OJSC «Paritetbank»

International Financial Reporting Standards Financial Statements and Independent Auditor's Report

31 December 2015

Independent Auditor's Report

To the Shareholders and Supervisory Board of OJSC "Paritetbank"

We have audited the accompanying financial statements of Opened Joint Stock-Company "Paritetbank" (the "Bank") which comprise the statement of financial position as of 31 December 2015 and the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 31 of the financial statements which discloses that as of 1 January 2016 the Bank did not comply with the normative of maximum size of credit risk per one debtor (group of interdependent debtors) set by the National Bank of the Republic of Belarus for two counterparties. As of 1 January 2016 the normative was exceeded by 38.2 % and 0.6 % from regulatory capital respectively. At the date of signing the auditors' report the Bank did not comply with this normative for one debtor.

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According to the letter from National Bank of the Republic of Belarus sent to the Bank, the Management Board of the National Bank of the Republic of Belarus will take into account the reasons of non-compliance and perspectives of corrective actions when taking a decision on non-application of any supervisory actions will regarding the non-compliance. Our opinion is not qualified in respect of this matter.

PRICEWATERHOUSE COOPERS ASSURANCE, Unitary Enterprise on Services Rendering

27 April 2016
Minsk, Republic of Belarus

OJSC "PARITETBANK"

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Belarusian rubles)

	Notes	31 December 2015	31 December 2014 as restated
ASSETS:			
Cash and cash equivalents	8	304,667	199,971
Derivative financial instruments	9	345,198	216,731
Amounts due from credit institutions	10	154,213	115,727
Loans to customers	11	1,140,662	686,952
Securities available-for-sale	12	338,753	530,090
Securities held-to-maturity	12	-	10,752
Long-term assets held for sale	13	8,736	8,296
Current income tax assets		-	374
Property and equipment	14	285,472	102,466
Intangible assets	15	4,369	4,532
Deferred income tax assets	16	11,252	3,907
Other assets	17	56,108	27,213
TOTAL ASSETS		**2,649,430**	**1,907,011**
LIABILITIES AND EQUITY			
LIABILITIES:			
Derivative financial instruments	9	-	1,174
Amounts due to credit institutions	18	94,468	224,002
Amounts due to customers	19	1,643,197	992,904
Debt securities issued	20	51,922	59,055
Other liabilities	17	6,324	107,993
TOTAL LIABILITIES		**1,795,911**	**1,385,128**
EQUITY:			
Share capital	21	1,537,544	1,204,924
Treasury shares		(1,362)	(1,362)
Revaluation reserve for investment securities available for sale		497	-
Accumulated loss		(683,160)	(681,679)
TOTAL EQUITY		**853,519**	**521,883**
TOTAL LIABILITIES AND EQUITY		**2,649,430**	**1,907,011**

Notes on pages 9 to 59 are an integral part of these financial statements.

РЕСПУБЛИКА БЕЛАРУСЬ
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
«ПАРИТЕТБАНК»
г. МИНСК

Chairman of the Management Board
A.S. Brishtelev
27 April 2016
Minsk

Chief Accountant
I. B. Safronova
27 April 2016
Minsk

OJSC "PARITETBANK"

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Belarusian rubles)

	Notes	2015	2014
INTEREST INCOME			
Loans to customers		221,194	235,216
Amounts due from credit institutions		45,912	13,749
Securities held-to-maturity		1,428	226
Securities available-for-sale		93,130	56,689
INTEREST EXPENSE			
Amounts due to customers		(118,619)	(94,222)
Amounts due to credit institutions		(49,752)	(30,678)
Debt securities issued		(22,850)	(6,648)
NET INTEREST INCOME	24	170,443	174,332
Loss of initial recognition of financial assets and liabilities		(6,226)	-
Allowance for loans impairment	11	(138,740)	(78,791)
NET INTEREST INCOME AFTER ALLOWANCE FOR LOANS IMPAIRMENT		25,477	95,541
Net fee and commission income	23	21,692	21,546
Net gains from securities available-for-sale		4,674	3,036
Net gains/(losses) from foreign currency transactions:			
- dealing		54,101	(2,507)
- transaction differences		(150,640)	(25,762)
Net gains from derivative financial instruments transactions		174,328	43,472
Other income	24	30,164	18,471
OTHER OPERATING INCOME		134,319	58,256
Personnel expenses	25	(71,850)	(55,632)
Depreciation and amortization	14, 15	(10,310)	(8,749)
Other operating expenses	25	(63,913)	(44,784)
Other (expenses)/reversal of impairment and provisions	17	(20,900)	192
ADMINISTRATIVE AND OTHER EXPENSE		(166,973)	(108,973)
(LOSS)/PROFIT BEFORE INCOME TAX EXPENSE AND LOSS ON NET MONETARY POSITION		(7,177)	44,824
Loss on net monetary position resulting from hyperinflation		-	(64,494)
LOSS BEFORE INCOME TAX EXPENSE AND AFTER LOSS ON NET MONETARY POSITION		(7,177)	(19,670)
Income tax credit/(charge)	16	7,345	(6,617)
PROFIT/(LOSS) FOR THE YEAR		168	(26,287)

Notes on pages 9 to 59 are an integral part of these financial statements.

Chairman of the Management Board
A.S. Brishtelev
27 April 2016
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ АКЦИОНЕРНОЕ ОБЩЕСТВО ОТКРЫТОЕ «ПАРИТЕТБАНК» г. МИНСК

Chief Accountant
I. B. Safronova
27 April 2016
Minsk

OJSC "PARITETBANK"

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Belarusian rubles)

	Notes	2015	2014
PROFIT/(LOSS) FOR THE YEAR		168	(26,287)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Change in fair value of securities available-for-sale		497	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		665	(26,287)

Notes on pages 9 to 59 are an integral part of these financial statements.

Chairman of the Management Board
A.S. Brishtelev
27 April 2016
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ
ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО
«ПАРИТЕТБАНК»
г. МИНСК

Chief Accountant
I. B. Safronova
27 April 2016
Minsk

OJSC "PARITETBANK"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Belarusian rubles)

	Notes	Share capital	Treasury shares	Accumulated loss	Revaluation reserve for investment securities available for sale	Total equity
31 December 2013		1,204,924	(1,362)	(648,350)	-	555,212
Loss for the year		-	-	(26,287)	-	(26,287)
Total comprehensive loss for the year		-	-	(26,287)	-	(26,287)
Dividends declared	21	-	-	(7,042)	-	(7,042)
31 December 2014		1,204,924	(1,362)	(681,679)	-	521,883
Profit for the year		-	-	168	-	168
Other comprehensive income for the year		-	-	-	497	497
Total comprehensive income for the year		-	-	168	497	665
Increase in share capital		332,620	-	-	-	332,620
Dividends declared	21	-	-	(1,649)	-	(1,649)
31 December 2015		1,537,544	(1,362)	(683,160)	497	853,519

Notes on pages 9 to 59 are an integral part of these financial statements.

Chairman of the Management Board
A.S. Brishtelev
27 April 2016
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО «ПАРИТЕТБАНК» г. МИНСК

Chief Accountant
I. B. Safronova
27 April 2016
Minsk

OJSC "PARITETBANK"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(in millions of Belarusian rubles)

	Notes	2015	2014 As restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before income tax expense	16	(7,177)	(19,670)
Adjustments for:			
Depreciation and amortisation	14,15	10,310	8,749
Allowance for loans impairment	11	138,740	78,791
Charge/(reversal) of allowance for impairment of other assets	17	20,900	(192)
(Profit)/loss on disposal of property and equipment and intangible assets		(23)	477
Net change in interest accruals		30,273	(37,906)
Gain on revaluation of derivative financial instruments	28	(174,328)	(43,472)
Unused vacation and bonus accrual		1,079	2,996
Loss from translation differences		150,640	25,762
(Profit)/loss on write-off of material assets		(4,179)	614
Repossessed assets under the loan agreements		(10,523)	-
Effect from initial recognition of financial assets and accounting of loans using amortised cost		3,968	-
Gains on disposal of non-current assets held for sale		-	(2,654)
Hyperinflation effect		-	64,494
Cash flows from operating activities before changes in operating assets and liabilities		**159,680**	**77,989**
Net decrease/(increase) in operating assets and liabilities			
Amounts due from credit institutions		82,562	(111,584)
Loans to customers		(401,998)	69,364
Derivative financial instruments		(75,071)	3,124
Other assets		(28,764)	3,503
Amounts due to credit institutions		(223,978)	100,586
Amounts due to customers		312,818	126,738
Other liabilities		(122,604)	93,594
Net cash (outflow)/inflows from operating activities before income tax		**(457,035)**	**285,325**
Income tax paid		-	(4,161)
Net cash (outflow)/inflow from operating activities		**(297,355)**	**359,153**

