CJSC 'Joint Stock Bank of Reconversion and Development'

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

For the year ended 31 December 2015

CONTENTS

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Independent Auditors' Report

To the shareholders and management of CJSC 'Joint Stock Bank of Reconversion and Development'

We have audited the accompanying financial statements of CJSC 'Joint Stock Bank of Reconversion and Development' (the "Bank"), which comprise the statement of financial position as at 31 December 2015, income statement, statement of other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether these financial statements are free of 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 our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Bank's preparation and fair presentation of these 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 Bank's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the 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 financial statements give a true and fair view of the financial position of CJSC 'Joint Stock Bank of Reconversion and Development' as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Edgars Volskis
Deputy Director
KPMG LLC
Minsk, Belarus

6 May 2016

Details of the audited entity
Name: CJSC 'Joint Stock Bank of Reconversion and Development'
Registration details: registered by the National Bank of the Republic of Belarus on 22 February 1994, registration number in the Unified State Register of entities and individual entrepreneurs № 100361187
Legal address: 18 Krasnozvezdnaya Street, 220034 Minsk, Republic of Belarus

Details of the audit company
Name: KPMG Limited Liability Company
Registration details: registered by the Minsk City Executive Committee on 10 February 2011, registration number in the Unified State Register of entities and individual entrepreneurs № 191434140
Legal address: 57 Dzerzhinsky Avenue, office 53-2, 220089 Minsk, Republic of Belarus

Management of Joint Stock Bank of Reconversion and Development (the "Bank") is responsible for the preparation of the financial statements that present fairly, in all material respects, the financial position of the Bank as of 31 December 2015, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- proper selection and application of accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, events and conditions on the Bank's financial position and financial performance;
- making an assessment of the Bank's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Bank;
- maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation and accounting rules of the Republic of Belarus;
- taking steps that are reasonably available to them to safeguard the assets of the Bank;
- detecting and preventing financial and other irregularities.

The financial statements for the year ended 31 December 2015, were authorized for issue on 06 May 2016 and signed on behalf of the management of the Bank.

On behalf of the management of the Bank:

V.V. Drankevich Chairman of the Management Board	T. I. Karchmit Chief Accountant

Minsk
06 May 2016

STATEMENT OF FINANCIAL POSITION

In millions of Belarusian Roubles

	Notes	31 December 2015	31 December 2014
Assets			
Cash and balances with the National Bank of the Republic of Belarus	7	170,864	192,359
Derivative financial assets	8	177	448,785
Due from other banks	9	48,873	19,544
Financial assets available-for-sale	10	14,906	-
Loans to customers	11	617,280	642,188
Current income tax receivable		5,724	-
Investments held to maturity	12	720,297	-
Investment property	13	101,282	26,876
Property and equipment, intangible assets	14	129,110	111,979
Other assets	15	39,883	43,477
Total assets		**1,848,396**	**1,485,208**
Liabilities			
Derivative financial liabilities	8	7	-
Due to the National Bank of the Republic of Belarus	16	127,806	-
Due to other banks	17	101,668	28,893
Customer accounts	18	1,056,962	994,643
Debt securities in issue	19	-	16,554
Obligation on current income tax		-	2,959
Provision for other risks and payments	32	4,268	-
Other liabilities	20	6,805	6,316
Deferred tax liability	30	10,156	8,994
Subordinated debts	21	141,717	60,210
Preference shares	22	14,369	12,586
Total liabilities		**1,463,758**	**1,131,155**
Equity			
Share capital	23	461,285	448,635
Treasury shares		(3)	(3)
Additional capital contribution	21	35,480	35,480
Property and equipment reevaluation provision	14, 30	494	-
Accumulated loss		(112,618)	(130,059)
Total equity		**384,638**	**354,053**
Total liabilities and equity		**1,848,396**	**1,485,208**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
06 May 2016

The notes set out on pages 7 — 80 form an integral part of these financial statements.

