484
Real estate	73 550	106 855
Food industry	52 218	4 913
Construction	6 143	55 053
Others	78 219	44 429
Loans to customers	1 377 842	1 194 478

In 2020, the Bank financed start-up companies within a program with OJSC Development Bank of the Republic of Belarus. The contractual interest rate on loans in Belarusian rubles issued under this program, as at December 31, 2020 ranged from 6,375% to 11,25%. Balances under these loan agreements amounted to BYN 5 854 thousand as at December 31, 2021 and BYN 8 705 thousand as at December 31, 2020.

(in thousands of Belarusian rubles)

Finance lease receivables

The Bank is a lessor under finance lease agreements. The subject of the lease are motor vehicles, industrial equipment and real estate items. The term of the lease agreement is from 12 months to 48 months for motor vehicles and up to 60 months under other lease agreements.

Subject to agreement with the Bank, the lessee is entitled to early fulfill its obligations under the lease agreement in full in advance provided that at least one year has passed from the date of actual transfer of lease item to the lessee. Upon written consent of the Bank, the lease item may be leased, subleased or transferred gratuitously provided that the legislation requirements are met. In case of early termination of the lease agreement and withdrawal by the Bank (return by the lessee) of the lease item, the lessee must apply to the relevant registration authority for introduction of amendments to information on state registration of the lease item as required.

The analysis of finance lease receivables as at December 31, 2021 is as follows:

	<i>Up to 1 year</i>	<i>From 1 to 5 years</i>	<i>Total December 31, 2021</i>
Gross investments in finance leases	48 775	30 571	79 346
Unearned future finance income on finance leases	(7 010)	(7 616)	(14 626)
Net investment in finance leases	41 765	22 955	64 720

The analysis of finance lease receivables as at December 31, 2020 is as follows:

	<i>Up to 1 year</i>	<i>From 1 to 5 years</i>	<i>Total December 31, 2020</i>
Gross investments in finance leases	41 263	27 502	68 765
Unearned future finance income on finance leases	(6 290)	(7 569)	(13 859)
Net investment in finance leases	34 973	19 933	54 906

Information on created loss allowance related to finance lease receivables for the year ended December 31, 2021 is presented below:

BYN thousand	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total 2021</i>
Allowance for ECLas at 1 January on financial leases	270	111	1 066	1 447
Transfer into Stage 1	628	(30)	(598)	-
Transfer into Stage 2	(116)	128	(12)	-
Transfer into Stage 3	(28)	(107)	135	-
Net change in loss allowance	(297)	12	56	(229)
New financial assets originated or purchased	396	-	-	396
Financial assets that have been derecognized	(530)	88	(516)	(958)
Changes in foreign exchange rates and other changes	(5)	(1)	(9)	(15)
Allowance for ECLas at December 31 on financial leases	318	201	122	641

Information on created loss allowance related to finance lease receivables for the year ended December 31, 2020 is presented below:

BYN thousand	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total 2020</i>
Allowance for ECL as at 1 January on financial leases	559	77	69	705
Transition to Stage 2	(66)	66	-	-
Transition to Stage 3	(263)	-	263	-

(in thousands of Belarusian rubles)

Net change in loss allowance	(82)	33	814	765
New financial assets originated or purchased	446	-	-	446
Financial assets that have been derecognized	(341)	(69)	(83)	(493)
Changes in foreign exchange rates and other changes	17	4	3	24
Allowance for ECL as at December 31 on financial leases	270	111	1 066	1 447

Analysis of changes in finance lease receivables for the year ended December 31, 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2021
Financial leases, as at January 1				
Balance as at January 1	50 072	2 488	2 346	54 906
Transfer into Stage 1	43	1 583	(1 626)	-
Transfer into Stage 2	(1 983)	2 036	(53)	-
Transfer into Stage 3	(68)	(235)	303	-
New financial assets originated or purchased	47 667	-	-	47 667
Financial assets that have been derecognized	(34 055)	(2 778)	(664)	(37 497)
Changes in foreign exchange rates and other changes	(313)	(33)	(10)	(356)
Financial leases, as at December 31	61 363	3 061	296	64 720

Analysis of changes in finance lease receivables for the year ended December 31, 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2020
Financial leases, as at January 1				
Balance as at January 1	50 813	350	135	51 298
Transfer into Stage 1	-	-	-	-
Transfer into Stage 2	(3 360)	3 360	-	-
Transfer into Stage 3	(3 327)	-	3 327	-
New financial assets originated or purchased	37 123	-	-	37 123
Financial assets that have been derecognized	(32 330)	(1 383)	(1 366)	(35 079)
Changes in foreign exchange rates and other changes	1 153	161	250	1 564
Financial leases, as at December 31	50 072	2 488	2 346	54 906

10. Investment securities

Investment securities measured at FVTOCI are presented as follows:

	December 31, 2021	December 31, 2020
Debt securities pledged under other contracts	25 580	-
Debt securities	14 059	48 463
Equity securities	802	571
Total investment securities	40 441	49 034

The Bank on its own classified investments set in the table below as equity securities measured at FVTOCI. According to the Bank's expectations, these investments will be held in the long-term perspective in order to achieve the objectives set, that's why the Bank reclassified them into securities measured at FVTOCI.

Equity securities held by the Bank are as follows:

(in thousands of Belarusian rubles)

	Fair value as at December 31, 2021	Fair value as at December 31, 2020
OJSC Non-bank financial institution Single Settlement and Information Space (SSIS)	714	483
SWIFT	88	88
Total investments in equity securities measured at FVTOCI	802	571

As at December 31, 2021, there were the following financial assets pledged as collateral for funds raised from banks (Note 15): government long-term bonds of the Ministry of Finance of the Republic of Belarus 260 and 265 issues in the amount of 10 253 units worth BYN 25 580 thousand. As at December 31, 2020 there were no financial assets pledged as collateral for funds raised from banks..

Debt securities measured at FVTOCI but not pledged are presented by the following instruments:

	December 31, 2021	December 31, 2020
Bonds issued by republican authorities	39 639	48 463
Total securities measured at FVTOCI	39 639	48 463
Loss allowance	(614)	(670)
Carrying amount is a fair value of securities measured at FVTOCI	39 639	48 463

Securities measured at FVTOCI pledged under repurchase and other agreements are represented by the following instruments (Note 15):

	December 31, 2021	December 31, 2020
Bonds issued by republican authorities	25 580	-
Total securities measured at FVTOCI pledged under repurchase agreements and other agreements	25 580	-
Loss allowance	(422)	-
Securities measured at FVTOCI pledged under repurchase and other agreements	25 580	-

Movement in loss allowance of securities measured at FVTOCI is presented below:

	Stage 1	Total 2021
Investment securities		
Balance as at January 1	670	670
New financial assets originated or purchased	368	368
Financial assets that have been derecognized	(196)	(196)
Net change in allowance	(222)	(222)
Changes in foreign exchange rates and other changes	(6)	(6)
Balance as at December 31	614	614

Movement in loss allowance of securities measured at FVTOCI for the year ended December 31, 2020 is presented below:

	Stage 1	Total 2020
Investment securities		
Balance as at January 1	1 377	1 377
New financial assets originated or purchased	388	388
Financial assets that have been derecognized	(1 102)	(1 102)
Net change in allowance	(55)	(55)
Changes in foreign exchange rates and other changes	62	62
Balance as at December 31	670	670

Change in loss allowance for securities measured at FVTOCI is associated with a change in the debt for which the allowance is formed:

(in thousands of Belarusian rubles)

	Stage 1	Total 2021
Securities measured at FVTOCI, as at January 1		
Balance as at January 1	48 463	48 463
New financial assets originated or purchased	24 114	24 114
Financial assets that have been derecognized	(14 177)	(14 177)
Changes in foreign exchange rates and other changes	(18 761)	(18 761)
Securities measured at FVTOCI, as at December 31	39 639	39 639

The above-mentioned movement has been complied for the purpose of justifying a change in the value of expected credit losses during the year and does not reflect movements if the acquisition and sale of investment securities occurred within one year.

Analysis of changes in investment securities measured at FVTOCI for the year ended December 31, 2020 is presented below:

	Stage 1	Total 2020
Securities measured at FVTOCI, as at January 1		
Balance as at January 1	105 852	105 852
New financial assets originated or purchased	28 020	28 020
Financial assets that have been derecognized	(89 177)	(89 177)
Changes in foreign exchange rates and other changes	3 768	3 768
Securities measured at FVTOCI, as at December 31	48 463	48 463

11. Property and equipment

Movements in property and equipment are as follows:

	Buildings	Computers and office equipment	Vehicles	Furniture	Constructi on in progress	Right-of-use assets	Total
Initial cost							
As at January 1, 2021	4 346	22 506	663	9 833	1 012	23 481	61 841
Additions	-	2 115	-	1 151	-	7 586	10 852
Additions from business combination (Note 5)	24 631	6 190	167	7 908	-	-	38 896
Disposal	(760)	(198)	(353)	(3 996)	-	(2 178)	(7 485)
Impairment loss	(396)	-	-	-	-	-	(396)
Transfers	184	(272)	181	330	(423)	-	-
As at December 31, 2021	28 005	30 342	658	15 226	589	28 889	103 708
Accumulated depreciation							
As at January 1, 2021	(1 020)	(13 000)	(564)	(6 484)	-	(14 040)	(35 108)
Accrued depreciation	(302)	(3 786)	(106)	(550)	-	(8 537)	(13 281)
Additions from business combination (Note 5)	(17)	(4 361)	(136)	(3 954)	-	-	(8 468)
Disposal	270	194	332	562	-	1 933	3 290
Transfers	25	108	-	(133)	-	-	-
As at December 31, 2021	(1 068)	(20 954)	(475)	(10 426)	-	(20 644)	(53 567)
Net carrying amount							
As at January 1, 2021	3 326	9 506	99	3 349	1 012	9 441	26 733
As at December 31, 2021	26 936	9 388	183	4 800	589	8 245	50 141
Initial cost							
As at January 1, 2020	4 516	17 423	677	9 648	1 144	24 314	57 722

(in thousands of Belarusian rubles)

	Buildings	Computers and office equipment	Vehicles	Furniture	Constructi on in progress	Right-of- use assets	Total
Additions	53	5 450	-	773	-	5 380	11 656
Disposal	(225)	(481)	(14)	(604)	-	(6 213)	(7 537)
Transfers	2	114	-	16	(132)	-	-
As at December 31, 2020	4 346	22 506	663	9 833	1 012	23 481	61 841
Accumulated depreciation							
As at January 1, 2020	(1 144)	(11 035)	(507)	(5 646)	-	(7 325)	(25 657)
Depreciation charge	(96)	(2 439)	(70)	(1 293)	-	(8 776)	(12 674)
Disposal	220	474	13	455	-	2 061	3 223
As at December 31, 2020	(1 020)	(13 000)	(564)	(6 484)	-	(14 040)	(35 108)
Net carrying amount							
As at January 1, 2020	3 372	6 388	170	4 002	1 144	16 989	32 065
As at December 31, 2020	3 326	9 506	99	3 349	1 012	9 441	26 733

As at December 31, 2021 and 2020 the cost of fully depreciated property and equipment made up BYN 20 191 thousand and BYN 7 882 thousand respectively. As at December 31, 2021 an independent assessment of isolated premises, an equitional structure, structures and engineering networks was carried out, as a result of which an impairment in the amount of BYN 396 thousand was revealed for some fixed assets. Also, based on the results of this independent assessment, the preliminary estimate of the fair value of buildings made at the date of the business merger was revised from BYN 25 979 thousand to BYN 24 154 thousand. The adjustment of the revaluation reserve as of April 1, 2021 amounted to BYN 1 825 thousand. As at December 31, 2020 the Bank had no impairment indicators of property and equipment.

12. Intangible assets

Movements in intangible assets are as follows:

	December 31, 2021	December 31, 2020
Value		
As at January 1	43 959	35 776
Additions	14 864	8 215
Additions from business combination	4 215	-
Disposal	(4 197)	(32)
As at December 31	58 841	43 959
Accumulated depreciation		
As at January 1	(18 769)	(13 728)
Amortization charge	(7 903)	(5 073)
Proceeds from business combination amortization	(1 986)	-
Disposal	3 643	32
As at December 31	(25 015)	(18 769)
Net book value		
As at January 1	25 190	22 048
As at December 31	33 826	25 190

As at December 31, 2021 and 2020 the cost of fully amortized intangible assets amounted to BYN 4 437 thousand and BYN 2 848 thousand respectively.

The Bank's intangible assets are mainly represented by software used in banking (accounting systems, software for processing systems and business lines), and license agreements for its use..