OJSC "PARITETBANK"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)
(in millions of Belarusian rubles)

	Notes	2015	2014 As restated
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment and intangible assets		(10,231)	(10,057)
Acquisition of securities available-for-sale		(160,176)	(466,862)
Proceeds from sale of property and equipment and intangible assets		42	-
Proceeds from sale of non-current assets held for sale		-	837
Proceeds from redemption of securities available for sale		401,418	-
Proceeds from redemption of securities held-to-maturity		13,204	-
Prepayment for shares		(18,570)	(11,851)
Net cash inflow/(outflow) from investing activities		225,687	(487,933)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Outflow)/inflow from redemption (issue) of debt securities		(10,670)	58,687
Contribution in share capital		149,679	-
Dividends paid	21	(1,649)	(7,042)
Net cash inflow from financing activities		137,360	51,645
NET INCREASE /(DECREASE)/ IN CASH AND CASH EQUIVALENTS		65,692	(71,135)
Effect of exchange rates changes on cash and cash equivalents		39,004	8,811
Effect of hyperinflation on cash and cash equivalents		-	(42,739)
Net increase/(decrease) in cash and cash equivalents		104,696	(111,063)
Cash and cash equivalents as at the beginning of the reporting year		199,971	311,034
Cash and cash equivalents as at the end of reporting the year		304,667	199,971

Notes on pages 9 to 59 are an integral part of these financial statements.

Chairman of the Management Board
A.S. Brishtelev
27 April 2016
Minsk

РЕСПУБЛИКА БЕЛАРУСЬ * ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * «ПАРИТЕТБАНК» * г. МИНСК

Chief Accountant
I. B. Safronova
27 April 2016
Minsk

(in millions of Belarusian rubles)

1. ORGANIZATION

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

The Bank's principal activities include granting loans to customers, money transfers, foreign currency transactions on the behalf of the customers and in its own name, as well as fund raising and securities operations. The Bank was granted banking license No. 5 dated 27 October 2014, the Bank also holds a license for securities and stock exchange operations.

The Bank has 18 structural divisions in the Republic of Belarus and a head office located in Minsk and having its registered address at 61a Kiseleva Street, 220002 Minsk, Republic of Belarus.

As of 31 December 2015 and 2014, the Bank's share capital was distributed among its shareholders as follows:

Shareholder	2015	2014
Republic of Belarus	99.67%	99.67%
Other	0.33%	0.33%
Total	**100%**	**100%**

Information on investments in associates of the Bank is presented below:

Name	Country of operation	Share 2014	Share 2013	Type of activity
LLC "Investment Company "Paritet"	Republic of Belarus	50.0%	50.0%	Finance lease

In 2013 the Bank ceased recognition of investments in associate company by expensing the carrying the amount of the investments in the Bank's profit or loss account.

Total unrecognized Bank's share in loss for the 2015 and 2014 years are BYR 4,052 million and BYR 2,688 million respectively. Unrecognized Bank's share in the associate's accumulated loss as of 31 December 2015 and 31 December 2014 is BYR 2,716 million and BYR 2,706 million respectively.

2. OPERATING ENVIRONMENT OF THE BANK

Republic of Belarus. The Republic of Belarus displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation which contributes to the challenges faced by banks operating in the Republic of Belarus.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe and Russia, which is the main export markets for Belarus, and other risks could have significant negative effects on the Belarusian financial and corporate sectors. Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions. Refer to Note 11.

Starting from 1 January 2015 the Republic of Belarus ceased to be a hyperinflatory economy. Annual inflation decreased from 108.7 % in 2011 to about 16.5%, 16.2 % and 12% in 2013, 2014 and 2015 respectively. Entities are not required to apply IAS 29 "Financial reporting in hyperinflatory economy" for the year ended 31 December 2015.

The future economic development of the Republic of Belarus is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Bank's business in the current business and economic environment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises, available-for-sale financial assets, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

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

Initial recognition of financial instruments. Derivatives are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Bank uses discounted cash flow valuation techniques to determine the fair value of currency swaps, foreign exchange forwards that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique. Any such differences are amortised on a straight line basis over the term of the currency swaps, foreign exchange forwards.

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

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

Mandatory cash balances with the National Bank of Belarus. Mandatory cash balances with the National Bank of Belarus represent mandatory reserve deposits with the Central Bank of the Republic of Belarus, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Mandatory cash balances with the National Bank of Belarus are carried at amortised cost.

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Bank considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related allowance for impairment after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

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

Credit related commitments. The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

In cases where the fees are charged periodically in respect of an outstanding commitment, they are recognised as revenue on a time proportion basis over the respective commitment period

Investment securities available for sale. This classification includes investment securities which the Bank intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method, and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Bank's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Investments classified as loans and receivables. Debt investment securities are classified by the Bank into "loans and receivables" measurement category if there is no active market for such securities and the Bank does not intend to sell them immediately or in the nearest term.

Such investment securities are accounted at amortised costs similarly to loans and advances to customers and disclosed within "Loans and advances to customers" line in the statement of financial position.

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

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

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

Expenditures for repairs and renewals are expensed as incurred and are included in other operating expenses, unless they are subject to capitalization.
Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

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

	Period for property and equipment depreciation, years
Buildings and constructions	8 – 100
Computers	2 – 10
Motor vehicles	7 – 10
Office furniture and other property and equipment	5 – 10

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. Intangible assets include computer software and licences.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 2 to 15 years (for land rights up to 50 years) and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Finance lease receivables. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term Finance income from leases is recorded within interest income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Bank uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred, as for loans carried at amortised cost. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred), discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-current assets classified as held for sale. Non-current assets, which may include both non-current and current assets, are classified in the statement of financial position as "non-current assets held for sale" if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Bank's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Debt securities in issue. Debt securities in issue include bonds and debentures issued by the Bank. Debt securities are stated at amortised cost. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, and currency and interest rate swaps are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Bank does not apply hedge accounting.

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

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

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

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

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

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

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

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

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Belarusian legislation identifies the basis of distribution as the current year net profit.

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

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

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

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

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

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

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

At 31 December 2015, the principal rate of exchange used for translating foreign currency balances was USD 1 = BYR 18,569 (2014: USD 1 = BYR 11,850).

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

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

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Belarus state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in accordance with statutory legislation and local acts of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

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

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

Allowance for loans impairment. The Bank regularly reviews its loans and receivables to assess impairment. Judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Fair value of financial instruments. Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Deferred tax assets. Deferred tax assets are recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Useful lives of property and equipment. The Bank reviews useful lives of property and equipment at least at each financial year-end. If expectations differ from previous estimates, changes are treated as changes in accounting estimates. These estimates may have a material impact on the carrying amounts of property and equipment and on depreciation recognized in the statement of profit or loss.

Impairment of non-financial assets. The carrying value of the Bank's non-financial assets, except for deferred tax assets, is reviewed at each reporting date to determine any indication of impairment. If there is any such indication of impairment the recoverable amount of an asset is estimated. The recoverable amount of other non-financial asset is the largest value of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows independently of the other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 31.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following amended standards became effective for the Bank from 1 January 2015, but did not have any material impact on the Bank:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

6. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Bank has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Bank is currently assessing the impact of the new standard on its financial statements.

The following other new pronouncements are not expected to have any material impact on the Bank when adopted:

- ***IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).*** IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

- ***Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).*** This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).*** In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).*** The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).***The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture-Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).*** These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).*** The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS

7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Bank is currently assessing the impact of the amendments on its financial statements.

- ***Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).*** The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.
- ***Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).*** The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7. RESTATEMENTS AND RECLASSIFICATIONS

During 2015, the Management of the Bank identified certain misstatements in the Statement of Cash Flow and in the Statement of Financial Position for the year ended 31 December 2014. In 2014, the line item "Cash and Cash equivalents" in the Statement of Financial Position incorrectly included certain prepayments made for available for sale equity investments. In the current financial statements, the prepayments were reclassified from "Cash and Cash equivalents" to "Other assets" and comparatives have been restated accordingly.