INCOME STATEMENT

In millions of Belarusian Roubles

	Notes	2015	2014 Revised (Note 6)
Interest income	24	214,748	235,852
Interest expense	24	(119,134)	(94,381)
Net interest income before initial recognition of financial instruments at fair value		**95,614**	**141,471**
Effect from initial recognition of financial instruments at fair value	12, 24	(24,807)	-
Net interest income		**70,807**	**141,471**
Fee and commission income	25	19,559	25,320
Fee and commission expense	25	(5,761)	(4,911)
Net fee and commission income		**13,798**	**20,409**
Net gain on derivative financial instruments	26	311,100	124,917
Net loss on foreign exchange operations	27	(245,948)	(101,534)
Gain on change in fair value of investment property	13	(3,041)	11,806
Other income	28	17,668	12,405
Total operating income		**164,384**	**209,474**
Operating expenses	29	(100,247)	(98,226)
Recovery of value of repossessed assets		(5,531)	(173)
Provision for impairment losses on interest bearing financial assets, net	9, 11	(34,228)	(21,617)
Provision for impairment losses on other financial assets, net	15	(947)	(629)
Provisions for other risks and payments	32	(4,268)	-
(Charge)/provision for loan commitments, net	32	86	(296)
Profit before income tax and loss on net monetary position		**19,249**	**88,533**
Loss on net monetary position	2	-	(25,953)
Profit before income tax		**19,249**	**62,580**
Income tax expense	30	(1,808)	(14,812)
Net profit for the year		**17,441**	**47,768**

On behalf of the management of the Bank:

V.V. Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
06 May 2016

The notes set out on pages 7 — 80 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
In millions of Belarusian Roubles

	Notes	2015	2014
Net profit for the year		**17,441**	**47,768**
Other comprehensive income			
Other comprehensive income not to be reclassified into profit or loss in subsequent periods:			
Revaluation of property and equipment	14	659	-
Income tax attributable to revaluation of property and equipment	30	(165)	-
Total other comprehensive income		**494**	-
Total comprehensive income for the year		**17,935**	**47,768**

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
06 May 2016

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STATEMENT OF CHANGES IN EQUITY

In millions of Belarusian Roubles

	Notes	Share capital	Treasury shares	Additional capital contribution	Reserve for revaluation of property and equipment	Accumulated loss	Total equity
Balance as at 1 January 2014		**363,996**	**(3)**	**35,480**	**-**	**(177,827)**	**221,646**
Net profit for the year		-	-	-	-	47,768	47,768
Comprehensive income for the year		**-**	**-**	**-**	**-**	**47,768**	**47,768**
Transactions with shareholders recorded directly in equity							
Increase of share capital	23	84,639	-	-	-	-	84,639
Balance as at 31 December 2014		**448,635**	**(3)**	**35,480**	**-**	**(130,059)**	**354,053**
Net profit for the year		-	-	-		17,441	17,441
Other comprehensive income for the year							
Revaluation of property and equipment	*14*	-	-	-	659	-	659
Income tax attributable to revaluation of property and equipment	*30*	-	-	-	(165)	-	(165)
Comprehensive income for the year		**-**	**-**	**-**	**494**	**17,441**	**17,935**
Transactions with shareholders recorded directly in equity							
Increase of share capital	23	12,650	-	-	-	-	12,650
Balance as at 31 December 2015		**461,285**	**(3)**	**35,480**	**494**	**(112,618)**	**384,638**

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
06 May 2016

The notes set out on pages 7 — 80 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS (DIRECT METHOD)