(in thousands of Belarusian rubles)

13. Taxation

Income tax expenses comprise:

	Total 2021	Total 2020
Current income tax expenses	22 907	14 251
Deferred tax income/(expense)– origination and reversal of temporary differences	(1 274)	54
Income tax expenses	21 633	14 305

Belarusian legal entities are obliged to calculate and pay taxes by themselves. The income tax rate for banks is set at 25% from January 1, 2015, excluding income from transactions with securities that are not taken into account when determining gross profit in accordance with the Tax Code of the Republic of Belarus.

As at December 31, 2021 and 2020 the Bank calculates deferred tax assets and liabilities using 25% tax rate.

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

	Total 2021	Total 2020
Income before income tax	107 542	60 817
Statutory tax rate	25%	25%
Theoretical income tax expense at the statutory rate	26 886	15 204
Effect of permanent tax differences:	(4 453)	(899)
Income tax benefit on securities	(800)	(1 192)
Effect of expenses not taken into account in taxation	596	-
The effect of income from the acquisition of a business	(6 943)	-
Other non-deductible expenses, net	1 894	293
Income tax expenses	21 633	14 305

Deferred tax assets and liabilities as at December 31 and their movements for the respective years are presented in the table below:

	December 31, 2019	Origination and reversal of temporary differences in the statement of profit or loss	December 31, 2020	Origination and reversal of temporary differences in the statement of profit or loss	December 31, 2021
Tax effect of deductible temporary differences					
Cash and cash equivalents	22	(22)	-	-	-
Derivative financial liabilities	15	49	64	(34)	30
Derivative financial assets	-	-	-	2 420	2 420
Property and equipment	2 195	3 936	6 131	(5 304)	827
Intangible assets	121	-	121	(121)	-
Assets classified as held for sale	2	(2)	-	-	-
Customer accounts	-	31	31	214	245
Other assets	1 910	(672)	1 238	(1 238)	-
Other liabilities	1 292	58	1 350	1 963	3 313
Tax effect of taxable temporary differences					
Cash and cash equivalents	-	(10)	(10)	(210)	(220)
Due from credit institutions	(47)	(46)	(93)	(28)	(121)
Derivative financial assets	(22)	9	(13)	(12)	(25)

(in thousands of Belarusian rubles)

	<i>December 31, 2019</i>	<i>Origination and reversal of temporary differences in the statement of profit or loss</i>	<i>December 31, 2020</i>	<i>Origination and reversal of temporary differences in the statement of profit or loss</i>	<i>December 31, 2021</i>
Loans to customers	(14 635)	(1 371)	(16 006)	(1 482)	(17 488)
Investment securities	(65)	63	(2)	-	(2)
Intangible assets	-	-	-	(129)	(129)
Due to credit institutions	(262)	8	(254)	106	(148)
Other assets	-	-	-	(2 246)	(2 246)
Debt securities issued	(58)	(5)	(63)	(103)	(166)
Other borrowed funds	(37)	17	(20)	20	-
Other liabilities	(3 171)	(2 111)	(5 282)	4 525	(757)
Subordinated debt	(95)	14	(81)	27	(54)
Net deferred tax liabilities	(12 835)	(54)	(12 889)	(1 632)	(14 521)

14. Other assets and liabilities

Other assets comprise:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Accrued commission income	4 103	812
Receivables	415	278
Banking operations receivables	176	-
Total financial assets	4 694	1 090
Prepayments and other debtors	4 992	3 181
Prepaid taxes, other than income tax	3 064	2 858
Prepaid expenses	1 611	1 202
Inventories	461	1 198
Assets classified as held for sale	432	-
Total non-financial assets	10 560	8 439
Net of loss allowance for other financial assets	(1 734)	(204)
Other financial assets less allowance	2 960	886
Other assets	13 520	9 325

As at December 31, 2021 prepayments and other debtors include prepayment for property and equipment in the amount of BYN 3 682 thousand (2020: BYN 2 403 thousand).

Other liabilities include the following items:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Operating lease liabilities	7 855	11 907
Accrued liabilities on loyalty programs	2 157	1 831
Trade accounts payable	1 349	977
Banking operations payables	514	-
Payables on property and equipment and intangible assets	422	245
Allowance for ECL on contingent liabilities (Note 23)	139	30
Accrued commission expenses	17	186
Other	913	548
Total financial liabilities	13 366	15 724
Taxes payable, other than income tax	4 492	3 360
Payable to employees	3 961	3 901
Deferred revenue on annual card service commission	2 730	2 477
Payables to Deposit Insurance Agency	732	381

(in thousands of Belarusian rubles)

Deferred income	80	15
Total non-financial liabilities	11 995	10 134
Other liabilities	25 361	25 858

Movement in loss allowance for other financial assets for 2021 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2021
Loss allowance of other assets as at January 1	-	-	204	204
Transfer into Stage 2	(133)	133	-	-
Transfer into Stage 3		(133)	133	-
Proceeds from business combination	-	-	7 855	7 855
New financial assets originated or purchased	133	-	-	133
Net change in loss allowance	-	-	1 552	1 552
Financial assets that have been derecognized	-	-	(22)	(22)
Write-offs			(7 855)	(7 855)
Loss allowance of other assets as at December 31	-	-	1 734	1 734

Movement in loss allowance for other financial assets for 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2020
Loss allowance of other assets as at January 1	-		274	274
Transfer into Stage 2	(91)	91	-	-
Transfer into Stage 3	-	(91)	91	-
Net change in loss allowance	-	-	773	773
New financial assets originated or purchased	91	-	-	91
Financial assets that have been derecognized	-	-	(13)	(13)
Write-offs	-	-	(921)	(921)
Loss allowance of other assets as at December 31	-	-	204	204

The change in loss allowance for other financial assets is caused by change in the balance for which the allowance is formed as at 2021:

	Stage 1	Stage 2	Stage 3	Total 2021
Debt for other financial assets as at January 1				
Balance as at January 1	806	-	284	1 090
Transfer into Stage 2	(2 364)	2 364	-	-
Transfer into Stage 3		(2 364)	2 364	-
New financial assets originated or purchased	3 290	-	-	3 290
Proceeds from business combination	-	-	7 855	7 855
Financial assets that have been derecognized	(806)	-	(198)	(1 004)
Write-offs	-	-	(7 855)	(7 855)
Foreign exchange rates change and other changes	-	-	1 318	1 318
Debt for other financial assets as at December 31	926	-	3 768	4 694

The above-mentioned movement has been compiled for the purpose of justifying a change in the value of expected credit losses during the year and does not reflect movements if the origination and repayment of debt on other financial assets has occurred during the year.

Movement in debt in 2020 is presented below:

(in thousands of Belarusian rubles)

	Stage 1	Stage 3	Total 2020
Debt for other financial assets as at January 1			
Balance as at January 1	957	557	1 514
Transfer into Stage 3	(666)	666	-
New financial assets originated or purchased	669	-	669
Financial assets that have been derecognized	(154)	(18)	(172)
Write-offs	-	(921)	(921)
Debt for other financial assets as at December 31	806	284	1 090

Below there is the carrying amount of the lease liabilities and the movement during the period:

	2021	2020
As at January 1	11 907	16 430
Modification effect	6 214	-
Additions	1 015	4 379
Interest accrued	489	231
Early termination of agreements	(184)	(3 462)
Revaluation of foreign currency agreements	(1 081)	4 259
Payments	(10 505)	(9 930)
As at December 31	7 855	11 907

In 2021, the total cash outflow under the Bank's lease agreements amounted to BYN 13 971 thousand (2020: BYN 10 945 thousand). In 2021, the Bank also had non-cash additions of right-of-use assets and lease liabilities in the amount of BYN 7 586 thousand (2020: BYN 4 426 thousand).

15. Due to credit institutions

Due to credit institutions comprises:

	December 31, 2021	December 31, 2020
Term deposits and loans from local banks	60 723	93 370
Term deposits from the National Bank of the Republic of Belarus	25 094	-
Term deposits and loans from foreign banks	781	37 354
Current accounts	526	1 010
Due to credit institutions	87 124	131 734

As at December 31, 2021 due to credit institutions of BYN 55 528 thousand (64%) were due to two banks.

As at December 31, 2020 due to credit institutions of BYN 65 805 thousand (50%) were due to two banks.

As at December 31, 2021 and December 31, 2020 there were no funds raised under REPO agreements for which the Bank's securities were pledged as collateral (Note 10).

Gain on initial recognition of loans

In 2020-2021 the Bank financed start-up companies as part of a joint program with OJSC Development Bank of the Republic of Belarus (Note 9). As at December 31, 2021 the amount of funds attracted under this program was BYN 14 913 thousand (as at December 31, 2020: BYN 22 712 thousand). Gain on initial recognition of financial instruments at fair value for 2021 was BYN 672 thousand (2020: BYN 605 thousand).

16. Due to customers

Due to customers comprise:

	December 31, 2021	December 31, 2020
Term deposits	893 666	594 761
Current customer accounts	441 778	392 591
Due to customers	1 335 444	987 352
Including cash held as security under the letters of credit	837	2 944

(in thousands of Belarusian rubles)

Term deposits include deposits held by the Bank as security under irrevocable letters of credit. The Bank is obliged to repay the deposits upon expiry of the respective letters of credit.

As at December 31, 2021 due to customers in the amount of BYN 332 573 thousand (25%) were represented by due to ten largest customers (2020: BYN 303 985 thousand (31%)). As at December 31, 2021 the amount of debt on guarantee deposit of the largest of the above mentioned clients (group of related clients) was BYN 42 260 thousand (December 31, 2020: BYN 27 843 thousand) and served as collateral for the loan (Note 9).

In 2021 term deposits include deposits of individuals in the amount of BYN 305 728 thousand (2020: 148 772 thousand).

Due to customers include the accounts of the following categories of clients:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Private companies	770 706	647 939
Individuals	493 442	307 267
State organizations	71 296	32 146
Due to customers	1 335 444	987 352

Breakdown of customer accounts by economic sectors is as follows:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Individuals	493 401	307 267
Trade	295 869	257 369
Real estate	138 620	109 230
Construction	88 560	27 177
Research and development	44 470	46 566
Vehicles	39 828	25 380
Software development and information technologies	36 243	25 934
Manufacturing	32 684	77 095
Individual entrepreneurs	29 569	18 910
Financial services	9 322	10 017
Other	126 878	82 407
Due to customers	1 335 444	987 352

17. Debt securities issued

Debt securities issued are primarily placed through non-public sales and comprise the following:

	<i>December 31, 2021</i>	<i>Maturity</i>	<i>Effective interest rate</i>	<i>December 31, 2020</i>	<i>Maturity</i>	<i>Effective interest rate</i>
Interest-bearing bonds in BYN	47 783	2022-2025	9,95-13,03%	73 747	2021-2025	9,95% - 19,81%
Interest-bearing bonds in EUR	7 662	2022	4,11-5,60%	1 591	2021	1,83% - 3,15%
Interest-bearing bonds in USD	2 672	2022	2,20-5,60%	3 315	2021	1,03% - 2,33%
Debt securities issued	58 117			78 653		

Interest-bearing bonds in BYN include securities issues in 2017-2021.

As at December 31, 2021 and 2020 the Bank fully fulfilled obligations on securities issued in a timely manner.

18. Other borrowings

Other borrowings are presented as follows:

(in thousands of Belarusian rubles)

	Currency	Type of interest rate	Attraction year	Maturity year	December 31, 2021	December 31, 2020
Creditor 1	BYN	Fixed	2019-2020	2021-2022	-	20 672
Other borrowings					-	20 672

The Bank raised borrowings from an International financial institution. As at December 31, 2021 the Bank complied with the financial terms and conditions specified in the agreement.

19. Subordinated debt

Subordinated debt comprises:

	Attraction date	Maturity	Interest rate	December 31, 2021	December 31, 2020
Subordinated loan 1 in USD	2010	2028	6,0%	11 719	11 863
Subordinated loan 2 in USD	2010	2028	6,0%	12 167	12 314
Subordinated loan 3 in BYN	2014	2023	5,0%	291	262
Subordinated loan 4 in BYN	2014	2023	5,0%	670	607
Subordinated loan 5 in USD	2015	2030	4,3%	5 096	5 158
Subordinated loan 6 in USD	2015	2025	6,0%	2 548	2 579
Subordinated debt				32 491	32 783

As at December 31, 2021 and 2020 the Bank timely and fully fulfilled its obligations on subordinated debt.

20. Share capital

As at December 31, 2021 the authorized, issued and paid share capital of the Bank amounted to 168 201 (as at December 31, 2020: 168 200) ordinary shares with a par value of BYN 390 00 each. All shares have the same par value and carry one vote.

In 2021, the authorized capital of the Bank increased by BYN 390 due to the additional issue of 1 (one) ordinary (ordinary) share and the crediting of Soyuzobschemashbank (Russian Federation). In 2020, there were no movements in authorized, issued and fully paid-in shares, the capital structure is presented below.