The effect of the adjustments made to the statement of financial position and cash flows for the year ended 31 December 2014 is as follows:

In millions of Belarusian Rubles	As previously reported	Amount of adjustment	As restated
Statement of Financial Position			
Cash and cash equivalents	211,822	(11,851)	199,971
Other assets	15,362	11,851	27,213
Statement of Cash Flows			
Net decrease in cash and cash equivalents	(99,212)	(11,851)	(111,063)
Net cash outflow from investing activities	(476,082)	(11,851)	(487,933)

The adjustments had no effect on the opening statement of financial position as of 1 January 2014, and therefore the third statement of financial position has not been presented.

8. CASH AND CASH EQUIVALENTS

	31 December 2015	31 December 2014 as restated
Cash on hand	99,973	75,752
Current accounts with the National Bank of the Republic of Belarus	181,776	70,423
Current accounts with other credit institutions	22,918	14,095
Term deposits with credit institutions up to 30 days	-	39,701
Total cash and cash equivalents	304,667	199,971

As of 31 December 2015, BYR 3,595 million (2014 – BYR 14,180 million) was placed on current accounts and interbank deposits with four internationally recognized OECD banks, which are the main counterparties of the Bank in performing international settlements.

9. DERIVATIVES FINANCIAL INSTRUMENTS

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

	2015		2014	
	Assets	Liability	Assets	Liability
Foreign exchange contracts				
Swaps – foreign	73	-	638	752
Swaps – domestic	345,125	-	216,093	422
Total derivative assets/ liabilities	345,198	-	216,731	1,174

In the table above domestic contracts represent deals with Belarusian entities and foreign contracts represent deals with counterparties which are non-Belarusian entities.

As of 31 December 2015 and 31 December 2014, the Bank had positions in swaps. Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates based on specified notional amounts.

(in millions of Belarusian rubles)

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As of 31 December 2015 and 31 December 2014 amounts due from credit institutions comprised:

	31 December 2015	31 December 2014
Obligatory reserve with the NB RB	12,012	10,454
Guarantee deposits	1,862	1,273
Cash placed in Belarusian banks	140,339	-
Temporary accounts	-	104,000
Amounts due from credit institutions	154,213	115,727

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

Cash placed in Belarusian banks represents deposit placed in one bank at interest rate of 29 %.

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

Temporary accounts are presented by funds transferred for increasing the authorized capital of the Bank, and the use of which is restricted.

11. LOANS TO CUSTOMERS

As of 31 December 2015 and 31 December 2014 loans to customers comprised:

	31 December 2015	31 December 2014
Corporate lending	1,006,505	569,442
Consumer lending	190,717	190,142
Net investment in finance leases	-	251
Total loans to customers	1,197,222	759,835
Less: allowance for impairment	(56,560)	(72,883)
Loans to customers	1,140,662	686,952

(in millions of Belarusian rubles)

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending	Consumer lending	Net investment in finance leases	Total
As of 1 January 2015	63,341	9,489	53	72,883
Charge/(reversal) for the year	143,057	(4,369)	52	138,740
Amounts written off	(154,958)	-	(105)	(155,063)
As of 31 December 2015	51,440	5,120	-	56,560
Individual impairment	37,844	-	-	37,844
Collective impairment	13,596	5,120	-	18,716
	51,440	5,120	-	56,560
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	482,284	-	-	482,284

	Corporate lending	Consumer lending	Net investment in finance leases	Total
As of 1 January 2014	28,187	16,261	54	44,502
Charge/(reversal) for the year	83,104	(4,302)	(1)	78,791
Amounts written off	(41,792)	-	-	(41,792)
Hyperinflation effect	(6,208)	(2,460)	-	(8,668)
As of 31 December 2014	63,341	9,489	53	72,883
Individual impairment	55,304	-	-	55,304
Collective impairment	8,037	9,489	53	17,579
	63,341	9,489	53	72,883
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	365,589	-	-	365,589

Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2015, amounted to BYR 32,937 million (2014 – BYR 18,993 million).

Loans may be written off through the use of the allowance account in cases when it was determined that the probability of repayment is remote upon the decision of the Board of Directors.

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, inventory and accounts receivable;
- For consumer lending – surety, charges over residential properties and vehicles;
- For finance lease – usually no additional collateral to the leased equipment is obtained.

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.

Concentration of loans to customers

As of 31 December 2015, the Bank had a concentration of loans in the amount of BYR 697,663 million due from ten largest independent third party borrowers (58 % of gross loan portfolio) (2014: BYR 333,943 million or 49% of gross loan portfolio). An individual impairment allowance of BYR 25,293 million was recognized against these loans as of 31 December 2015 (2014 – BYR 49,690 million).

During the years 2009-2011 the Bank issued construction loans to the employees working for one of its customers, which is a related party to the Bank. The nominal loans issued as at 31 December 2015 and 2014 amounted to BYR 16,715 million and BYR 23,297 million, respectively. The loans were issued with a maturity of up to 20 years bearing interest of 4.75% per annum, which is much lower than market rate level for similar financial instruments. These loans were issued using amounts received from this customer as deposits and placed in the Bank at an interest rate of 0.01% with maturity of 3 years, which is also much lower than market rate. Deposits were closed in 2013. In accordance with customer agreement at the date of loan issue the balance between the deposit placed and loans issued by the Bank had to be not less than the established ratio, moreover the client had no option to withdraw the placed deposit before expiry of a 3-year period The Bank bears all credit risks in the event the loans issued will not be repaid. Loans issued and the deposit placed are initially recognized at approximate fair value using corresponding discount methods and the effective interest rate method with subsequent measurements at amortized cost.

(in millions of Belarusian rubles)

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

	31 December 2015	31 December 2014
Trade and catering	426,016	247,652
Individuals	190,717	190,142
Petrochemistry	189,879	-
Industry	152,602	109,439
Construction	11,380	93,209
Transport	16,794	35,630
Leasing companies	108,426	21,186
Agriculture	55	10,161
Real estate transactions	23,324	5,946
Individual entrepreneurs	1,040	1,633
Other	76,989	44,837
	1,197,222	**759,835**
Less: allowance for impairment	(56,560)	(72,883)
Total loans to customers	**1,140,662**	**686,952**

12. INVESTMENTS SECURITIES

Securities available-for-sale are as follows:

	31 December 2015	31 December 2014
Government bonds	18,569	47,768
Bonds issued by National Bank of the Belarus	152,787	-
Corporate bonds	167,397	482,255
Equity securities	-	67
Securities available-to-sale	**338,753**	**530,090**

Corporate bonds as of 31 December 2015 are presented by two other banks' securities available-for-sale.

Securities held-to-maturity are as follows:

	31 December 2015	31 December 2014
Corporate bonds	-	10,752
Securities held-to-maturity	**-**	**10,752**

13. LONG-TERM ASSETS HELD FOR SALE

As of 31 December 2015 and 31 December 2014, assets held for sale included property (primarily, real estate) transferred to the Bank as repayment of loans in the amount of BYR 8,736 million and BYR 8,296 million, respectively. Long-term assets held for sale are measured at fair value.