In millions of Belarusian Roubles

	Notes	2015	2014
Cash flows from operating activities			
Interest received		209,215	231,155
Interest paid		(116,699)	(92,677)
Fee and commission received		19,826	23,217
Fee and commission paid		(5,609)	(4,801)
Income received from operations with derivative financial instruments	35	759,715	13,693
Expenses paid from foreign currencies operations	27	(831)	(7,682)
Other income received		13,555	8,401
Operating expenses paid		(89,260)	(91,751)
Income tax paid		(9,494)	(15,428)
Cash flows from operating activities before changes in operating assets and liabilities		**780,418**	**64,127**
Net (increase)/decrease in operating assets:			
Mandatory reserve deposits with the National Bank of the Republic of Belarus		4,427	(2,347)
Due from other banks		7,441	(3,315)
Financial assets available for sale		(14,844)	-
Loans to customers		53,550	(150,150)
Investments held to maturity		(726,133)	-
Other assets		6,610	2,093
Net increase/(decrease) in operating liabilities:			
Due to the National Bank of the Republic of Belarus		127,806	-
Due to other banks		66,930	(3,220)
Customer accounts		(269,559)	84,571
Other liabilities		(6,959)	2,089
Net cash (outflow)/inflow from operating activities		**29,687**	**(6,152)**
Cash flows from investing activities			
Acquisition of property, equipment and intangible assets		(9,215)	(14,078)
Proceeds from disposal of property and equipment		150	311
Acquisition of investment property	13	(43,308)	(3,273)
Proceeds from disposal of investment property		-	140
Net cash outflows from investing activities		**(52,373)**	**(16,900)**

STATEMENT OF CASH FLOWS (DIRECT METHOD) - CONTINUATION

In millions of Belarusian Roubles

	Notes	2015	2014
Cash flows from financing activities			
Share issuance		1,630	-
Receipt of subordinated debts		90,449	-
Repayment of subordinated debts		(45,494)	(185)
Placement of debt securities issued		35,027	45,659
Repayment of debt securities issued		(56,571)	(30,483)
Repayment of debt from finance lease		(2,119)	-
Net cash inflow/(outflow) from financing activities		**22,922**	**14,991**
Effect of changes in foreign exchange rates on cash and cash equivalents		14,749	3,553
Effect of inflation on cash and cash equivalents		-	(32,209)
Net (decrease)/increase in cash and cash equivalents		**14,985**	**(36,717)**
Cash and cash equivalents at the beginning of the year	31	**193,659**	**230,376**
Cash and cash equivalents at the end of the year	31	**208,644**	**193,659**

On behalf of the management of the Bank:

V.V Drankevich
Chairman of the Management Board

T. I. Karchmit
Chief Accountant

Minsk
06 May 2016

The notes set out on pages 7 — 80 form an integral part of these financial statements.

1. General information

CJSC Joint Stock Bank of Reconversion and Development (the "Bank") was established on 22 February 1994 as a closed joint stock company in accordance with the legislation of the Republic of Belarus. The Bank performs operations under the banking license No. 21 issued by the National Bank of the Republic of Belarus on 7 June 2013. The Bank also has a license for performing professional and stock-exchange activities with securities No. 02200/5200-1246-1126 issued by the Ministry of Finance of the Republic of Belarus dated 29 June 2012.

The Bank was established for commercial and retail banking operations on the territory of the Republic of Belarus. The principal activities of the Bank include providing loans to individuals and legal entities, including individual entrepreneur; attracting deposits from non-banking and banking organizations, legal entities and individuals; maintaining customer accounts; performing cash and settlement operations, operations with securities and foreign currency transactions.

The Bank has a certificate of acceptance for registration in the State Agency of Guaranteed Compensation of Individual Deposits, which guarantees 100% repayment of deposits of individuals in case of withdrawal of the banking licence.

The registered address of the Bank is 18 Krasnozvyozdnaya Street, 220034 Minsk, Republic of Belarus.

The average number of employees of the Bank was 330 in 2015 (2014 – 364).

Shareholders structure of the Bank as at 31 December 2015 and 2014 is presented below:

	31 December 2015 % of the total number of shares	**31 December 2014 % of the total number of shares**
LLC "Dikris"	60.98	58.11
European Bank of reconstruction and development (hereinafter - EBRD)	14.70	15.78
LLC "German society on investments and development" (DEG)	8.82	9.47
Tsybulin V.A.	7.53	8.08
LLC "Speedster-M"	7.25	7.78
Other	0.72	0.78
Total	**100.00**	**100.00**

Detailed information on the share capital of the Bank is presented in Note 23.