	Number of ordinary shares	Par value of ordinary shares	Adjustment for inflation	Total
As at December 31, 2021	168 201	65 598	44 828	110 426
As at December 31, 2020	168 200	65 598	44 828	110 426

In 2021 and 2020, accumulated earnings were not distributed as dividends.

In accordance with Belarusian legislation, only accumulated retained and unreserved earnings may be distributed between the Bank's shareholders as dividends according to the Bank's financial statements prepared in accordance with the legislation of the Republic of Belarus. As at December 31, 2021, the Bank had retained and unreserved earnings amounted to BYN 120 039 thousand (2020: 67 332 thousand).

21. Contractual and contingent liabilities

Legal issues

In the ordinary course of business, the Bank is subject to legal actions and claims. Management believes that contingent liabilities, if any, arising from such actions or complaints will not have a material adverse impact on the financial position or the results of the Bank's future operations.

Taxation

(in thousands of Belarusian rubles)

The taxation system in the Republic of Belarus is characterized by complexity and frequent changes in legislation, official pronouncements and authorities' decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. In addition, there is no extensive court practice in the Republic of Belarus on tax issues.

Taxes are subject to review and investigation by a number of regulatory authorities, which are entitled to impose severe fines and penalties. A tax year remains open for review by tax authorities during five subsequent calendar years, in some cases, this period can be unlimited.

Tax, currency and customs legislation of the Republic of Belarus is subject to frequent changes and varying interpretations. Management's interpretation of such legislation regarding the Bank transactions and operations may be challenged by the relevant authorities. As a result, significant additional taxes, penalties and fines may be assessed. Tax reviews can cover significant time periods.

The management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs issues will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Currently public liability insurance is not available in the Republic of Belarus. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have an adverse effect on the Bank's operations and financial position.

22. Credit related commitments

As at December 31, 2021 and 2020 the Bank's contractual and contingent liabilities comprised:

	<i>December 31, 2021</i>	<i>December 31, 2020</i>
Credit related liabilities		
Loan commitments	720 773	822 409
Guarantees	55 612	44 968
Letters of credit	838	3 983
	777 223	871 360
Cash held as security under letters of credit (Note 16)	(837)	(2 944)
	(139)	(30)
Commitments and contingencies less collateral under letters of credit	776 247	868 416

In accordance with the Bank's adopted accounting policies (Note 3), loss allowance on certain loan commitments, such as credit cards, overdrafts, are included in the loss allowance on loans to customers (Note 9), since the Bank can not determine the expected credit losses on an uncalled component of loan commitments separately from those related to loans already issued within the loan commitments. According to the loan agreements, the Bank retains the right to unilaterally withdraw from its loan commitments.

The movement of loss allowance on financial guarantees and unsecured letters of credit as at 2021 is set in the table below:

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total 2021</i>
Loss allowance as at January 1	25	5	-	30
Transfer into Stage 2	1	(1)	-	-
Net change in loss allowance	50	1	-	51
New financial assets originated or purchased	78	-	-	78
Derecognition	(20)	-	-	20
Allowance as at December 31	134	5	-	139

(in thousands of Belarusian rubles)

The movement of loss allowance on financial guarantees and unsecured letters of credit for 2020 is presented below:

	Stage 1	Stage 2	Stage 3	Total 2020
Loss allowance as at January 1	277	-	2	279
Transfer into Stage 2	(2)	4	(2)	-
Net change in loss allowance	(172)	2	-	(170)
New financial assets originated or purchased	11	-	-	11
Derecognition	(89)	(1)	-	(90)
Allowance as at December 31	25	5	-	30

23. Net gain from foreign currency transactions

	Total 2021	Total 2020
Trade operations	31 321	16 710
Income (expenses) on derivative financial instruments transactions	1 314	(232)
Revaluation of currency accounts	(288)	8 093
Net gain from foreign currency transactions	32 348	24 571

24. Netcommission income

	Total 2021	Total 2020
Commission on transactions with payment cards	86 243	67 524
Settlement and cash services	28 227	19 118
Documentary operations	2 496	1 506
Securities	273	134
Other	6 032	4 705
Commission income	123 271	92 987
Commission on transactions with payment cards	(58 817)	(42 201)
)Transactions with banks	(7 039)	(5 798)
Documentary operations	(675)	(853)
Foreign exchange transactions	(588)	(561)
Securities	(191)	(138)
Other	(2 860)	(984)
Commission expenses	(70 170)	(50 535)
Net commission income	53 101	42 452

The aforementioned fee and commission income represents revenue from contracts with customers in the scope of IFRS 15, detailed by main types of fee and commission income.

Fee and commission income includes income in the amount of BYN 89 012 thousand (2020: BYN 69 164 thousand) and expenses in the amount of BYN 59 683 thousand (2020: BYN 43 192 thousand), related to financial assets and financial liabilities other than measured at fair value through profit or loss. These amounts exclude amounts taken into account when determining the effective interest rate on such financial assets and financial liabilities.

Contractual assets and liabilities

The following table shows information on receivables and liabilities on contracts with customers.

<i>BYN thousand</i>	December 31, 2021	December 31, 2020
Contract assets included in "other assets"	4 992	3 181
Receivables included in "other assets"	4 694	1 090
Contract liabilities, which are included in the "other liabilities"	(2 730)	(2 477)

(in thousands of Belarusian rubles)

Contract assets are represented mainly by debt on settlements for capital investments, as well as on settlements with suppliers and contractors. Contract obligations mainly relate to non-refundable amounts of prepaid fees received from customers for annual card services (Note 14). Revenue recognition is carried out throughout the year during which the customer is expected to continue to use plastic cards.

Performance obligations and revenue recognition policy

Fee and commission income under contracts with clients are estimated on the basis of the compensation specified in the contract. The Bank recognizes revenue when it transfers control of the service to the customer.

The following table contains information on the nature and timing of the obligations to be fulfilled under contracts with customers, including significant payment terms and the relevant accounting policies for revenue recognition.

Type of services	The nature and timing of the performance of obligations to the execution, including the essential terms of payment	Revenue recognition in accordance with IFRS 15
Retail and Corporate Banking Services	<p>The Bank provides banking services to retail and corporate clients, including services for the maintenance of accounts, the provision of overdrafts, foreign currency transactions, the processing and issuance of credit cards and the maintenance of accounts.</p> <p>The commission for servicing accounts is charged by debiting the corresponding amounts from the client's account on a monthly basis. The Bank sets tariffs separately for retail and corporate banking customers on an annual basis.</p> <p>The commission for currency exchange operations, foreign currency transactions and the provision of overdrafts is charged by debiting the corresponding amounts from the client's account at the time of the transaction.</p> <p>The commission for current maintenance is charged monthly based on fixed rates, which are annually reviewed by the Bank.</p>	<p>The commission for servicing accounts is recognized over time as the services are rendered.</p> <p>Remuneration for the operation is recognized at the time of the transaction.</p>
Investment Banking Services	<p>The Bank provides services related to the implementation of client operations with currency and the underwriting of securities.</p> <p>Remuneration for transactions and underwriting of securities is charged at the time of the transaction.</p>	<p>Due to customers as at December 31 are recognized as trade receivables.</p> <p>Remuneration for transactions is recognized at the time of the relevant transactions.</p>

25. Other income

	Total 2021	Total 2020
Proceeds from debts previously written off	12 780	6 799
Fines and penalties received	1 384	988
Rent revenue	1 159	-
Net income on operations with non-deliverable OTC financial instruments	956	859
Net (expense)/income from sale of property and equipment, intangible assets	(2 214)	128
Other	1 375	1 954
Total other income	15 440	10 728

(in thousands of Belarusian rubles)

26. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	Total 2021	Total 2020
Payroll and bonuses	(44 931)	(34 495)
Social security contributions	(14 071)	(11 292)
Remuneration to the members of Supervisory Board	(780)	(745)
Other personnel expenses	(1 230)	(707)
Personnel expenses	(61 012)	(47 239)
Expenses on maintenance of banking software	(13 565)	(10 888)
Marketing and advertising	(5 513)	(7 199)
Telecommunication services	(4 478)	(3 419)
Lease payments	(3 466)	(977)
Utilities	(3 350)	(2 314)
Mail and courier expenses	(2 905)	(2 053)
Payments to the Deposit Insurance Agency	(2 713)	(2 067)
Professional services	(1 876)	(947)
Repair and maintenance of property and equipment	(1 264)	(388)
Expenses on bank plastic cards	(924)	(837)
Security expenses	(901)	(666)
Stationery and other office expenses	(731)	(602)
Repair and maintenance of vehicles and fuel expenses	(596)	(672)
Taxes, other than income tax	(573)	(888)
Entertainment expenses	(336)	(206)
Other expenses	(4 246)	(3 193)
Other operating expenses	(47 439)	(37 316)

For the year ended December 31, 2021, the Bank recognized the following short-term lease expenses of BYN 3 466 thousand (2020: BYN 977 thousand).

27. Risk Management**Introduction**

The Bank identifies the main risks arising in the course of its activities, the sources of their occurrence and manages these risks, taking into account their materiality.

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, assessment and monitoring and setting risk limits and other internal controls.

Risk management structure

The risk management system has a four level organizational structure, which includes:

Level 1 – the Bank's collegial management bodies;

Level 2 – risk management officer;

Level 3 – the Bank's risk management and analytical divisions;

Level 4 – internal control and internal audit departments

Supervisory Board

The Supervisory Board of the Bank ensures the organization of the corporate governance system, the effective functioning of the risk management system, the internal control system (including compliance control) and the remuneration and compensation system in the Bank, the exclusion of conflicts of interest in the Bank's activities and the conditions for its occurrence, including the adoption of measures to ensure transparency of corporate governance of the Bank, approves local legal acts defining the risk management strategy of the Bank, tolerance, risk appetite and a system of key indicators for the risks inherent in the Bank, the strategy of organizing and implementing internal control in the Bank, the strategy of organizing

(in thousands of Belarusian rubles)

the corporate governance system, the strategy of managing the Bank's unserviceable assets, the Bank's policy regarding conflicts of interest, the Bank's compliance policy.

Risk Committee

The Risk Committee: performs internal monitoring of the implementation of the Supervisory Board strategy and decisions on the risk profile and risk tolerance; evaluates the effectiveness of the risk management system in the bank; decision making regarding risks within the authority defined by the Supervisory Board; submits for consideration of the Supervisory Board its recommendations on risk management issues; regularly reporting and submission to the Supervisory Board on the state of the risk management system and on the level of the Bank's risks.

Audit Committee

The functions of the Audit Committee include general management and support of the internal control system and the Internal Audit Department, assessment of the internal control system effectiveness, selection and organization of the necessary interaction with an external independent auditor, regular submission of management reports to the Supervisory Board on the state of the internal control system and the activities of the Internal Audit Department.

Management Board

Ensures effective risk management system operating in the Bank in accordance with the regulation of the National Bank on organization of the risk management system in banks and the risk management strategy of the Bank approved by the Supervisory Board.

Financial Committee

The main functions are:

- Operational management of the Bank's financial assets and liabilities;
- Decision-making on issues related to management of the Bank's liquidity risk, bank portfolio interest risk, market risks, country risk, risk of financial sustainability, credit risk and concentration risk (regarding transactions with banks, other financial institutions, insurance companies);
- Maximization of the Bank's profitability taking into account risks;
- Development of relevant assumptions and initiating issues to be considered by the Management Board.

Credit Committee

The Credit Committee is responsible for making optimal decisions related to the Bank's active transactions under its authority.

Risk management (RM)

The main responsibilities of RM are:

- Management of the set of financial and non-financial risks inherent in the Bank;
- Developing and ensuring effective risk management system operation, increasing the stability and effectiveness of the Bank's operations;
- Organization of the process for keeping the risks of the Bank's activities at the established level (within the limits of tolerance and risk appetite approved by the Bank's Supervisory Board);
- Promotion of the development of a risk culture in the Bank.

Credit risk management (CRM)

The main responsibilities of CRM are:

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- Monitoring and managing the quality of the corporate and retail loan portfolio in order to maintain safe and acceptable level of credit risk, ensuring maximum profitability for the Bank;
- Providing the Bank's management and shareholders with the necessary analytical and statistical data on the risk profile of the corporate and retail loan portfolio of the Bank;
- Implementing the methodological support of the system for assessing the creditworthiness of legal entities, individual entrepreneurs and individuals

Financial and economic department (FED)

FED is responsible for:

- Analysis and planning of the Bank's activities, organization of the process of strategic planning and budgeting in the Bank;
- Financial control of the Bank's activities in accordance with the Regulations for the management of operating expenses and investments in property and equipment and intangible assets;
- Preparation of management reporting in accordance with the Regulation on Management Accounting;
- Optimization of the Bank's activities within the limits imposed by the implementation of prudential regulatory requirements established by the National Bank of the Republic of Belarus, preparation and submission of prudential reporting to the National Bank of the Republic of Belarus;
- Preparation of financial statements in accordance with international financial reporting standards (IFRS), compliance with the requirements established by the contracts with financial institutions, provision of information at the request of financial institutions;
- Organization and coordination on the issues of attracting and processing subordinated transactions in compliance with the requirements of the legislation when concluding contracts for subordinated loans;
- Implementation of preliminary, current and subsequent control in accordance with the established procedure, including the conduct of scheduled follow-up inspections in accordance with the approved plans, current legislation and the Bank's local legal acts.