(in millions of Belarusian rubles)

14. PROPERTY AND EQUIPMENT

Property and equipment is presented as follows:

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2015	82,155	10,655	4,762	32,133	8,018	137,723
Additions	185,004	220	-	6,449	-	191,673
Transfers	5,348	-	-	-	(5,348)	-
Disposals	(253)	(1,744)	(1,485)	(5,001)	-	(8,483)
As of 31 December 2015	272,254	9,131	3,277	33,581	2,670	320,913
Accumulated depreciation						
As of 1 January 2015	10,573	4,649	3,421	16,614	-	35,257
Depreciation charge	2,494	1,757	514	3,879	-	8,644
Disposals	(253)	(1,744)	(1,484)	(4,979)	-	(8,460)
As of 31 December 2015	12,814	4,662	2,451	15,514	-	35,441
Net book value:						
As of 1 January 2015	71,582	6,006	1,341	15,519	8,018	102,466
As of 31 December 2015	259,440	4,469	826	18,067	2,670	285,472

	Buildings and structures	Computers	Motor vehicles	Office furniture and other property and equipment	Construction in progress	Total
Cost						
As of 1 January 2014	82,071	12,126	4,902	48,860	3,258	151,217
Additions	301	1,776	-	937	5,359	8,373
Transfers	75	21	-	63	(159)	-
Disposals	(292)	(3,268)	(140)	(17,727)	(440)	(21,867)
As of 31 December 2014	82,155	10,655	4,762	32,133	8,018	137,723
Accumulated depreciation						
As of 1 January 2014	9,074	6,234	2,954	30,143	-	48,405
Depreciation charge	1,775	1,728	607	4,198	-	8,308
Disposals	(276)	(3,313)	(140)	(17,727)	-	(21,456)
As of 31 December 2014	10,573	4,649	3,421	16,614	-	35,257
Net book value:						
As of 1 January 2014	72,997	5,892	1,948	18,717	3,258	102,812
As of 31 December 2014	71,582	6,006	1,341	15,519	8,018	102,466

(in millions of Belarusian rubles)

15. INTANGIBLE ASSETS

The movements in intangible assets were as follows:

	Computer software and licenses	
	31 December 2015	**31 December 2014**
Cost		
As at 1 January	5,599	6,765
Additions	1,503	1,683
Disposals	(1,298)	(2,849)
As at 31 December	5,804	5,599
Accumulated depreciation		
As at 1 January	1,067	3,410
Amortization charges	1,666	441
Disposals	(1,298)	(2,784)
As at 31 December	1,435	1,067
Net book value:		
As at 1 January	4,532	3,355
As at 31 December	4,369	4,532

16. TAXATION

The tax rate for banks for profits other than on government securities was 25% and 18% in 2015 and 2014 respectively. The effective income tax rate differs from the statutory income tax rate. A reconciliation of the income tax expense based on the statutory rate with actual is as follows:

	31 December 2015	**31 December 2014**
Loss before income tax expense	(7,177)	(19,670)
Statutory tax rate	25%	18%
Theoretical income tax saving at the statutory rate	**(1,794)**	**(3,541)**
Tax exempt income	(12,226)	(2,287)
Non-deductible expenses:		
- charity	325	-
- remuneration, bonuses and financial assistance to employees	679	736
- other	1,831	286
Change in deferred tax rate	-	(1,094)
Effect of changes in the tax base for property and equipment due to the revaluation for tax purposes	(1,614)	(1,751)
Effect of other permanent differences	93	-
Non-deductible income	138	-
Unrecognised other potential deferred tax assets	5,223	-
Hyperinflation effect	-	14,268
Income tax (credit)/charge	**(7,345)**	**6,617**

(in millions of Belarusian rubles)

The Bank also has unrecognised potential deferred tax assets in respect of deductible temporary differences of BYR 5,223 million due to uncertainty in future profit related with this temporary differences. Amount of deductible temporary differences as of 31 December 2015 is BYR 20,890 million.

Differences between IFRS and tax legislation of the Republic of Belarus give rise to temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and income tax calculation. The tax consequences of movements in these temporary differences recorded at the rate of 25% are as follows:

Tax effect of deductible/(taxable) temporary differences:	As of 1 January 2014	Credited/ (charged) to profit or loss	As of 31 December 2014	Credited/ (charged) to profit or loss	As of 31 December 2015
Derivative financial assets	(565)	3,484	2,919	(2,919)	-
Amount due from credit institution	(22)	(184)	(206)	(27)	(233)
Loans to customers	2,997	(9,810)	(6,813)	3,225	(3,588)
Investment securities	-	(630)	(630)	3,279	2,649
Property and equipment and intangible assets	6,431	1,738	8,169	1,300	9,469
Long-term assets held for sale	(275)	(305)	(580)	580	-
Other assets	1,323	(114)	1,209	1,432	2,641
Derivative financial liabilities	-	-	-	44	44
Other liabilities	635	(796)	(161)	431	270
Net deferred tax assets	**10,524**	**(6,617)**	**3,907**	**7,345**	**11,252**

(in millions of Belarusian rubles)

17. OTHER ASSETS AND LIABILITIES

	31 December 2015	31 December 2014 as restated
Accrued income	21,298	6,890
Receivables	6,639	-
Shares in other banks	1,443	1,443
Less: allowance for impairment	(21,133)	(233)
Total other financial assets	**8,247**	**8,100**
Prepayments for share	37,141	11,851
Prepayments	6,820	1,171
Taxes reimbursable, other than income tax	236	1,128
Materials	2,370	369
Other	1,294	4,594
Total other non-financial assets	**47,861**	**19,113**
Total other assets	**56,108**	**27,213**
Settlements with other creditors	1,823	964
Total financial liabilities	**1,823**	**964**
Other non-financial liabilities:		
Amounts received when forming the authorized capital	-	104,000
Settlements with employees	2,544	1,661
Taxes payable other than income tax	659	534
Other	1,298	834
Total non-financial liabilities	**4,501**	**107,029**
Total other liabilities	**6,324**	**107,993**

A reconciliation of the allowance for impairment of other financial assets is as follows:

	2015	2014
Allowance for impairment as of 1 January	**233**	**425**
Charge/(reversal) for the year	20,900	(192)
Allowance for impairment as of 1 December	**21,133**	**233**

(in millions of Belarusian rubles)

18. AMOUNT DUE TO CREDIT INSTITUTIONS

As of 31 December 2015 and 31 December 2014 amounts due to credit institutions comprise:

	31 December 2015	31 December 2014
Current accounts	483	184
Term deposits and loans	93,985	223,818
Amounts due to credit institutions	**94,468**	**224,002**

19. AMOUNT DUE TO CUSTOMERS

As of 31 December 2015 and 31 December 2014 amounts due to customers comprise:

	31 December 2015	31 December 2014
Current accounts	176,392	84,985
Term deposits	1,466,805	907,919
Amounts due to customers	**1,643,197**	**992,904**

As of 31 December 2015 amounts due to ten largest customers amounted to BYR 526,453 million (32%) (2014 – BYR 311,601 million (31%)).

Term deposits include deposits of individuals in the amount of BYR 814,465 million (2014 – BYR 510,123 million). In accordance with the Belarusian Banking Code, the Bank is obliged to repay such deposits upon demand of a depositor within 5 days. In case when term deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

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

	31 December 2015	31 December 2014
State organizations	468,285	282,097
Private enterprises	307,789	171,035
Individuals	867,123	539,772
Amounts due to customers	**1,643,197**	**992,904**

(in millions of Belarusian rubles)

Breakdown of customer accounts by economic sector is as follows:

	31 December 2015	31 December 2014
Individuals	867,123	539,772
Insurance	272,799	178,182
Trade	62,408	125,378
Commerce	69,387	39,752
Manufacturing	24,377	26,926
Health care	30,511	23,093
Culture and arts	2,296	16,905
Construction	6,343	13,376
Transport and communication	6,313	10,243
Public organizations	17,881	5,912
Chemical	-	4,097
Agriculture	1,022	2,411
Government and defence	260,000	-
Consulting	-	1,390
Data-processing services	17,278	-
Real estate	1,248	1,006
Other	4,211	4,461
Amounts due to customers	**1,643,197**	**992,904**

20. DEBT SECURITIES ISSUED

Debt securities issued by the Bank as of 31 December 2015 and 31 December 2014 comprise the following types of bond issues:

	Nominal currency	Nominal rate	Maturity date	31 December 2015
Bonds held by legal entities	BYR	28	27.06.2016	30,170
	BYR	29	27.06.2017	20,637
	USD	5.5	27.06.2016	1,115
Total debt securities issued				**51,922**

	Nominal currency	Nominal rate	Maturity date	31 December 2014
Bonds held by legal entities	BYR	23	27.06.2016	29,546
		24	27.06.2017	29,509
Total debt securities issued				**59,055**

(in millions of Belarusian rubles)

21. SHARE CAPITAL

Movements in issued, authorized and fully paid share capital is presented below:

	Number of shares		Nominal amount, BYR		Inflation adjustment	Total, BYR million
	Preferred	Ordinary	Preferred	Ordinary		
31 December 2013	18,838,294	109,437,306,773	57	328,312	876,555	1,204,924
Increase in share capital	-	-	-	-	-	-
31 December 2014	18,838,294	109,437,306,773	57	328,312	876,555	1,204,924
Increase in share capital	-	110,873,511,333	-	332,620	-	332,620
31 December 2015	18,838,294	220,310,818,106	57	660,932	876,555	1,537,544

According to the Bank's Charter, as of 31 December 2015 and 2014 the authorized and fully paid share capital comprised 109,456,145,067 shares with a par value of 3 Belarussian rubles each (at historical value). The nominal value of shares of OJSC "Paritetbank" remained unchanged amounting to 3 Belarussian rubles.