The ultimate controlling party of the Bank as at 31 December 2015 and 2014 was Valentin A. Tsybulin, the resident of the Republic of Belarus.

2. Basis of preparation of the financial statements

Statement of compliance

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

General basis of presentation of the financial statements

These financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future. The Management believes that going concern assumption is appropriate for the Bank due to it's sufficient capital adequacy ratio and based on historical experience that short-term obligations will be refinanced in the normal course of business.

The Bank maintains accounting records in accordance with the requirements of the applicable legislation of the Republic of Belarus. The financial statements are prepared on the basis of these accounting records adjusted to comply with IFRS.

The functional and presentation currency is the national currency of the Republic of Belarus — Belarusian rouble.

These financial statements are presented in millions of Belarusian roubles, unless otherwise stated.

In 2011 - 2014 the economy of Belarus was recognised as hyperinflationary since meeting of criteria, stipulated in IAS 29 "Financial Reporting in Hyperinflationary Economies". This standard requires that financial statements of the entity, whose functional currency is the currency of a hyperinflationary economy, shall be stated in prices, which present purchasing power as at the end of the reporting period. From 1 January 2015 the economy of Belarus has been no more considered as hyperinflationary. In addition, opening balances of non-cash assets, liabilities and capital of the Bank as at 1 January 2015 are presented in prices being effective as at 31 December 2014.

3. Adoption of new and revised standards and interpretations

In the reporting year the Bank adopted all new and amended standards and interpretations related to the Bank's operations and effective for the reporting period ended 31 December 2015. The bank did not adopt early standards, interpretations or amendments, which had been issued but did not come into effect.

IFRS 9 Financial instruments (*effective for annual periods beginning on or after 1 January 2018, earlier application is permitted).* This standard replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement, impairment and hedge accounting. Main differences of the standard are the following:

- Financial assets should be classified into two measurement categories: financial assets subsequently measured at fair value and financial assets subsequently measured at amortized cost. Valuation technique should be made during the initial recognition. The classification depends on the business model for managing financial instruments of the company and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument as well as if (i) the business model of the company is to hold the asset to collect the contractual cash flows, and simultaneously (ii) the contractual cash flows of this asset represent only payments of principal and interest (i.e., the financial instrument has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments should be subsequently measured at fair value. Equity instruments held for sale will be measured at fair value through profit or loss. For all other equity investments at initial recognition there can be made the final decision to recognize unrealized and realized gains and losses from remeasurement at fair value in other comprehensive income rather than in profit or loss. Gains and losses from revaluation should not be transferred to profit or loss. This decision can be made individually for each financial instrument. Dividends should be presented in profit or loss, as long as they represent the investment yield.

- Most of the requirements of IAS 39 regarding the classification and measurement of financial liabilities were transferred unchanged to IFRS 9. The main difference is the requirement to present the effects of changes in own credit risk of financial liabilities classified as at fair value through profit or loss in other comprehensive income.

- IFRS 9 changes the impairment accounting: impairment is recognized as for excepted losses and incurred losses. In this case the company should consider previous events and current conditions as well as reasonable forecast of future economic conditions as for the financial instruments. Impairment losses are recognized as for all financial assets carried at amortized cost and at fair value through other comprehensive income. This impairment accounting model is applied to certain commitments to extend credits and financial guarantees but is not applicable for equity financial instruments and financial instruments measured at fair value through profit or loss.

- The general principle of impairment assessment represents the application of one of two basis for assessment, the choice of which depends on whether there have been a significant decrease in credit risk of financial instrument as from its initial recognition. If the decrease in credit risk as from the initial recognition was not observed, the company recognizes the expected impairment loss within 12 months. Otherwise the expected impairment loss for the whole term of financial asset is recognized. If with the course of time the credit quality of the financial asset is improved, the standard provides for the possibility of reverse reclassification of the financial asset to the group with a basis of credit losses assessment within 12 months.