Internal Audit Department

- Assesses in the course of revisions the effectiveness of the internal control system, including the revision of internal control procedures by line of business; the effectiveness of the risk management system, including the revision of the application completeness and correctness of the methodology for assessing banking risks, banking risk management procedures;
- Identifies a conflict of interests in the Bank, the spheres and conditions of its occurrence and assesses the effectiveness of the measures taken by the Bank to eliminate them;
- Checks the effectiveness of the measures taken to correct the identified violations and deficiencies in the Bank's activities, including in the organization of areas of activity, internal control and risk management, and the implementation of recommendations for their improvement;
- Makes its proposals to improve the efficiency of the Bank activity, including internal control, risk management.

Other business units

- Participate in the planning and maintain the planned and controlled indicators (indicators of volume, price, structure, risk limits);
- Make management decisions within the framework of the authorities granted.

System of risk evaluation and communication

The Bank's risk management is based on requirements of the National Bank of the Republic of Belarus and the Basel Committee on Banking Supervision.

The Bank developed a hierarchical system of local legal acts, including high-level documents – Risk Management Strategy and Risk Management Policies, as well as local legal acts in regard to managing certain types of risks and those managing the organizational structure and distribution of the employees' authorities by risk management. The abovementioned local legal acts define risk management goals,

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objectives, principles, identify key risk indicators, the Bank's tolerance to inherent risks, risks identification, monitoring, controlling and limiting, the functions of business units, the authorities of the Bank's employees to manage the risks inherent in the Bank.

The Bank identifies the following risks as significant at this development stage and within the current economic environment:

- Strategic risk;
- Credit risk (including country risk within the framework of transactions with counterparty banks);
- Liquidity risk;
- Operational risk;
- Reputation risk;
- Market risk (as part of currency and commodity risk);
- Interest rate risk of the banking portfolio;
- Concentration risk;
- Financial sustainability risk.

These types of risks have a permanent nature, significant share in the Bank's risk profile and represent a threat to the implementation of the profit plan. The Bank's risk management policy is presented below.

Strategic risk - the probability of losses, loss of planned revenues due to errors (weaknesses) made when making decisions that define the strategy of activities and development of the Bank (strategic management) and which coming to neglect or insufficient accounting of possible dangers that may threaten the Bank activities, incorrect or insufficiently reasonable definition of perspective directions of activities in which the Bank may achieve competitive advantages, absence or incomplete provision of the required resources (financial, material and technical, human) and organizational measures (management decisions), which should ensure the achievement of the objectives of the Bank.

The main rules for risk management are monitoring of the fulfillment of the main parameters and goals determined by the Strategic Plan (Strategy) of the Bank's development, factor analysis of the implementation of the strategic plan, analysis of the macroeconomic conditions of the Bank's activities, adjustment of the strategic plan if objectively necessary, or even change of the goals and directions of the Bank's strategic development.

Risk prevention measures include adherence to a given tolerance for strategic risk and other risks inherent in the Bank's activities, the development of a risk management system, and the availability of strategic projects aimed at developing the Bank's business and its infrastructure.

Measures to recover from losses may include correction of the Bank's activities based on the results of the analysis of macroeconomic conditions of the Bank, factor analysis of the strategic plan implementation, the use of measures that stimulate the implementation of the planned budget indicators, the strategic plan, strategic projects.

Financial sustainability risk – the risk of a lack of adequacy of regulatory capital to cover the main types of risks assumed by the Bank.

The main and only rule for managing this type of risk is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals.

Risk prevention measures are taken based on the results of prospective factor analysis (forecast, stress testing) of changes in the level of regulatory capital adequacy. These measures may include the reduction of the rate of the asset growth exposed to credit risk, the loan portfolio, management of the portfolio of the assets that form an increased level of requirements for the level of required capital, reduction of the magnitude of market risks, improvement of the quality of the loan portfolio, replenishment of the Bank's share capital.

Measures to correct the adequacy of regulatory capital are determined based on the results of retrospective factor analysis of changes in its level. These measures may represent a change in the size and/or structure of the loan portfolio, the magnitude of market risks, a change in the parameters of the assets to exclude

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increased requirements for the level of required capital (including, for example, a decrease in interest rates on previously issued loans (with an excess of the rate of the level of the calculated value of the standard risk to a level not exceeding calculated value of the standard risk), collection of problem debts, changes in the share or regulatory capital of the Bank.

Credit risk – the risk of the Bank's losses, non-receipt of planned income due to non-performance, delayed or incomplete performance of the debtor's financial and other property obligations to the Bank in accordance with the terms of the contract or the legislation.

Main rules of risk management:

- In case of secured lending, the financial reliability of the client is assessed by the degree of its creditworthiness;
- In case of unsecured lending, the financial reliability of the client is assessed by the degree of its solvency;
- The larger the loan, the stricter the requirements for the financial reliability of the borrower;
- The reliability of investment in large loan transactions is evaluated on an individual basis according to the conclusion of underwriter on the financial reliability of the client, massive and small types of loan transactions are assessed based on the results of scoring of the creditworthiness of the borrower or in accordance with a fully formalized rules of borrower's creditworthiness analysis and making decisions on financing (product delivery) within the certain banking products;
- The project on issue of foreign currency loan to a corporate client is obligatory subject to stress testing of currency risk;
- Changes in the Bank's Credit Policy in the field of lending to corporate clients, local legal acts, regulating the categorization of debtors, maintenance of the groups of related debtors are introduced after preliminary consideration of their revision by the Risk Committee of the Bank's Supervisory Board;
- Changes in the approaches, algorithms and methods used by the Bank for assessing the financial position, solvency of borrowers - corporate clients, vulnerability to the factor of currency risk, approaches to assessing and monitoring collateral are carried out with their preliminary consideration by the Risk Committee of the Bank's Supervisory Board;
- Changes in the approaches, algorithms and methods used by the Bank for assessing the financial position, solvency of borrowers - individuals require the obligatory approval of the official responsible for the risk management in the Bank (they cannot be carried out due to the absence of such approval).

Preventive measures include:

- Management of limit restrictions of the Bank's Credit Policy within the annual validation process taking into account the Bank's Development Strategy, identified and expected risks;
- Definition of standard requirements to the borrowers' financial reliability and, if necessary, tightening them;
- Credit risk management through a system of risk requirements formalized within certain banking products;
- Price management;
- Testing of new loan products in small volumes;
- Determination of credit policies based on ratings of financial reliability and efficiency of borrowers;
- Taking preventive measures to prevent the occurrence of bad debts.

Potential measures to recover losses, including:

- Debt restructuring;
- Definition of standard requirements to fulfilment of obligations on loan transactions and, if necessary, tightening them;
- Pre-trial and judicial debt repayment;
- Sale of claims to debtors.

Liquidity risk is the risk that the Bank will incur losses or will not receive the expected income due to inability to meet its obligations in full when they fall due. Liquidity risk results from a mismatch of the Bank's financial assets and liabilities (including due to late fulfillment of financial obligations by one or several of the

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counterparties) and (or) due to an unforeseen necessity for the Bank to fulfill its financial liabilities immediately or simultaneously.

Main rules of risk management:

- Pursuing of liquidity accumulation strategy;
- Division of liquid assets into liquid assets of the first and the second stages. Determining the necessary sufficiency of liquid assets at the Bank's operation routinely (liquidity of the first stage) and emergently (liquidity of the first and the second stage). Assessment of the actual adequacy of liquidity;
- Division of the Bank's liquidity management into operational management and strategic management. Operational management is a set of rules and regulations that ensure sufficient liquidity for the short-term period (as a rule, over a horizon of up to 3 months), which should be linked to the strategic decisions taken on liquidity management. Strategic management is a set of rules and regulations that ensure sufficient liquidity for the long-term period;
- Organizational separation of operational and strategic liquidity management;
- Implementation of the system of limits aimed at ensuring strategic liquidity and maintaining a balance between the formed/planned loan portfolios and the resource base, taking into account their urgency based on the analysis of gaps (GAP) between requirements and liabilities, grouped by temporary buckets of return/repayment.

Preventive measures include:

- Accumulation and maintenance of liquid assets at the required level;
- Management of the risk of loss of business reputation (formation of the Bank image with high financial reliability, capable of providing quality services, generate exclusive and marketable products);
- Formation of loan portfolios in proportion to the dynamics of changes in the resource base and its state (for example, restriction of the growth rate of loan portfolios to the level not outstripping the growth of the resource base);
- Ensuring an adequate structure and diversification of funding sources.

Measures to recover the necessary liquidity sufficiency in case of its loss are determined in accordance with the effective action plan established by the local legal acts to recover liquidity and overcome the crisis.

Interest rate risk of the banking portfolio is the risk that the Bank will incur losses and fail to receive the expected income from changes in value of on and off-balance items not included in the trading portfolio as a result of changes in market interest rates.

The main rule of risk management is to optimize the ratio of assets and liabilities by term and amount taking into account their sensitivity to the changes in interest rates. The consequence of this rule is the possibility of increasing the interest rate risk in order to reduce the liquidity risk and vice versa, reducing the excess liquidity (increasing the liquidity risk) in order to reduce the interest rate risk.

Preventive measures include:

- Management of interest gap-positions;
- Implementation of the system of limit restrictions;
- Development of a model for assessing the economic value of a bank (EVE), including for the purpose of calculating net interest income (NII) in accordance with the Basel Standard Interest Rate Risk of a Banking Portfolio (IRRBB);
- Stimulation of desired changes in the asset portfolio, resource base through the transfer pricing system;
- Formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk to counterparties and clients;
- Forecasting changes in interest rates on the market and that allow the Bank to adapt with the least loss to changing conditions of its activities.

Control measures (recovering measures) of the risk at an acceptable level is the correction of the limit policy for its management, correction of price policy, improvement of analysis models.

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Operational risk – the risk of losses and (or) additional costs incurred by the Bank, non-receipt of planned income as a result of non-compliance of the Bank's established procedures and procedures for banking transactions and other transactions within the legislation or violation by the Bank's employees, incompetence or mistakes of the Bank's employees, non-compliance or failure of the systems used by the Bank, including informational systems, as well as a result of external factors.

The main risk management rules are to ensure the efficient operation of the system for identification and recognition of operational incidents, prevention/minimization of losses and/or facts of shortfall in planned income, reduction of other development indicators due to the implementation of operational incidents, maintaining the risk accepted by the Bank at the level of tolerance and risk-appetite indicators established by the Supervisory Board.

Measures to prevent operational risk in the context of the main sources of its formation will be:

- Timely update of software, information technical means, recruitment of highly qualified specialists;
- Testing of the systems during the introduction of new products of the Bank;
- Creation of backup communication lines and other necessary backup systems; provision of autonomous power supplies;
- Implementation of adequate personnel policies (recruitment, adaptation and training of personnel, motivation for effective work, formation of personnel reserve, retention of key personnel);
- Improvement of the fraud-scoring system;
- Ensuring the effectiveness of the risk management system, taking into account the characteristics of risk sources;
- Determination of priority information technologies (IT) and their introduction into the strategic supervision process;
- Formalization of methods for selecting and controlling the introduction of IT tools and their systems (CRM, ERP, RPA, Core System and other) into the Bank's business processes;
- Ensuring cyber resilience and cyber security, defining and consolidating in the Strategy critical information infrastructure objects, typical for the Bank cyber threats, the current state of cyber security in the Bank and the ability to counter cyber threats, as well as measures to overcome existing deficiencies and ways to improve cyber risk management;
- Development and control of the implementation by the Bank's management of measures to develop the competencies and skills of personnel, taking into account the ongoing changes (for example, in the context of changes in the IT landscape, tasks for digital transformation - development and implementation of a plan to increase the Digital IQ of the Bank's employees);
- Regulation of the processes of working with information resources (IR) taking into account risks (for example: establishing a reasonable balance between openness and security of the information system, based on risk assessment; implementation of a classification of the Bank's information resources with an assessment with the help of the rating of such systems by the level of risks magnitude that the Bank faces leakage of information from these systems; development and implementation of regulations for working with information for each IR group);
- Formation of an integral system for the implementation of systematic monitoring and independent control of the established limits and powers for their compliance with the possible coverage of all operations carried out in the course of banking activities associated with the manifestation of risks, including operational ones;
- Creation of an effective organizational structure of the Bank;
- Regulation of operations;
- Development of standard forms of contracts;
- Improvement of processes, systems, technologies, procedures, regulations, and so on;
- Availability and keeping up to date of the Bank's action plans in case of unforeseen situations, in order to ensure the implementation of going concern;
- Development of the systems for automating banking operations, including automating the execution of the same type repetitive actions and information security systems;
- Reduction of the financial impact of operational risk through insurance;
- Refusal from the type of activity (individual operations or transactions) subject to operational risk;
- Reduction of the level of certain types of operational risk by transferring risk or a part of it to third parties (outsourcing);
- Control and audit;

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- Development of the motivation of the Bank's employees;
- Increase of the knowledge of the employees in areas of activity, including in the field of increasing the risk culture;
- Learning by all employees of the Bank the fundamentals and principles of ensuring the information security of the Bank, including in terms of cyber risk, increase of the knowledge level.