Total amount of preferred shares as of 31 December 2015 and 31 December 2014 is BYR 57 million.

The share capital of the Bank was contributed by the shareholders in Belarusian rubles. Shareholders are entitled to dividends in Belarusian rubles.

In 2015 the Bank declared dividends in the total amount of BYR 1,649 million (2014 - BYR 7,042 million).

In accordance with the Belarusian legislation, dividends may only be declared to the shareholders of the Bank from retained and unreserved earnings as shown in the Bank's financial statements prepared in accordance with the local accounting standards. As at 31 December 2015, retained and unreserved earnings amounted to BYR 105,856 million (2014 - BYR 72,996 million (not hyperinflated)).

22. COMMITMENTS AND CONTINGENCIES

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax contingencies. Belarusian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Bank. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period. The Bank's management believes that the Bank applies tax accounting approaches that will be accepted by tax authorities as fully compliant with valid tax legislation of the Republic of Belarus.

(in millions of Belarusian rubles)

As Belarusian tax legislation does not provide definitive guidance in certain areas, the Bank adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Bank. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Bank.

Capital expenditure commitments. At of 31 December 2015 and 31 December 2014, the Bank has no material contractual capital expenditure commitments in respect of property and equipment and in respect of software and other intangible assets.

Operating lease commitments. The Bank had no significant commitments under non-cancellable contracts for operating leases as of 31 December 2015 and 31 December 2014.

Compliance with covenants. The Bank complies with financial covenants in respect of its borrowings.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since all Bank's commitments to extend credit can be revocable without a material adverse change in the borrower performance.

As of 31 December 2015 and 31 December 2014, the Bank's commitments and contingencies comprise:

	31 December 2015	**31 December 2014**
Credit related commitments	3,459	-
Commitment to extend credit	31,304	6,973
Letters of credit	-	313
Guarantees issued	21,787	1,880
	56,550	9,166
Commitments and contingencies (before deducting collateral)	56,550	9,166
Less: deposits held as collateral for letters of credit	(1,862)	(2,361)
Commitments and contingencies	54,688	6,805

(in millions of Belarusian rubles)

23. NET FEE AND COMMISSION INCOME

Net fee and commission income comprises:

	31 December 2015	31 December 2014
Settlement operations	27,032	24,584
Currency conversion operations	2,202	2,968
Fee and commission income	29,234	27,552
Settlement operations	5,267	4,876
Currency conversion operations	141	172
Other	2,134	958
Fee and commission expense	7,542	6,006
Net fee and commission income	21,692	21,546

24. OTHER INCOME

Other income comprises:

	31 December 2015	31 December 2014
Fines and penalties received	20,890	4,726
Income from debt previously written-off	5,003	9,626
Income from operating rent	92	122
Income from operating leases	4,179	2,654
Income from sale of other assets	-	1,343
Total other income	30,164	18,471

During 2015 year the Bank received BYR 333,541 million of interest income in cash and paid BYR 188,760 million of interest expenses in cash.

(in millions of Belarusian rubles)

25. ADMINISTRATION AND OTHER EXPENSES

Administration and other operating expenses comprise:

	31 December 2015	31 December 2014
Salaries and bonuses	54,559	42,394
Social security costs	17,291	13,238
Staff costs	71,850	55,632
Payments to individuals deposits insurance fund	6,849	7,579
Occupancy and rent	6,751	5,742
Software maintenance	6,451	4,727
Repair and maintenance of property and equipment	2,257	2,463
Services of automated interbank settlement system	6,661	5,171
Operating taxes	7,746	2,770
Communications	2,260	1,849
Utilities	3,331	2,516
Security	3,179	2,850
Legal, audit and consulting services	3,184	2,210
Transportation	1,012	1,006
Office supplies	1,550	614
Charity	1,300	931
Marketing and advertising	2,301	836
Business trips and related expenses	624	620
Other	8,457	2,900
Other operating expenses	63,913	44,784

26. RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities. The Bank manages its risks through a process of ongoing identification, measurement and monitoring, subject to risk limits and other internal controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Risk Committee

The Risk Committee headed by the Independent Director is responsible for monitoring of the risk management strategy implementation and execution of decisions adopted by the Bank's Supervisory Board with regard to the Bank's risk profile and risk tolerance, assessing the effectiveness of the Bank's risk management system and providing complex solutions to issues related to the analysis of key banking risks and development of the relevant risk management policies.

Audit Committee

The Audit Committee headed by the Independent Director is responsible for overall management and effective functioning of internal control system, internal audit function of the Bank and selection of and cooperation with audit firms.

Management Board

The Management Board has the responsibility for the development of the risk management strategy and policies, implementing principles, frameworks, policies and limits. The Management Board is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Financial Committee

The Financial Committee's objective is to implement uniform financial policies for financial resource management for the purpose of securing regular growth of the Bank's revenue and enhancing efficiency of financial resources used.

Credit Committee

The Credit Committee is responsible for complex credit risk management, coordinates the activities of the Bank's divisions in the field of credit risk management in order to reach the optimal balance of credit risks and yields.

Risk Controlling Department

The department performs qualitative and quantitative assessment of banking risks, provides analytical and methodological support in analysing and managing risks, informs the Bank's management bodies on the level of assumed risks.

Bank Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited annually by the audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The audit function discusses the results of all assessments with management, and reports its findings and recommendations to the Bank's Audit Committee and Supervisory Board.

Risk measurement and reporting systems

The Bank's risks are measured using various risk measurement tools: scenario methods which allow assessing the level of risk in various case scenarios, client risk assessments, stress-testing and other.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity while performing calculations of capital adequacy and other prudential regulations.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Supervisory Board, the Management Board, the Risk Committee and the Financial and Credit Committees (within their competence). The reports include aggregate credit exposure, liquidity ratios, levels of operational and currency risk, and risk profile changes. The appropriateness of the allowance for credit losses is assessed on a monthly basis. On a quarterly basis, the Supervisory Board receives a report on Bank's implementation of Strategic development plan that provides the information about performance and financial result.

Risk mitigation

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

Excessive risk concentration

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations.

Credit risk control in relation to borrowers (other than banks acting as counterparties to the Bank) includes the following:

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

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

- analysis of negative financial and non-financial information while applying previously set limits (performed by the risk controlling department);
- routine and subsequent control over compliance with the set limits (sub-limits) for banks acting as counterparties to the Bank.

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

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

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Credit risk classification system provides assigning a risk rating to each counterparty. Risk ratings are subject to regular revision.

The credit quality control system allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take necessary action.

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

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

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

The maximum exposure to credit risk equals to the carrying amount of financial assets.

(in millions of Belarusian rubles)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the guarantee. Such agreements expose the Bank to risks similar to loan risks, which are mitigated by the same control processes and policies.

Credit quality per class of financial assets

The table below shows the credit quality by class of asset before allowance for loans.