Measures for recovering losses from the implementation of operational incidents are determined individually in each specific case, depending on the sources of operational risk and the business process where they were implemented.

Reputational risk – the risk of the Bank's losses, non-receipt of planned income as a result of narrowing the customer base, reducing of other development indicators due to the formation of a negative image in the company of the financial reliability of the Bank, the quality of services provided or the nature of activities in general.

Key risk management rules are to ensure the financial reliability of the Bank, the quality of services at a level not less than the main competitors' level, systematic work to improve it.

Preventive measures:

- Absolute ensuring the financial reliability of the Bank;
- Ensuring the proper quality of services provided;
- Ensuring transparency of the Bank's activities;
- Ensuring information security of the Bank;
- Compliance with the legislation of the Republic of Belarus on the prevention of legalization of income from crime, financing of terrorist activities and financing the proliferation of weapons of mass destruction (assessment of the risk of working with clients in the process of financial monitoring), effective management of compliance risk in accordance with the rules established by the Bank's local legal acts;
- Customer service in accordance with service standards;
- Interaction with the media through:
 - Speech by the Bank's management and its representatives;
 - Periodic publications of financial statements, information about the Bank, its products and services;
 - Support of the Bank's website as a source of up-to-date and accurate information about the Bank and its activities;
 - Advertising campaigns and events;
 - Charitable, social actions, campaigns, programs;
 - Positive content in the media about the Bank's activities.

Measures to recover losses as the result of reputational risk are actions aimed at recovering of the Bank's financial sustainability and reliability, correction of errors and deficiencies in customer service, publication of retractions in cases of "black" PR and appeal to the court.

Currency risk is the risk of the Bank's losses, non-receipt of the planned income from changes in the value of balance sheet and off-balance sheet items denominated in foreign currency due to changes in foreign exchange rates. Currency risk also affects the Bank's positions in precious metals in the form of bank bars, weighted bars and coins, revalued as book prices change in accordance with the Bank's applicable accounting policy.

The basic rule of risk management is the constant maintenance of a currency position in accordance with indicators of tolerance.

Preventive measures include:

- Managing the open economic currency position size;
- Maintaining an open long currency position to hedge currency risk associated with the necessity to regulate the volume of special reserves created by Belarusian rubles on foreign exchange assets (off-balance) when changing exchange rates;

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- Taking into account the possibilities of risks fair distribution between the Bank and counterparties when completing loan and deposit agreements;
- Mandatory stress-testing of the financial reliability of customers considered for purposes or conducting operations with the Bank related to credit risk in foreign currency.

Measures to regulate (recover) the risk at an acceptable level are adjustment of risk limit policy, the improvement of analysis models.

Commodity risk – the probability of the Bank's losses incurring due to non-receipt of the planned income from changes in cost of goods.

Key risk management rules are:

- Avoiding risk as much as possible;
- Monitoring and forecasting of market conditions in the context of commodity items in the Bank's portfolio.

Preventive measures include:

- Modeling and assessing possible losses due to changes in the market price and the cost of owning positions in the product portfolio;
- Risk limits management;
- Development of risk management methodology through the "product life cycle", starting with integration into the processes of accepting collateral and releasing own property and equipment, and ending with the sale of goods;
- Requirements toughening to the financial reliability of the borrowers, the quality of the security of loan transaction.

Control measures (recovering measures) are determined in accordance with the strategy of immediate sale or retention until the realization of a certain event adopted in relation to particular commodity item.

Concentration risk – the risk losses incurring due to non-receipt of the planned income as a result of concentration of certain types of risks.

The main and only rule for managing this type of risk is to limit the risk appetite, i.e. the degree of risk that the Bank considers acceptable when achieving its goals.

Preventive measures include:

- Counterparties and transactions diversification;
- Risk limits management;
- Formation of loan and deposit agreements with conditions stipulating partial or full redistribution of risk to counterparties and clients;
- Requirements toughening for the financial reliability of borrowers, the degree of security of the credit transaction, requirements toughening for deposit contracts of large depositors;
- Improvement of system to prevent fraudulent transactions.

Control measures (remediation measures) are as follows:

- Debt restructuring;
- Sale of collateral on loan transactions;
- Pre-trial and judicial debt repayment.

Measures to restore the necessary liquidity adequacy, in the event of its loss due to the realization of the concentration risk, are determined in accordance with the existing action plan for restoring liquidity and overcoming the crisis situation. Measures to restore the necessary operability of IT systems, in the event of its loss, are determined in accordance with the existing action plan to ensure the going concern and restore the Bank's operability as a participant of the payment system.

(in thousands of Belarusian rubles)

Adoption of IFRS 9: Credit risk. ECL model and the main principles of provisioning

The Bank applies the model of expected credit losses for the purpose of financial instruments provisioning, the key principle of which is the timely reflection of deterioration or enhancement of the credit quality of financial instruments, taking into account current and forward-looking information. The amount of expected credit losses recognized as an estimated allowance for impairment depends on the degree of deterioration of credit quality since the initial recognition of a financial instrument.

Depending on the change in credit quality since initial recognition, the Bank classifies financial instruments to one of the following stages:

- "12-month ECL" (Stage 1) - financial instruments for which no significant increase in credit risk was observed, and for which 12-month expected credit losses are calculated.
- "Lifetime ECL – not credit-impaired assets" (Stage 2) – financial instruments with a significant increase in credit risk, but not credit-impaired, for which expected credit losses are calculated over the entire lifetime of the financial instrument.
- "Lifetime ECL – credit-impaired assets" (Stage 3) – credit-impaired financial instruments.

For purchased or issued impaired financial assets, the allowance for impairment is formed in the amount of accumulated changes in the value of expected credit losses over the entire life of the instrument from the moment of purchase or delivery.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit quality assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; and
- Remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in expectations regarding early repayment).

The Bank uses the following criteria to determine whether there is a significant increase in credit risk:

For legal entities:

- Financial assets for which there is a deterioration in more than 1 grade from the moment of initial recognition in accordance with the internal gradation of credit quality;
- Financial assets with overdue debts from 31 to 90 days.

For individuals:

- Financial assets with overdue debts from 31 to 90 days.

For financial institutions, government bodies:

- Debt on counterparties, which international credit rating has decreased by 2 grades in comparison with the grade on the initial recognition (except when after decrease the debt is classified in Ca and lower grade by Moody's International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- Debt with more than 7 days overdue.

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

(in thousands of Belarusian rubles)

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Quality categories are determined for the following categories of borrowers:

- Loans to corporate borrowers

The Bank estimates the expected credit losses for corporate clients' debts by collective valuation based on the quality categories of credit debts, as well as by an individual assessment for the largest borrowers.

Collective valuation based on the quality categories of credit debt is based on an analysis of the quality of servicing the credit debt of debtors, as well as credit history and other information about the business of debtors, which is available without undue cost and effort.

The probability of default is determined using the chain ladder method, which calculates the expected level of losses for 32 quarters from the date of the loan (for each quarter of debt formation). The level of losses for each quarter is calculated as a weighted average over the last 3 years of debt formation.

The individual assessment is used for the largest clients of the Bank. The necessity for such an assessment is considered when the borrower has a debt at the reporting date in excess of 5% of the capital calculated in accordance with the provisions of the Basel Agreement of 1988.

For the clients assessed on an individual basis, the Bank assesses the PD indicator as the highest of the values between the probability of default by the borrower in the segment of the business in which it is located and the country risk inherent in the country of operation, determined based on the statistics of defaults of international rating agencies.

- Financial institutions and government bodies

For banks that have an international rating, the classification is carried out according to this rating. Ratings set using Moody's, S&P and Fitch methodology are taken into account. For counterparties for which no international rating has been established, the Bank conducts an internal gradation in terms of quality based on factors, taken into account by international rating agencies when determining ratings. Quality grades on financial institutions and government bodies are determined as follows:

- "Standard" group – international ratings from AAA to B- or comparable internal ones.
- "Sub-standard" group – international ratings from CCC+ and below or comparable internal ones.

For government agencies, quality categories are determined based on the sovereign rating set by international rating agencies.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analyzed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the type of borrower. What is considered significant differs for different types of lending, in particular between corporate and individual.

(in thousands of Belarusian rubles)

The Bank uses the following criteria to determine whether there is a significant increase in credit risk:

For legal entities:

- Financial assets for which there is a deterioration in more than 1 grade from the moment of initial recognition in accordance with the internal gradation of credit quality;
- Financial assets with overdue debts from 31 to 90 days.

For individuals:

- Financial assets with overdue debts from 31 to 90 days.

For financial institutions, government bodies:

- Debt on counterparties, which international credit rating has decreased by 2 grades in comparison with the grade on the initial recognition (except when after decrease the debt is classified in Ca and lower grade by Moody's International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- Debt with more than 7 days overdue.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increase in credit risk before an exposure is in default;
- the criteria do not align with the point in the time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- Exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired;
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (Stage 1 and lifetime PD (Stage 2).

Definition of default

The financial asset is classified by the Bank to financial assets for which an event of default had occurred, in the following cases:

For corporate borrowers:

- The borrower is classified as "loss" credit quality grade based on internal assessment of qualitative and quantitative parameters;
- Alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions;
- A legal insolvency (bankruptcy) case is open against a legal entity;
- There is an administrative intervention of the state, which significantly complicates further activities: depriving or not extending the license for certain types of activities and other interventions in regard to a legal entity;
- Individual entrepreneur's debt, for which the debtor was arrested, died or disappeared without a trace;
- Debtor's debt, due to force majeure that caused material damage, but did not cause the termination of its activities;
- The debtor's debt in respect of which the interim manager was introduced (if there is a high probability ("yes rather than no") of the discovery of the liquidation proceedings against the debtor).

For individuals:

- Debt on loans with a duration of more than 90 days overdue, as well as involving objective reasons indicating that the loan cannot be repaid, for example, the borrower's death;
- Alteration (modification) due to the financial difficulties of the client and the inability to service the contract in accordance with the original conditions.

For financial institutions, government bodies:

(in thousands of Belarusian rubles)

- Debt is classified in Ca and lower grade by Moody's International rating agency (CC as per S&P; CCC as per Fitch) or in comparable categories based on an internal assessment;
- Debt with more than 30 days overdue.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative: e.g. breaches of covenant;
- Quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Bank incorporates forward-looking information both to the assessment for a significant increase in credit risk since the initial recognition of the financial instrument and to the assessment of expected credit losses. The Bank uses three economic scenarios: the baseline scenario, the probability of which is 80%, and two less likely scenarios – the optimistic and worst-case scenarios, the probability of each of the scenarios is 10%. The baseline scenario is based on information used by the Bank in strategic planning and budgeting. External information taken into account includes economic data and forecasts published by government bodies and monetary authorities in countries in which the Bank operates, such as the National Bank of the Republic of Belarus, the National Statistical Committee, as well as other individual and scientific forecasts.

The Bank has identified and documented a list of the main factors affecting the assessment of credit risk and credit losses for each portfolio of financial instruments and, using historical data analysis, assessed the correlation between macroeconomic variables, credit risk and credit losses.

The level of real payroll is identified as a key factor.

The projected ratios between the key indicator and default and the levels of losses for various portfolios of financial assets were developed based on the analysis of historical data for the last 1-7 years.

The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank's risk management policy are not breached.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether there has been a significant increase in the financial asset's credit risk is made by comparing:

- The probability of default for the remainder of the entire period as at the reporting date based on the modified terms of the contract; and
- With the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted to each debtor if the debtor is currently in default on its debt or if there is a high risk

(in thousands of Belarusian rubles)

of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12- month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD, ECL for exposures in Stage 2 – by multiplying marginal PD by LGD and EAD, stated for the first and each next period. As for Stage 3, the Bank estimates expected cash flows in order to determine the recoverable amount of the financial assets.

The methodology for estimating PD indicators for the clients, assessed on a group and individual basis, is described above in the section Generating the term structure of PD.

For the clients, assessed on a group basis the Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties and based on external information – in regard to financial institutions and government bodies.

In case of an individual assessment of expected credit losses to determine the LGD indicators, the Bank operates with pledge agreements concluded with borrowers and the ability of these agreements to cover the balance of debt under the loan agreement in the event of a borrower's default. The Bank uses a judgment in relation to the fair measurement of such pledge agreements and the timing of their realization.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward- looking forecasts. For financial guarantees contracts and letters of credit, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of the loan or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Quality category (for legal entities);
- Product.

(in thousands of Belarusian rubles)

The Bank has a regular assessment to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		Credit risk exposure as at December 31, 2021	External benchmarks used	
			PD indicator	LGD indicator
Cash and cash equivalents		462 905	Moody's / S&P default study	Moody's recovery study
Due from banks		22 734	Moody's / S&P default study	Moody's recovery study
Securities		39 639	S&P default study	Moody's recovery study
<i>Credit quality analysis</i>				

The following tables provide information about the credit quality of financial assets measured at amortized cost, debt instruments measured at FVTOCI as at December 31, 2021 and December 31, 2020. Unless otherwise indicated, the amounts in the table recognize gross carrying amount of financial assets. According to loan commitments and financial guarantee contracts, the amounts in the table recognize the amounts of commitments made and guarantees issued, respectively.

December 31, 2021		
	Stage 1	Total
Cash and cash equivalents		
From A- to A+	480	480
BBB	36 045	36 045
From BB- to BB+	1 238	1 238
From CCC to B+	51 088	51 088
Only with internal credit risk grades:		
Standard	233 059	233 059
Sub-standard	21 017	21 017
	342 927	342 927
Loss allowance	(93)	(93)
Carrying amount	342 834	342 834

December 31, 2020		
	Stage 1	Total
Cash and cash equivalents		
From A- to A+	13 755	13 755
BBB	9 015	9 015
From BB- to BB+	1 588	1 588
From below CCC to B+	20 045	20 045
Only with internal credit risk grades:		
Standard	177 966	177 966
Sub-standard	18 908	18 908
	241 277	241 277
Loss allowance	(80)	(80)
Carrying amount	241 197	241 197

December 31, 2021			
	Stage 1	Stage 2	Total
Due from credit institutions			
From A- to A+	2 431	-	2 431
From below CCC to B+	2 367	-	2 367

(in thousands of Belarusian rubles)

December 31, 2021			
	Stage 1	Stage 2	Total
Only with internal credit risk grades:			
Standard	18 126	-	18 126
Sub-standard	-	-	-
	22 924	-	22 924
Loss allowance	(190)	-	(190)
Carrying amount	22 734	-	22 734
December 31, 2020			
	Stage 1	Stage 2	Total
Due from credit institutions			
From A- to A+	2 460	-	2 460
Only with internal credit risk grades:			
Standard	12 121	-	12 121
Sub-standard	4 468	412	4 880
	19 049	412	19 461
Loss allowance	(130)	(39)	(169)
Carrying amount	18 919	373	19 292

December 31, 2021		
	Stage 1	Total
Investment debt securities		
From CCC to B+	39 639	39 639
	39 639	39 639
Loss allowance	(614)	(614)
Carrying amount	39 639	39 639

December 31, 2020		
	Stage 1	Total
Investment debt securities		
From CCC to B+	48 463	48 463
	48 463	48 463
Loss allowance	(670)	(670)
Carrying amount	47 793	47 793

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Only with internal credit risk grades:				
Standard	250 219	-	-	250 219
Watch	426 820	34	-	426 854
Sub-standard	24 587	8 584	-	33 171
Non-performing	1 467	2 989	210	4 666
Loss	-	-	12 450	12 450
	703 093	11 607	12 660	727 360
Loss allowance	(8 318)	(1 131)	(5 293)	(14 742)
Carrying amount	694 775	10 476	7 367	712 618

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Only with internal risk grades:				
Standard	219 231	-	-	219 231
Watch	397 275	-	-	397 275
Sub-standard	22 347	26 342	-	48 689

(in thousands of Belarusian rubles)

Non-performing	293	796	335	1 424
Loss	-	-	23 605	23 605
	639 146	27 138	23 940	690 224

Loss allowance	(10 676)	(768)	(10 936)	(22 380)
Carrying amount	628 470	26 370	13 004	667 844

December 31, 2021

	Stage 1	Stage 2	Stage 3	Total
Net investment in finance lease				
Only with internal risk grades:				
Standard	11 549	-	-	11 549
Watch	46 282	196	-	46 478
Sub-standard	3 526	2 323	-	5 849
Non-performing	5	542	45	592
Loss	-	-	252	252
	61 362	3 061	297	64 720

Loss allowance	(318)	(201)	(122)	(641)
Carrying amount	61 044	2 860	175	64 079

December 31, 2020

	Stage 1	Stage 2	Stage 3	Total
Net investment in finance lease				
Only with internal risk grades:				
Standard	18 502	-	-	18 502
Watch	29 936	-	-	29 936
Sub-standard	1 623	2 274	-	3 897
Non-performing	11	214	14	239
Loss	-	-	2 332	2 332
	50 072	2 488	2 346	54 906

Loss allowance	(270)	(111)	(1 066)	(1 447)
Carrying amount	49 802	2 377	1 280	53 459

December 31, 2021

	Stage 1	Stage 2	Total
Financial guarantees and letters of credit			
Only with internal risk grades:			
Standard	32 616	-	32 616
Watch	22 618	-	22 618
Sub-standard	295	69	364
Non-performing	-	15	15
Carrying amount	55 529	84	55 613

December 31, 2020

	Stage 1	Stage 2	Total
Financial guarantees and letters of credit			
Only with internal risk grades:			
Standard	28 105	-	28 105
Watch	18 100	-	18 100
Sub-standard	2 638	93	475
Non-performing	-	15	15
Carrying amount	48 843	108	48 951

(in thousands of Belarusian rubles)

The following table provides information about the overdue loans to customers, in terms of credit quality stages.

December 31, 2021				
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Undue	700 588	8 757	9 396	718 741
1-30 days	2 506	2 836	89	5 431
31-60 days	-	14	527	541
61-90 days	-	-	284	284
90+ days	-	-	2 363	2 363
Gross carrying amount	703 094	11 607	12 659	727 360

December 31, 2020				
	Stage 1	Stage 2	Stage 3	Total
Loans to legal entities				
Undue	638 940	26 409	20 211	685 560
1-30 days	206	721	1 023	1 950
31-60 days	-	8	471	479
61-90 days	-	-	253	253
90+ days	-	-	1 982	1 982
Gross carrying amount	639 146	27 138	23 940	690 224

December 31, 2021				
	Stage 1	Stage 2	Stage 3	Total
Net investment in finance lease				
Undue	61 040	2 644	252	63 936
1-30 days	322	417	-	739
31-60 days	-	-	45	45
Gross carrying amount	61 362	3 061	297	64 720

December 31, 2020				
	Stage 1	Stage 2	Stage 3	Total
Net investment in finance lease				
Undue	48 108	2 336	2 201	52 645
1-30 days	1 964	152	142	2 258
90+ days	-	-	3	3
Gross carrying amount	50 072	2 488	2 346	54 906

December 31, 2021				
	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Undue	556 508	-	4 543	561 051
1-30 days	11 269	-	552	11 821
31-60 days	-	3 209	177	3 386
61-90 days	-	1 962	122	2 084
90+ days	-	-	7 422	7 422
Gross carrying amount	567 777	5 171	12 816	585 764

(in thousands of Belarusian rubles)

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans to individuals				
Undue	427 706	-	3 596	431 302
1-30 days	7 699	-	410	8 109
31-60 days	-	1 872	67	1 939
61-90 days	-	1 260	71	1 331
90+ days	-	-	6 667	6 667
Gross carrying amount	435 405	3 132	10 811	449 348

	December 31, 2021		
	Stage 1	Stage 3	Total
Other financial assets			
90+ days	-	4 694	4 694
Gross carrying amount	-	4 694	4 694

	December 31, 2020		
	Stage 1	Stage 3	Total
Other financial assets			
Undue	806	-	806
90+ days	-	284	284
Gross carrying amount	806	284	1 090

Offsetting financial assets and financial liabilities

The disclosures in the tables below include financial assets and financial liabilities that are subject to a legally enforceable general netting agreement or similar agreements that relate to the same financial instruments, whatever they are offset or not in the balance sheet.

Similar financial instruments include repurchase transactions, agreements on securities lending and borrowing, loans to clients and due to customers.

The tables below present the financial liabilities that are the subject to legally enforceable general netting agreements and similar agreements as at December 31, 2021 and 2020.

Types of financial assets/financial liabilities	December 31, 2021				December 31, 2020			
	Full amounts of recognized financial assets/liabilities	Amounts that have not been offset in the statement of financial position		Net amount	Full amounts of recognized financial assets/liabilities	Amounts that have not been offset in the statement of financial position		Net amount
		Financial instruments	Cash collateral received			Financial instruments	Cash collateral received	
Loans to customers	133		(91)	42	655	-	(649)	6
Customer accounts	(50 661)	91		(50 570)	(44 129)	649	-	(43 480)

(in thousands of Belarusian rubles)

The following table details the geographical analysis of financial assets and liabilities of the Bank:

	2021				2020			
	Belarus	OECD countries	CIS and other countries	Total	Belarus	OECD countries	CIS and other countries	Total
Assets								
Cash and cash equivalents	428 710	5 409	28 786	462 905	315 467	20 649	3 870	339 986
Due from credit institutions	16 767	5 967	-	22 734	16 590	2 702	-	19 292
Derivative financial assets	93	-	6	99	38	9	3	50
Loans to customers	1 352 258	-	-	1 352 258	1 162 668	-	-	1 162 668
Investment securities	40 441	-	-	40 441	49 034	-	-	49 034
Other financial assets	2 960	-	-	2 960	886	-	-	886
	<u>1 841 229</u>	<u>11 376</u>	<u>28 792</u>	<u>1 881 397</u>	<u>1 544 683</u>	<u>23 360</u>	<u>3 873</u>	<u>1 571 916</u>
Liabilities								
Due to credit institutions	(86 343)	(781)	-	(87 124)	(94 119)	(35 368)	(2 247)	(131 734)
Derivative financial liabilities	(120)	(1)	-	(121)	(210)	(17)	(28)	(255)
Customer accounts	(1 304 503)	(9 431)	(21 510)	(1 335 444)	(960 369)	(8 132)	(18 851)	(987 352)
Debt securities issued	(58 117)	-	-	(58 117)	(78 653)	-	-	(78 653)
Other borrowings	-	-	-	-	-	(20 672)	-	(20 672)
Allowances for ECLs in respect of loan commitments and financial guarantee agreements	(139)	-	-	(139)	(30)	-	-	(30)
Other financial liabilities	(15 954)	-	-	(15 954)	(15 724)	-	-	(15 724)
Subordinated debt	(2 548)	-	(29 943)	(32 491)	(2 579)	-	(30 204)	(32 783)
	<u>(1 467 724)</u>	<u>(10 213)</u>	<u>(51 453)</u>	<u>(1 529 390)</u>	<u>(1 151 684)</u>	<u>(64 189)</u>	<u>(51 330)</u>	<u>(1 267 203)</u>
Net assets/(liabilities)	<u>373 505</u>	<u>1 163</u>	<u>(22 661)</u>	<u>352 007</u>	<u>392 999</u>	<u>(40 829)</u>	<u>(47 457)</u>	<u>304 713</u>

The Bank's liquidity management strategy provides for classifying liquid assets as assets of first and second priority. Such classification of liquid assets results from understanding that the Bank might be forced to work in extreme conditions in the event of a shocking impact of one or more risk factors. The liquid assets of second priority are income-generating investments which, if necessary, may be quickly transformed to cash to ensure additional Bank liquidity. Thus, liquid assets of the second stage are a reserve of liquid assets.

The Bank owns investment securities which may be easily sold for cash in the event of an unforeseen interruption of cash flow. In addition, the Bank placed an obligatory deposit in the National Bank the amount of which depends on the level of customer funds attracted.

The Bank's liquidity position is also assessed in terms of fulfilment of liquidity ratios established by the National Bank of the Republic of Belarus.