	Notes	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total
		2015	2015	2015	2015
Cash and cash equivalents	8	304,667	-	-	**304,667**
Amounts due from credit institutions	10	154,213	-	-	**154,213**
Loans to customers:					
Corporate lending	11	500,829	23,392	482,284	**1,006,505**
Consumer lending	11	187,762	2,955	-	**190,717**
Investment securities	12	338,753	-	-	**338,753**
Other financial assets	17	8,247	-	21,133	**29,380**
Total		**1,494,471**	**26,347**	**503,417**	**2,024,235**

	Notes	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total
		2014	2014	2014	2014
Cash and cash equivalents	8	199,971	-	-	**199,971**
Amounts due from credit institutions	10	115,727	-	-	**115,727**
Loans to customers:					
Corporate lending	11	204,104	-	365,589	**569,693**
Consumer lending	11	190,142	-	-	**190,142**
Investment securities	12	540,842	-	-	**540,842**
Other financial assets	17	8,333	-	-	**8,333**
Total		**1,259,119**	**-**	**365,589**	**1,624,708**

(in millions of Belarusian rubles)

Geographical concentration

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

	2015				2014			
	Belarus	**OECD**	**CIS and other countries**	**Total**	**Belarus**	**OECD**	**CIS and other countries**	**Total**
Cash and cash equivalents	291,683	6,378	6,606	**304,667**	187,585	2,774	9,612	**199,971**
Amounts due from credit institutions	152,351	1,862	-	**154,213**	114,454	1,188	85	**115,727**
Derivative financial instruments	345,125	-	73	**345,198**	216,126	-	605	**216,731**
Loans to customers	1,140,662	-	-	**1,140,662**	686,952	-	-	**686,952**
Securities available-for-sale	338,753	-	-	**338,753**	530,090	-	-	**530,090**
Securities held-to-maturity	-	-	-	-	-	-	10,752	**10,752**
Other financial assets	8,247	-	-	**8,247**	8,100	-	-	**8,100**
Total financial assets	2,276,821	8,240	6,679	**2,291,740**	1,743,307	3,962	21,054	**1,768,323**
Amounts due to credit Institutions	94,464	-	4	**94,468**	79,511	-	144,491	**224,002**
Derivative financial instruments	-	-	-	-	422	-	752	**1,174**
Amounts due to customers	1,633,489	-	9,708	**1,643,197**	989,124	-	3,780	**992,904**
Debt securities issued	51,922	-	-	**51,922**	59,055	-	-	**59,055**
Other financial liabilities	1,823	-	-	**1,823**	964	-	-	**964**
Total financial liabilities	1,781,698	-	9,712	**1,791,410**	1,129,076	-	149,023	**1,278,099**
Net position on assets and liabilities	495,123	8,240	(3,033)	**500,330**	614,202	3,962	(127,969)	**490,224**

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can assess to meet liquidity needs.

In addition, the Bank maintains a cash deposit (obligatory reserve) with the NB RB, the amount of which depends on the level of customer funds attracted.

(in millions of Belarusian rubles)

The table below summarizes the maturity profile of the Bank's financial liabilities as of 31 December 2015 and 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

31 December 2015	Present value	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	94,468	100,303	-	-	-	100,303
Amounts due to customers	1,643,197	356,991	630,810	656,560	-	1,644,361
Debt securities issued	51,922	55,537	-	-	-	55,537
Other financial liabilities	1,823	1,784	12	25	2	1,823
Commitments and contingencies	54,688	54,688	-	-	-	54,688
Total undiscounted financial liabilities	**1,846,098**	**569,303**	**630,822**	**656,585**	**2**	**1,856,712**

31 December 2014	Present value	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to credit institutions	224,002	82,193	148,059	-	-	230,252
Derivative financial instruments						
- Contractual amounts payable	41,738	41,855	-	-	-	41,855
- Contractual amounts receivable	(40,564)	(40,564)	-	-	-	(40,564)
Amounts due to customers	992,904	282,611	343,080	495,523	-	1,121,214
Debt securities issued	59,055	190	-	58,865	-	59,055
Other financial liabilities	964	964				964
Total undiscounted financial liabilities	**1,278,099**	**367,249**	**491,139**	**554,388**	**-**	**1,412,776**

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

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

Term deposits of individuals are included in amounts due to customers. In accordance with the Belarusian legislation, the Bank is obliged to repay such deposits within 5 days upon demand of a depositor.

Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The exposures to market risk are managed and monitored using different sensitivity analysis techniques.

(in millions of Belarusian rubles)

Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

Market risk – non-trading

Interest rate risk

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

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

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as of 31 December 2015 and 31 December 2014.

Increase in basis points 2015	Sensitivity of net interest income 2015	Sensitivity of equity 2015
500	145,033	107,398

Decrease in basis points 2015	Sensitivity of net interest income 2015	Sensitivity of equity 2015
(500)	(145,033)	(106,880)

Increase in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of equity 2014
500	17,684	14,501

Decrease in basis points 2014	Sensitivity of net interest income 2014	Sensitivity of equity 2014
(500)	(17,684)	(14,501)

Currency risk

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

(in millions of Belarusian rubles)

The tables below indicate the Bank's level of currency risk:

	BYR	1 USD = 18,569	1 EUR= 20,300	1 RUB= 255.33	Other currencies	1 January 2016 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	221,354	39,185	26,255	16,708	1,165	304,667
Derivative financial instruments	344,820	51	327	-	-	345,198
Amounts due from credit institutions	152,109	1,865	209	30	-	154,213
Securities available-for-sale	166,546	121,157	51,050	-	-	338,753
Loans to customers	388,424	529,510	203,236	19,491	-	1,140,662
Other financial assets	8,247	-	-	-	-	8,247
TOTAL FINANCIAL ASSETS	1,281,500	691,768	281,077	36,229	1,165	2,291,740
FINANCIAL LIABILITIES:						
Amount due to credit institutions	(4)	(37,619)	(56,845)	-	-	(94,468)
Amount due to customers	(463,271)	(949,751)	(180,546)	(49,617)	(11)	(1,643,197)
Debt securities issued	(50,807)	(1,115)	-	-	-	(51,922)
Other financial liabilities	(1,607)	(215)	(1)	-	-	(1,823)
TOTAL FINANCIAL LIABILITIES	(515,689)	(988,700)	(237,392)	(49,617)	(11)	(1,791,409)
NET CURRENCY POSITION	765,811	(296,932)	43,685	(13,388)	1,154	500,330

	BYR	1 USD = 11,850	1 EUR= 14,380	1 RUB= 214.5	Other currencies	1 January 2015 Total
FINANCIAL ASSETS:						
Cash and cash equivalents	49,855	116,711	31,423	1,917	65	199,971
Derivative financial instruments	216,068	478	152	33	-	216,731
Amounts due from credit institutions	54,427	24,117	7,118	29,924	141	115,727
Securities available-for-sale	471,381	69,461	-	-	-	540,842
Securities held-to-maturity	-	10,752	-	-	-	10,752
Loans to customers	382,183	250,445	31,770	22,554	-	686,952
Other financial assets	8,100	-	-	-	-	8,100
TOTAL FINANCIAL ASSETS	1,182,014	471,964	70,463	54,428	206	1,779,075
FINANCIAL LIABILITIES:						
Amount due to credit institutions	(72,969)	(121,614)	(28,800)	(619)	-	(224,002)
Amount due to customers	(358,227)	(471,592)	(90,932)	(72,133)	(20)	(992,904)
Debt securities issued	(59,055)	-	-	-	-	(59,055)
Derivative financial instruments	-	(20)	-	(1,154)	-	)1,174)
Other financial liabilities	(964)	-	-	-	-	(964)
TOTAL FINANCIAL LIABILITIES	(491,215)	(593,226)	(119,732)	(73,906)	(20)	(1,278,099)
NET CURRENCY POSITION	690,799	(121,262)	(49,269)	(19,478)	186	500,975

(in millions of Belarusian rubles)

The tables below indicate the currencies to which the Bank had significant exposure as of 31 December 2015 and 31 December 2014 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the BYR, with all other variables held constant on the statement of comprehensive income (due to the availability of non-trading monetary assets and liabilities the fair value of which is currency sensitive). The effect on equity does not differ from the effect on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income and equity, while a positive amount reflects a net potential increase.

	As of 31 December 2015		**As of 31 December 2014**	
	BYR/USD	BYR/USD	BYR/USD	BYR/USD
	30.0%	-30.0%	10.0%	-10.0%
Effect on profit after tax	(89,080)	89,080	(26,435)	26,435
Effect on equity	(89,080)	89,080	(26,435)	26,435

	As of 31 December 2015		**As of 31 December 2014**	
	BYR/EUR	BYR/EUR	BYR/EUR	BYR/EUR
	30.0%	-30.0%	10.0%	-10.0%
Effect on profit after tax	(13,106)	13,106	(5,491)	5,491
Effect on equity	(13,106)	13,106	(5,491)	5,491

	As of 31 December 2015		**As of 31 December 2014**	
	BYR/RUB	BYR/RUB	BYR/RUB	BYR/RUB
	30.0%	-30.0%	10.0%	-10.0%
Effect on profit after tax	(4,016)	4,016	(756)	756
Effect on equity	(4,016)	4,016	(756)	756

Operational risk

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

(in millions of Belarusian rubles)

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: valuation techniques for which all inputs having a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: valuation techniques which use inputs having a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2015	Level 2	Level 3	Total
Financial assets			
Derivative financial instruments	378	344,820	345,198
Securities available-for-sale	338,753	-	338,753
Financial assets classified as long-term assets held for sale	8,736	-	8,736
	347,867	344,820	692,687

31 December 2014	Level 2	Level 3	Total
Financial assets			
Derivative financial instruments	663	216,068	216,731
Securities available-for-sale	530,090	-	530,090
Financial assets classified as long-term assets held for sale	8,296	-	8,296
	539,049	216,068	755,117
Financial liabilities			
Derivative financial instruments	(1,174)	-	(1,174)

Financial instruments recorded at fair value

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

Derivatives

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

(in millions of Belarusian rubles)

Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated currency swaps with the National Bank of the Republic of Belarus. These derivatives are valued using the discounting cash flows model. The model incorporates various non-observable assumptions, which include market rate volatilities.