Indicator name	Regulatory standard	December 31, 2021
Liquidity ratio	Not less than 100% (At least 90% - until December 31, 2021)*	164,1%

(in thousands of Belarusian rubles)

Indicator name	Regulatory standard	December 31, 2021
Net standing funding ratio	Not less than 100%	133,2%
* In accordance with Resolution of the Board of the National Bank of the Republic of Belarus dated September 18, 2020 No. 298 "On certain issues of regulating the activities of banks in 2021"		

Liquidity ratios as at December 31, 2020:

Indicator name	Regulatory standard	December 31, 2020
	Not less than 100%	
Liquidity ratio	(at least 80% - until December 31, 2020)*	119,4%
Net standing funding ratio	Not less than 100%	132,0%
* In accordance with Resolution of the Board of the National Bank of the Republic of Belarus dated March 18, 2020 No. 81 "On certain issues of regulation of banks in 2020"		

Analysis of financial liabilities by the periods to maturity

The table below presents the Bank's financial liabilities as at December 31, 2021 by the periods to maturity based on contractual undiscounted maturity obligations. Derivative financial instruments redeemed by the delivery of a basic asset are an exception. They are indicated by contractual maturity. Liabilities subject to repayment on request are considered as if the request for repayment was filed at the earliest possible date. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history. Maturity differences analysis does not reflect the historical stability of current account balances, which have traditionally been repaid over a longer period than indicated in the tables above. These balances are included in amounts payable during less than "three months" in the tables above.

Financial liabilities	Less than 3 months	3 to 12 months	1 - 5 years	Over 5 years	Total
As at December 31, 2021					
Due to credit institutions	60 716	19 672	2 203	-	82 591
Customer accounts	881 532	328 172	123 854	50 798	1 384 356
Debt securities issued	20 030	23 871	19 946	-	63 847
Other borrowings	-	-	-	-	-
Other financial liabilities	899	-	-	-	899
Subordinated debt	632	1 398	10 619	31 609	44 257
Total undiscounted financial liabilities	963 809	373 113	156 622	82 406	1 575 950
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	27 253	-	-	-	27 253
- Amounts receivable under agreements	(27 133)	-	-	-	(27 133)
Total cash flows from derivative financial liabilities	120	-	-	-	120
As at December 31, 2020					
Due to credit institutions	89 572	23 738	23 520	-	136 831
Customer accounts	762 334	291 873	43 546	62 857	1 160 610
Debt securities issued	4 916	15 852	80 023	-	100 791
Other borrowings	11 216	592	10 592	-	22 399
Other financial liabilities	6 130	8 493	1 484	-	16 107
Subordinated debt	457	1 370	9 849	35 289	46 965
Total undiscounted financial liabilities	874 625	341 918	169 014	98 146	1 483 703
Derivative financial instruments redeemed by the delivery of a basic asset					
- Amounts payable under agreements	102 117	-	-	-	102 117
- Amounts receivable under agreements	(101 862)	-	-	-	(101 862)
Total cash flows from derivative financial liabilities	255	-	-	-	255

(in thousands of Belarusian rubles)

The table below shows the contractual maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the period containing the earliest date it can be drawn down. For financial guarantee contracts, 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 - 5 years	Over 5 years	Total
As at December 31, 2021	777 223	-	-	-	777 223
As at December 31, 2020	871 360	-	-	-	871 360

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

The Bank's ability to fulfill its liabilities depends on its ability to realize an equivalent amount of assets within the same period of time.

The analysis of differences in maturity does not reflect the historical stability of current accounts. Their demand by the clients has been historically performed during a longer period than indicated in the tables above. These balances are included in amounts payable during less than "three months" in the tables above. Due to customers include term deposits of individuals.

Interest rate risk

The sensitivity of net interest income is an effect of the assumed changes in interest rates on the net interest income for one year, calculated based on financial assets and financial liabilities with a floating rate held as at December 31. The sensitivity of equity to acceptable changes in interest rates as at December 31 is calculated after taxation.

Currency	Increase in basis points 2021	Sensitivity of net interest income 2021	Capital sensitivity 2021
BYN	1 500	406	305
EUR	25	-	-
USD	50	132	99

Currency	Increase in basis points 2020	Sensitivity of net interest income 2020	Capital sensitivity 2020
BYN	1 500	(1 830)	(1 373)
EUR	25	-	-
USD	50	(187)	(140)

Currency	Decrease in basis points 2021	Sensitivity of net interest income 2021	Capital sensitivity 2021
BYN	500	(135)	(102)
EUR	25	-	-
USD	12	(18)	(14)

Currency	Decrease in basis points 2020	Sensitivity of net interest income 2020	Capital sensitivity 2020
BYN	500	610	458
EUR	25	-	-
USD	12	21	16

The following table presents a sensitivity analysis of the risk of changes in fair value carried out on the basis of changes which were reasonably possible in respect of investment securities with fixed interest rate. The

(in thousands of Belarusian rubles)

extent of these changes is determined by management. The sensitivity analysis represents the effect of a 5% increase, a 5% decrease in interest rates effective at the reporting date, on the Bank's capital, assuming that the changes occur at the beginning of the financial year, after which the rates remain unchanged throughout the reporting period, all other factors being considered unchanged.

	December 31, 2021		December 31, 2020	
	Interest rate	Interest rate	Interest rate	Interest rate
	+5%	-5%	+5%	-5%
Investment securities	(11)	11	(145)	145
Net Impact on the capital	(11)	11	(145)	145

Foreign currency risk

The Management Board and the Financial Committee ensure the maintenance of open positions in foreign currency within the limits of the currency risk limitation standards established by the National Bank of the Republic of Belarus. Items are monitored on a daily basis.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	<i>BYN</i>	<i>USD</i>	<i>EUR</i>	<i>RUB</i>	<i>Other currency</i>	<i>Total</i>
Financial assets as at December 31, 2021						
Cash and cash equivalents	298 759	115 672	29 245	17 738	1 491	462 905
Due from credit institutions	13 809	8 925	-	-	-	22 734
Derivative financial assets	99	-	-	-	-	99
Loans to customers	861 956	301 094	157 856	31 352	-	1 352 258
Investment securities	802	34 800	4 839	-	-	40 441
Other financial assets	2 581	178	196	5	-	2 960
Total financial assets	1 178 006	460 669	192 136	49 095	1 491	1 881 397
Financial liabilities as at December 31, 2021						
Due to credit institutions	(74 504)	(5 350)	(6 946)	(324)	-	(87 124)
Derivative financial liabilities	(121)	-	-	-	-	(121)
Customer accounts	(698 518)	(421 336)	(161 215)	(53 149)	(1 226)	(1 335 444)
Debt securities issued	(47 783)	(2 672)	(7 662)	-	-	(58 117)
Other borrowings	-	-	-	-	-	-
Other financial liabilities	(7 694)	(899)	(7 500)	-	-	(16 093)
Subordinated debt	(958)	(31 533)	-	-	-	(32 491)
Total financial liabilities	(829 578)	(461 790)	(183 323)	(53 473)	(1 226)	(1 529 390)
Claims on derivative financial instruments and currency trading	-	41 948	2 884	23 373	-	68 205
Obligations on derivative financial instruments and currency trading	-	(26 130)	(23 637)	(18 445)	-	(68 212)
Total currency position as at December 31, 2021	348 428	14 697	(11 940)	550	265	352 000

(in thousands of Belarusian rubles)

	<i>BYN</i>	<i>USD</i>	<i>EUR</i>	<i>RUB</i>	<i>Other currency</i>	<i>Total</i>
Financial assets as at December 31, 2020						
Cash and cash equivalents	229 552	63 612	31 462	13 244	2 116	339 986
Due from credit institutions	15 811	3 481	-	-	-	19 292
Loans to customers	709 411	206 273	222 778	24 316	-	1 162 668
Investment securities	571	44 096	4 367	-	-	49 034
Other financial assets	546	255	84	1	-	886
Total financial assets	955 891	317 717	258 691	37 561	2 116	1 571 866
Financial liabilities as at December 31, 2020						
Due to credit institutions	(75 038)	(11 237)	(43 206)	(2 253)	-	(131 734)
Customer accounts	(458 702)	(359 238)	(153 053)	(15 297)	(1 063)	(987 353)
Debt securities issued	(73 747)	(3 315)	(1 591)	-	-	(78 653)
Other borrowings	(20 672)	-	-	-	-	(20 672)
Other financial liabilities	(3 393)	(404)	(11 925)	(2)	-	(15 724)
Subordinated debt	(851)	(31 932)	-	-	-	(32 783)
Total financial liabilities	(632 403)	(406 126)	(209 775)	(17 552)	(1 063)	(1 266 919)
Claims on derivative financial instruments and currency trading	655	99 767	9 763	3 690	-	113 875
Obligations on derivative financial instruments and currency trading	-	(13 422)	(76 875)	(23 798)	-	(114 095)
Total currency position as at December 31, 2020	324 143	(2 064)	(18 196)	(209)	1 053	304 727

The following tables present the currencies of which the Bank had significant exposure as at December 31 on its financial assets and financial liabilities and its forecast cash flows. The analysis performed includes calculation of the effect of a reasonably possible change in currency rates against the Belarusian rouble before tax (due to the fair value of currency sensitive financial monetary assets and liabilities). All other parameters are considered constant. The effect on equity does not differ from the effect on profit before tax. The negative amounts in the table reflect the potentially possible net decrease in the statement of comprehensive income or equity, and the positive amounts reflect the potential net increase.

<i>Currency</i>	<i>Reasonable higher threshold of change in currency rate 2021</i>	<i>Effect on pre-tax profit 2021</i>	<i>Impact on capital after taxation 2021</i>
USD	+40%	5 879	4 409
EUR	+40%	(4 776)	(3 582)
RUB	+40%	220	165
<i>Currency</i>	<i>Reasonable lower threshold of change in currency rate 2021</i>	<i>Effect on pre-tax profit 2021</i>	<i>Impact on capital after taxation 2021</i>
USD	-20%	2 939	2 205
EUR	-20%	(2 388)	(1 791)
RUB	-20%	110	83

(in thousands of Belarusian rubles)

Currency	Reasonable higher threshold of change in currency rate 2020	Effect on pre-tax profit 2020	Impact on capital after taxation 2020
USD	+40%	(826)	(620)
EUR	+40%	(7 278)	(5 459)
RUB	+40%	(84)	(63)

Currency	Reasonable lower threshold of change in currency rate 2020	Effect on pre-tax profit 2020	Impact on capital after taxation 2020
USD	-20%	413	310
EUR	-20%	3 639	2 729
RUB	-20%	42	32

Risk of early repayment

Early repayment 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.

28. Determination of fair value**Fair value measurement procedures**

The Bank's Management determines the policies and procedures for both periodic fair value measurement of unquoted debt securities and unquoted derivative financial instruments, investment property and for non-recurring measurement, such as assets held-for-sale.

At each reporting date, the Management analyzes the movements in the values of assets which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Management reviews the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The Management, together with the Bank's external appraisers, also compares each change in the fair value of each asset with relevant external sources to determine whether the change is reasonable. On a periodic basis, the Management and the Bank's external appraisers present the results to the Audit committee and the Bank's independent auditors. This includes a discussion of the major assumptions used in appraisal.

Fair value hierarchy

For the purpose of fair value disclosure the Bank classified assets and liabilities on the basis of their nature, characteristics and risk of an asset or liability, as well as the level of fair value hierarchy.

	Fair value measurement using			Total
	Quoted prices in active markets	Significant observable key inputs	Significant unobservable key inputs	
As at December 31, 2021	Level 1	Level 2	Level 3	
Assets at fair value				
Derivative financial assets	-	-	99	99
Investment securities	-	40 441	-	40 441
Assets for which fair value is disclosed				
Due from credit institutions	-	-	22 734	22 734
Loans to customers	-	-	1 338 625	1 338 625
Liabilities at fair value				
Derivative financial instruments	-	-	121	121

(in thousands of Belarusian rubles)

<i>As at December 31, 2021</i>	<i>Fair value measurement using</i>			<i>Total</i>
	<i>Quoted prices in</i>	<i>Significant</i>	<i>Significant</i>	
	<i>active markets</i>	<i>observable key</i>	<i>unobservable key</i>	
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Liabilities for which fair value is disclosed				
Due to credit institutions	-	87 124	-	87 124
Customer accounts	-	-	1 336 269	1 336 269
Debt securities issued	-	50 072	-	50 072
Subordinated debt	-	-	30 442	30 442

<i>As at December 31, 2020</i>	<i>Fair value measurement using</i>			<i>Total</i>
	<i>Quoted prices in</i>	<i>Significant</i>	<i>Significant</i>	
	<i>active markets</i>	<i>observable key</i>	<i>unobservable key</i>	
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Assets at fair value				
Derivative financial assets	-	-	50	50
Investment securities	-	49 034	-	49 034
Assets for which fair value is disclosed				
Due from credit institutions	-	-	19 292	19 292
Loans to customers	-	-	1 129 642	1 129 642
Liabilities at fair value				
Derivative financial instruments	-	-	255	255
Liabilities for which fair value is disclosed				
Due to credit institutions	-	131 734	-	131 734
Customer accounts	-	392 591	589 771	982 362
Debt securities issued	-	80 568	-	80 568
Other borrowings	-	-	20 672	20 672
Subordinated debt	-	-	35 404	35 404

Movements in Level 3 financial instruments measured at fair value

The following table presents a reconciliation of the opening and closing balances of Level 3 financial assets and liabilities which are measured at fair value as at the end of 2021:

	<i>Gains recognized in</i>			<i>As at December 31, 2021</i>
	<i>As at January 1, 2021</i>	<i>the statement of profit or loss</i>	<i>Repayments</i>	
Financial assets				
Derivative financial instruments	50	855	(807)	98
Financial liabilities				
Derivatives	(255)	(1 184)	1 319	(120)
Total Level 3 financial assets/liabilities, net	305	2 039	(2 126)	218

Gains on Level 3 financial instruments included in the statement of comprehensive income are recognized in Net gains from foreign currency transactions. Gains and losses on derivative financial instruments for the reporting periods are disclosed in Note 22.

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

The table below presents carrying amount and fair value comparison by the Bank's financial instruments classes that are not measured at fair value in the statement of financial position. The table does not include the fair value of non-financial assets and non-financial liabilities.

(in thousands of Belarusian rubles)

	<i>Carrying amount 2021</i>	<i>Fair value 2021</i>	<i>Carrying amount 2020</i>	<i>Fair value 2020</i>
Financial assets				
Cash and cash equivalents	462 905	462 905	339 986	339 986
Due from credit institutions	22 734	22 734	19 292	19 292
Loans to customers	1 352 258	1 338 625	1 162 668	1 129 642
Other financial assets	10 815	10 815	886	886
Financial liabilities				
Due to credit institutions	87 124	87 124	131 734	131 734
Customer accounts	1 335 444	1 336 269	987 352	982 362
Debt securities issued	58 117	50 072	78 653	80 568
Other borrowings	-	-	20 672	20 672
Other financial liabilities	7 974	7 974	15 724	15 724
Subordinated debt	32 491	30 442	32 783	35 404

Measurement techniques and assumptions

The techniques and assertions used in fair value measurement of the financial instruments that are not carried at fair value in the financial statements are disclosed below.

Assets for which fair value approximates carrying amount

For liquid financial assets and financial liabilities and those having a short-term maturity (less than three months) it is assumed that their fair value is approximately equal to their carrying amount. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed and variable rate financial instruments

The fair value of unquoted debt instruments is measured by discounting future cash flows using current interest rates taking into account the remaining maturities for debt instruments with similar terms and credit risk. For these purposes, the amortized cost is restated at the effective interest rate, which is equal to the weighted average rate for the instruments opened in the last reporting month of the reporting period. The fair value of such financial instruments is disclosed at level 3.

29. Maturity analysis of assets and liabilities

The table below presents an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 26 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	<i>Total 2021</i>			<i>Total 2020</i>		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	462 905	-	462 905	339 986	-	339 986
Due from credit institutions	-	22 734	22 734	4 468	14 824	19 292
Derivative financial assets	99	-	99	50	-	50
Loans to customers	751 540	600 718	1 352 258	730 015	432 653	1 162 668
Investment securities	1 949	38 492	40 441	-	49 034	49 034
Property and equipment	8 245	41 896	50 141	-	26 733	26 733
Intangible assets	-	33 826	33 826	-	25 190	25 190
Other assets	651	12 869	13 520	591	8 734	9 325
Total	1 225 389	750 535	1 975 924	1 075 110	557 168	1 632 278
Due to credit institutions	(74 953)	(12 171)	(87 124)	(110 765)	(20 969)	(131 734)
Derivative financial liabilities	(121)	-	(121)	(255)	-	(255)
Customer accounts	(803 671)	(531 773)	(1 335 444)	(543 136)	(444 216)	(987 352)

(in thousands of Belarusian rubles)

	Total 2021			Total 2020		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Debt securities issued	(41 624)	(16 493)	(58 117)	(18 616)	(60 037)	(78 653)
Other borrowings	-	-	-	(10 740)	(9 932)	(20 672)
Current income tax liabilities	(167)	-	(167)	(5 357)	-	(5 357)
Deferred income tax liabilities	-	(14 521)	(14 521)	-	(12 889)	(12 889)
Other liabilities	(24 027)	(1 334)	(25 361)	(24 162)	(1 696)	(25 858)
Subordinated debt	(39)	(32 457)	(32 496)	(113)	(32 670)	(32 783)
Total	(944 602)	(608 744)	(1 553 346)	(731 144)	(582 409)	(1 295 553)
Net position	280 787	141 791	422 578	361 966	(25 241)	336 725

Overdue loans to customers in the amount of BYN 6 835 thousand as at December 31, 2021 (December 31, 2020: BYN 6 976 thousand) were included in the loans to customers with a maturity of more than one year.

The Bank's management believes that in case of early repayment of due to customers, the Bank will be able to dispose its liquid assets to make the necessary payments. Beside that the Management of the Bank believes that if the financing from its counterparty banks decreases the Bank will get support from the shareholders. The Bank also has access to constantly operating instruments for regulating liquidity on behalf of the regulator.

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

Customer accounts - the Bank's liquidity management includes an assessment of the minimum required balance on current (settlement) customer accounts, that is, the funds attracted in an amount that takes into account stable relationships with customers, which is determined using statistical methods applied to historical data on fluctuations in customer account balances for at least 30 days prior to the date of analysis. Due to this, liabilities to repay due to customers with the maturity over one year are mostly comprised of semi-fixed balance of due to customers.

30. Related party transactions

In accordance with IAS 24 Related Party Disclosures, the Bank treats parties as related when the parties are able to control or significantly influence to the Bank's operating and financial decisions (shareholders, entities under common control, key management personnel). In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form.

The Bank enters into banking transactions with related parties including but not limited to lending, deposit taking, cash settlement, foreign exchange, providing guarantees, as well as securities and derivative transactions.

The outstanding balances of related party transactions are as follows:

	Total 2021			
	Shareholders	Entities under common control	Key management personnel	Other related parties
Loans to customers as at December 31	-	11 847	60	106
Allowance for expected credit losses	-	(78)	-	(1)
Loans to customers less allowance for expected credit losses	-	11 769	60	105
Term deposits as at December 31	-	269	1 781	52
Current customer accounts as at December 31	137	396	962	470

(in thousands of Belarusian rubles)

	Total 2020			
	Shareholders	Entities under common control	Key management personnel	Other related parties
Loans to customers as at December 31	4	2 311	59	71
Allowance for expected credit losses	-	(7)	-	-
Loans to customers less allowance for expected credit losses	4	2 304	59	71
Term deposits as at December 31	197 932	3 718	297	126
Current customer accounts as at December 31	1 284	707	2 854	732

	Shareholders	Entities under common control	Key management personnel	Other related parties
Subordinated debt as at December 31, 2021	29 945	-	-	-
Loan commitments as at December 31	-	4 842	247	64
Guarantees as at December 31	-	-	-	-
Loss allowance for financial guarantees	-	-	-	-
Other liabilities – accrual of unused vacation liabilities	-	-	410	-

	Shareholders	Entities under common control	Key management personnel	Other related parties
Subordinated debt as at December 31, 2020	32 783	-	-	-
Loan commitments as at December 31	37 900	8 423	200	135
Guarantees as at December 31	12 118	-	-	-
Loss allowance for financial guarantees	(11)	-	-	-
Other liabilities – accrual of unused vacation liabilities	-	-	899	-

The average-weighted contract rate on loans to related parties in 2021 was 8,58% (in 2020 – 6,39%). In general, loans are represented by long-term non-revolving credit lines, mainly denominated in foreign currency. The average-weighted contract rate on deposits in 2021 was 3,62% (in 2020 – 4,19%). During the reporting period, the Bank mainly attracted short-term deposits, commonly denominated in foreign currency.

As at December 31, 2021, there are no Guarantees issued by counterparties that are related parties to the Bank.

As at December 31, 2020 the guarantees issued are represented by long-term guarantees in the national currency which were issued during the period from 2016 to 2017 with maturity in February 2022.

The income and expenses arising from related party transactions are as follows:

	Total 2021			
	Shareholders	Entities under common control	Key management personnel	Other related parties
Interest income on loans to customers	-	-	5	8
Interest expenses on subordinated debt	(1 932)	-	-	-
Interest expenses on customer accounts	(48)	(50)	(8)	-
Recovery of loss allowance	-	(74)	-	-

(in thousands of Belarusian rubles)

Commission income	-	349	5	3
Income from foreign exchange operations	-	3	-	-
Personnel expenses	-	-	7 660	-

	Total 2020			
	Shareholders	Entities under common control	Key management personnel	Other related parties
Interest income on loans to customers	355	188	5	9
Interest expenses on subordinated debt	(1 932)	-	-	-
Interest expenses on customer accounts	(2 225)	(91)	(47)	(23)
Recovery of loss allowance	37	(4)	-	1
Commission income	412	1 085	6	4
Income from foreign exchange operations	12	36	-	-
Personnel expenses	-	-	6 648	-

Compensation to key management personnel is disclosed below:

	Total 2021	Total 2020
Salaries and other short-term employee benefits	6 324	5 368
Social contributions	1 336	1 280
Total key management personnel compensation	7 660	6 648

Information on remuneration to Supervisory Board members is disclosed in Note 26.

31. Capital adequacy

The Bank actively manages the capital base to cover risks inherent in its business. The Bank's capital adequacy is monitored using among other methods the ratios established by the Basel Capital Accord dated 1988 and the ratios established by the National Bank when observing the Bank.

As at December 31, 2021 and 2020 the Bank fully complied with all external capital requirements established.

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

The Bank manages its capital structure and makes adjustments to it taking into account changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to the shareholders, return capital to shareholders or issue equity securities. No changes were made in the objectives, policies and processes compared to the previous years.

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

According to the requirements of the National Bank of the Republic of Belarus, the capital adequacy ratio of the Bank, taking into account the conservation buffer and the buffer of systemic significance, must be maintained at a level not lower than 12,50% of the amount of risk-weighted assets, which are calculated in accordance with the requirements of the legislation of the Republic of Belarus. In accordance with Resolution of the Board of the National Bank of the Republic of Belarus dated September 18, 2020 No. 298 "On certain issues of regulating the activities of banks in 2021", the normative value of regulatory capital adequacy, taking into account buffers, was set at 12,0%. As at December 31, 2021 and 2020 the Bank's capital adequacy ratio calculated on the abovementioned basis was as follows:

(in thousands of Belarusian rubles)

	Total 2021	Total 2020
Principal capital	299 986	225 139
Additional capital	90 635	77 247
Total equity	390 621	302 386
Risk-weighted assets	2 517 311	2 205 575
Capital adequacy ratio	15,52%	13,71%

Capital adequacy ratio under Basel Capital Accord 1988

As at December 31, 2021 and 2020, the Bank's capital adequacy ratio, calculated in accordance with the Basel Capital Accord dated 1988 using a standardized approach and taking into account subsequent amendments related to including market risks, comprised:

	Total 2021	Total 2020
Tier 1 capital	387 336	310 294
<i>including share capital</i>	110 426	110 426
<i>retained earnings</i>	311 538	225 629
<i>Capital investments</i>	(802)	(571)
<i>Intangible assets</i>	(33 826)	(25 190)
Tier 2 capital	31 845	32 934
<i>including subordinated debt, taken into account in the calculation of capital</i>	31 231	32 264
<i>fair value reserve of investment securities</i>	614	670
Total equity	419 181	343 228
Risk-weighted assets	1 711 779	1 574 798
Tier 1 capital adequacy ratio	22,63%	19,74%
Total capital adequacy ratio	24,49%	21,83%

Calculation of capital adequacy under the provisions of the Basel Capital Accord is based on the financial statements prepared in accordance with IFRS.

Difference in the amounts of risk-weighted assets that are used in the calculation of capital adequacy under the requirements of the National Bank of the Republic of Belarus and provisions of the Basel Capital Accord arises as a result of adjustments of financial statements due to the differences in the accounting policies.

32. Subsequent events

According to the National Bank of the Republic of Belarus, core inflation in annual terms in January 2022 amounted to 10.1 percent.

As at the date of approval of the financial statements for issue, the refinancing rate of the National Bank was 12% (9.25% as at December 31, 2021).

On February 24, 2022, based on the decision of the General Meeting of shareholders of CJSC MTBank, dividends in the amount of BYN 15 480 thousand were paid.

As at March 18, 2022, the official exchange rate of the US dollar to the Belarusian ruble was 3.2976 rubles, the euro exchange rate to the Belarusian ruble was 3.6460 rubles, the exchange rate of the Russian ruble to the Belarusian ruble was 0.03147 rubles.

As at the reporting date, compared to the reporting period, the Belarusian ruble weakened against the US dollar by 26.48%, against the EUR by 29.41%, the strengthening of the Belarusian ruble against the Russian ruble amounted to 8.3%.