Movements in Level 3 financial instruments measured at fair value

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

	As of 1 January 2015	Gains/ losses on transactions with derivatives	As of 31 December 2015
Financial assets			
Derivative financial instruments	216,068	129,130	345,198
Total level 3 financial assets	216,068	129,130	345,198

	As of 1 January 2014	Gains/ losses on transactions with derivatives	Hyperinflation effect	As of 31 December 2014
Financial assets				
Derivative financial instruments	203,582	44,012	(31,526)	216,068
Total level 3 financial assets	203,582	44,012	(31,526)	216,068

The data used for fair value measurement of derivative financial instruments was as follows: for the foreign currency denominated part in 2015 the Bank used yield-to maturity of the Belarusian Eurobonds which was equal to 7.126% (in 2014 the Bank used the rate of 8.950%); for the BYR denominated part of the instrument the Bank used the non-risk rate of 29.5% in 2015 and of 20.11% in 2014.

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumption:

	Carrying amount	Alternative cost	Effect of reasonably possible alternative assumptions
2015			
Financial assets			
Derivative financial instruments	344,820	345,111	291
2014			
Financial assets			
Derivative financial instruments	216,068	215,453	(615)

(in millions of Belarusian rubles)

In order to determine reasonably possible alternative assumptions the Bank adjusted key unobservable model inputs as follows: the Bank adjusted the interest rate used to calculate discounted cash inflows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 100 basis points.

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements.

	Carrying amount as of 31 December 2015	Fair value as of 31 December 2015	Carrying amount as of 31 December 2014	Fair value as of 31 December 2015
Financial assets				
Cash and cash equivalents	304,667	304,667	199,971	199,971
Amounts due from credit institutions	154,213	154,213	115,727	115,727
Loans to customers	1,140,662	1,140,156	686,952	672,347
Other financial assets	8,247	8,247	8,100	8,100
Financial liabilities				
Amount due to credit institutions	94,468	94,468	224,002	224,002
Amount due to customers	1,643,197	1,643,197	992,904	981,123
Debt securities issued	51,922	51,922	59,055	59,055
Other financial liabilities	1,823	1,823	964	964

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or have a short terms maturity (less than three months) it is assumed that the carrying amount approximates their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

(in millions of Belarusian rubles)

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities based on their contractual settlement terms.

AS OF 31 DECEMBER 2015

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	304,667	-	-	-	-	304,667
Amounts due from credit institutions	-	-	140,339	-	13,874	154,213
Derivative financial instruments	345,198	-	-	-	-	345,198
Loans to customers	27,183	366,456	580,221	164,930	1,872	1,140,662
Securities available-for-sale	128,355	50,043	-	160,355	-	338,753
Other financial assets	6,804	-	-	-	1,443	8,247
TOTAL FINANCIAL ASSETS	**812,207**	**416,499**	**720,560**	**325,285**	**17,189**	**2,291,740**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	94,468	-	-	-	-	94,468
Amount due to customers	356,738	630,364	656,095	-	-	1,643,197
Debt securities issued	51,922	-	-	-	-	51,922
Other financial liabilities	1,784	12	25	2	-	1,823
TOTAL FINANCIAL LIABILITIES	**504,912**	**630,376**	**656,121**	**2**	**-**	**1,791,410**
OPEN BALANCE POSITION	**307,295**	**(213,977)**	**64,440**	**325,283**	**17,189**	**500,330**

AS OF 31 DECEMBER 2014

	Less than 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	No stated maturity	Total
FINANCIAL ASSETS:						
Cash and cash equivalents	199,971	-	-	-	-	199,971
Amounts due from credit institutions	104,000	-	-	-	11,727	115,727
Derivative financial instruments	663	27,667	188,401	-	-	216,731
Loans to customers	271,829	169,175	175,144	70,804	-	686,952
Securities available-for-sale	3,980	69,192	169,879	286,972	67	530,090
Securities held-to-maturity	-	-	10,752	-	-	10,752
Other financial assets	8,100	-	-	-	-	8,100
TOTAL FINANCIAL ASSETS	**588,543**	**266,034**	**544,176**	**357,776**	**11,794**	**1,768,323**
FINANCIAL LIABILITIES:						
Amount due to credit institutions	81,802	142,200	-	-	-	224,002
Derivative financial liabilities	1,174	-	-	-	-	1,174
Amount due to customers	257,967	288,999	445,938	-	-	992,904
Debt securities issued	190	-	58,865	-	-	59,055
Other financial liabilities	964	-	-	-	-	964
TOTAL FINANCIAL LIABILITIES	**342,097**	**431,199**	**504,803**	**-**	**-**	**1,278,099**
OPEN BALANCE POSITION	**142,447**	**(165,165)**	**39,373**	**357,776**	**115,794**	**490,224**

Significant mismatch in the liquidity position from 3 up to 12 months is caused by significant portion of customer accounts classified into the category "Demand and less than 1 month". The Bank's management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. The Bank's management believes that the Bank will be able to attract sufficient interbank borrowings to finance potential customer short-term funds withdrawal. The Bank has positive cumulative expected liquidity gap for all other maturity periods.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

29. RELATED PARTY DISCLOSURES

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

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

The Republic of Belarus acting through state agencies controls the Bank's activities as well as directly and indirectly controls and significantly influences a large number of entities (collectively referred to as "state-related entities"). The Bank performs the following banking transactions with these entities: lending, attracting deposits, cash and settlement operations, exchange operations, providing guarantees, and transactions with securities and derivatives. Transactions with state-related entities constitute a significant part of the Bank's operations.

(in millions of Belarusian rubles)

The volumes of related party transactions and outstanding balances as at the year-end, as well as related expense and income for the year are as follows:

	As of 31 December 2015			As of 31 December 2014		
	Shareholders, Republic of Belarus	**Key management personnel**	**Other related parties**	**Shareholders, Republic of Belarus**	**Key management personnel**	**Other related parties**
Cash and cash equivalents	181,776	-	-	80,426	-	-
Amounts due from credit institutions	12,012	-	-	10,454	-	-
Loans as of 1 January	-	775	61,769	-	1,357	121,853
Loans outstanding as of 31 December	-	889	614,542	-	775	61,769
Less: allowance for impairment as of 31 December	-	-	(18,493)	-	(8)	(5,588)
Loans outstanding as of 31 December, less allowance	-	889	596,049	-	767	56,181
Securities available-for-sale	152,787	-	163,955	-	-	452,292
Derivative financial instruments	344,820	-	-	216,068	-	-
Amounts due to customers as of 1 January	-	3,483	115,093	-	5,670	111,849
Amounts due to customers as of 1 December	-	5,499	336,118	-	3,483	115,093
Amounts due to credit institutions	260,975	-	-	207,000	-	-
Commitments and guarantees issued	-	-	-	-	-	275

	for the 2015			for the 2014		
	Shareholders, Republic of Belarus	**Key management personnel**	**Other related parties**	**Shareholders, Republic of Belarus**	**Key management personnel**	**Other related parties**
Interest income	46	357	106,342	7,207	265	58,088
Impairment charge for loans	-	-	13,691	-	-	-
Interest expense	60,559	430	20,398	18,346	856	52,408
Net fee and commission income/(expenses)	-	-	5,135	(406)	-	1,196
Net gains from derivative financial instruments transactions	174,340	-	-	-	-	-
Other income	-	-	9,915	-	-	2,128
Other operating expenses	-	-	-	108	-	1,458

(in millions of Belarusian rubles)

Compensation to key management personnel comprises the following:

	2015	2014
Salaries and other short-term benefits	7,037	5,936
Social security costs	2,393	772
Total key management personnel compensation	**9,430**	**6,708**

30. SEGMENT ANALYSIS

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person - or group of persons - who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Management Board of the Bank

(a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level and are based on different business and decision-making processes.

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

The CODM reviews financial information prepared based on Belarusian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

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

(ii) loan provisions are recognised based on Belarusian legislation and availability of information, rather than based on the incurred loss model prescribed in IAS 39;

(iii) the fair value changes in available for sale securities are reported within the segments' profits or losses rather than in other comprehensive income;

(iv) income taxes are not allocated to segments;

(in millions of Belarusian rubles)

(v) commission income relating to lending is recognised immediately rather than deferred using the effective interest method;

(vi) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

The CODM evaluates performance of each segment based on profit before tax.

(d) Information about reportable segment profit or loss, assets and liabilities:

	Retail banking	Corporate banking	Unallocated	As of 1 January 2016
Interest income	64,426	296,132	1,106	361,664
Interest expense	(48,659)	(142,562)	-	(191,221)
Net interest income	15,767	153,570	1,106	170,443
Loss of initial recognition of financial assets and liabilities	-	(6,226)	-	(6,226)
(Expenses)/release of allowance for loans impairment	4,920	(128,851)	(14,809)	(138,740)
Net fee and commission income	4,938	16,897	(143)	21,692
Net gains from securities available-for-sale	-	4,674	-	4,674
Net gains/(losses) from foreign currency transactions:				
- dealing	3	37,916	16,182	54,101
- transaction differences	-	(164,467)	13,827	(150,640)
Net gains from derivative financial instruments transactions	-	174,328	-	174,328
Other income	114	-	30,050	30,164
Personnel expenses	-	-	(71,850)	(71,850)
Other operating expenses	-	-	(10,310)	(10,310)
Other operating expenses	-	-	(63,913)	(63,913)
Release/(expenses) of allowance for other assets	12	206	(21,118)	(20,900)
Segment result	25,754	88,047	(120,978)	(7,177)
Income tax benefit	-	-	7,345	7,345
Profit/(loss) for the year	25,754	88,047	(113,633)	168

(in millions of Belarusian rubles)

	Retail banking	Corporate banking	Unallocated	As of 1 January 2015
Interest income	59,837	176,720	69,323	305,880
Interest expense	(67,238)	(54,850)	(9,460)	(131,648)
Net interest income	(7,401)	121,870	59,863	174,332
(Expenses)/release of allowance for loans impairment	(5,014)	(73,533)	(244)	(78,791)
Net fee and commission income	6,570	15,312	(336)	21,546
Net gains from securities available-for-sale	-	480	2,556	3,036
Net gains/(losses) from foreign currency transactions:				
- dealing	-	-	(2,507)	(2,507)
- transaction differences	-	-	(25,762)	(25,762)
Net gains from derivative financial instruments transactions	-	43,472	-	43,472
Other income	3,537	12,222	2,712	18,471
Personnel expenses	-	-	(55,632)	(55,632)
Depreciation and amortization	-	-	(8,749)	(8,749)
Other operating expenses	-	(355)	(44,429)	(44,784)
Release/(expenses) of allowance for other assets	-	-	192	192
Hyperinflation	-	-	(64,494)	(64,494)
Segment result	(2,308)	119,468	(136,830)	(19,670)
Income tax expense	-	-	(6,617)	(6,617)
Net (loss)/profit for the year	(2,308)	119,468	(143,447)	(26,287)

31. CAPITAL ADEQUACY

The main regulator of the banking system is the National Bank of the Republic of Belarus (NBRB), which sets and monitors the Bank's capital adequacy.

To support the requirements on capital management, NBRB requires banks to maintain the ratio of the Bank's total and regulatory capital to total risk-weighted assets at the level of not less than 5% and 10% accordingly. The ratio is calculated based on the financial statements prepared under IFRS. In order to maintain financial stability the Bank's strategy defined ratios mentioned above as 5% and 12% accordingly. The ratio is calculated based on the financial statements prepared under National Financial Reporting Standards. The risk degree is determined according to the ratio of credit risks of NBRB specific to individual asset classes.

(in millions of Belarusian rubles)

The table below presents the data on the regulatory capital based on the Bank's financial information prepared in compliance with the Standards of financial statements of banks of the Republic of Belarus:

	2015	2014
Capital assets	728,888	406,608
Additional paid-in capital	113,039	95,288
Total regulatory capital	841,927	501,896
Risk weighted assets	2,003,418	1,407,831
Capital adequacy ratio	42.02 %	35.65%

The minimal level of regulatory capital established by the National Bank of Belarus amounts to BYR 450,000 million as of 31 December 2015 and EUR 25 million as of 31 December 2014 which is equivalent to BYR 359,500 million. The Belarussian ruble is translated using the foreign exchange rate as of 31 December 2014, i.e. 14,380 BYR = 1 EURO.

As of 31 December 2015 and 31 December 2014 the Bank complied with the above requirements of the capital.

As of 1 January 2016 the Bank did not comply with credit risk limit for one borrower (group of related borrowers) established at a rate of not exceeding 25 % of regulatory capital, in particular:

1. For the period from 1 January 2015 to 31 December 2015 (in accordance with Decisions of Supervisory Board №16 from 29 August 2014 and №25 from 9 October 2014) on JSC "SB Belarusbank" in connection with the participation of JSC "Paritetbank" in financing of agricultural organizations including "Agrocombinat "Machulishchy" holding by means of bond purchase and providing interbank loan to JSC "SB Belarusbank" according to President order №101rp from 23.05.2014 "Some issues on "Agrocombinat "Machulishchy" holding", President order №164rp from 01.09.2014 "Procurement of feed grain harvest of 2014 year, protein raw materials and payment for it" and President order №165rp from 24.09.2014 "Procurement of feed grain, protein raw materials and payment for it".

The maximum credit risk ratio on JSC "SB Belarusbank" was 137.9% of regulatory capital during 2015, as of 1 January 2016 credit risk ratio on the counterparty was 63.2% of regulatory capital.

2. Due to increase of the loan amounts of the borrowers resulting from the changes in exchange rates of Belarusian ruble against foreign currencies:

- to JSC "Evrotorginvestbank" and related counterparty LLC "Eurotorg" for the period from 29 October 2015 to 31 December 2015. The maximum value of the ratio on the counterparty of "Evrotorginvestbank" and related LLC "Eurotorg" was at 26.6% of the regulatory capital during 2015, as of 1 January 2016 the credit risk ratio on the counterparty was 25.9% of the regulatory capital.

According to the Letter from National Bank of the Republic of Belarus from 14 October 2015 №612 no regulatory measures will be applied to the Bank for violating the credit risk limit for one borrower (group of related borrowers) and for one insider - legal entity and related to him persons committed before 31 December 2015 due to a change of the official exchange rate of Belarusian ruble against foreign currencies.

As of 1 January 2016 the Bank due to increase of the Share Capital in late December 2015 complied with credit risk limit for one borrower (group of related borrowers) stated by NBRB except OJSC "ASB Belarusbank".

The non-compliance mentioned above will remain in 2016 year taking into account Decision of Supervisory Board from 2 November 2015 №28.

No any supervisory measures have been applied to the Bank since the date of non-compliance matters described above.

32. EVENTS AFTER THE END OF THE REPORTING PERIOD

Under the Decree of the President of the Republic of Belarus №.7 "About fund raising on deposits" dated 11 November 2015, clause 1.4 of this document concerning income tax deduction on individuals' income in the form of interests on deposits comes into effect on the 1st of April 2016.

Under the Decree of the President of the Republic of Belarus №450 "About the redenomination of the official currency of the Republic of Belarus" dated 4 November 2015, the official currency of the Republic of Belarus will be redenominated on the 1st of July 2016 in the following ratio: 10,000 BYR in banknotes designed in 2000 will become 1 BYR in banknotes designed in 2009. Currency units in the form of coins designed in 2009 will be put into circulation as well.

For the period starting from 1 January 2016 to 27 April 2016 official exchange rate of USD, EUR and RUB increased by 5.9 %, 9.2 % and 15.9% respectively.

On 25 March 2016 the General Shareholders Meeting took a decision on dividends payment for the 2015 year in the amount of BYR 9,259 million.