- In accordance with IFRS 9 hedge accounting is reproduced in line with approaches on risk management. This standard defines new requirements to the beginning, continuation and termination of hedge accounting as well as additional objects specified as hedged items; provides for alternative options to the application of hedge accounting, eliminates the quantitative assessment of hedge effectiveness by replacing it with qualitative characteristics as well as introduces additional requirements regarding disclosure of information on the company's risk management and hedging.

Adoption of IFRS 9 is mandatory from 1 January 2018, earlier application is permitted both simultaneously and from different dates for different regulatory requirements. The Bank's management believes that IFRS 9 will be applied in the Bank's financial statements for the year beginning from 1 January 2018 and its application of the new Standard will have a significant impact on the reported indicators of financial assets, not the classification and measurement of financial liabilities. At the same time, a reasonable estimate of this impact requires detailed analysis.

IFRS 14 Regulatory Deferral Accounts (*effective for annual periods beginning on or after 1 January 2016, earlier application is permitted)*. The Standard sets requirements to the financial statements for rating assets and liabilities which are called "regulatory deferral accounts balances" that arise in the companies which are subject to rate regulation. The Standard's scope of application is limited and is extended to the first-time adopters of IFRS who operate on regulated rates and recognise linked assets and (or) liabilities in accordance with current national accounting rules. IFRS 14 is not applicable to the Bank's operation.

IFRS 15 Revenue from Contracts with Customers (*effective for annual periods beginning on or after 1 January 2017, earlier application is permitted)*. This Standard replaces the following Standards and Interpretations: IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – Barter Transactions Involving Advertising Services.

The Standard determines a five-stage model of revenue recognition which is applied to income received under the contracts with customers with very rare exceptions, regardless of income type or sector. The key principle of IFRS 15 is that the company should recognize revenue at the moment or upon transfer of goods or services to clients in the amount corresponding to the remuneration. According to the company's expectations, the company has a right to the remuneration in exchange for goods or services.

The Standard introduces enhanced guidelines for identification of a customer agreement and its obligations, determining the revenue recognition, accounting of variable remuneration and expenses associated with conclusion and implementation of an agreement as well as introducing new requirements to disclosure.

Amendments to IAS 1 resulting from the Disclosure initiative (*effective for annual periods beginning on or after 1 January 2016, earlier application is permitted*) define the necessity of applying of material principle to all items of the financial statements, even if certain standard require some disclosure, possibility of note sequence usage different from IAS 1, and also comments, clarifies that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss. This amendment will not influence on financial statements of the Bank.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016, earlier application is permitted) provide for guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business as defined in IFRS 3 Business Combinations. These amendments will not have an impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016, earlier application is permitted). Amendments to IAS 16 prohibit using the depreciation method based on the revenue as for the items of property and equipment. Amendments to IAS 38 introduce a rebuttable presumption that revenue is not a valid basis for the calculation of amortization. This presumption can be rebutted only if an intangible asset is expressed as a measure of revenue or if revenue and consumption of economic benefits from the intangible asset are immediately interconnected.

The Bank uses a straight-line depreciation of fixed assets and intangible assets so these amendments will not have an impact on the Bank's financial statements.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016, earlier application is permitted) require a bearer plant, defined as a living plant, to be accounted for as property, plant and equipment and included in the scope of IAS 16, instead of IAS 41. These amendments will not have an impact on the Bank's financial statements as the Bank does not have such assets.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014, earlier application is permitted) determine how contributions of employees or third parties associated with rendering of services should be allocated to periods of services. The amendments also permit the Bank to recognize the contributions as a reduction of the service cost in the period in which the related service was rendered, if the contribution amount is independent of the useful life. These amendments will not have an impact on the financial statements as the Bank does not have any defined benefit plans.

Amendments to IAS 27 «Equity Method in Separate Financial Statements» (effective for annual periods beginning on or after 1 January 2016, earlier application is permitted); the amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. This amendment will not influence on financial statements of the Bank.

Amendments to IFRS 10 and IAS 28 Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2016, earlier application is permitted) clarify that upon sale or transfer of assets to the joint venture or associate, as well as when losing control over a subsidiary, when maintaining joint control or significant influence, gains or losses should be recognized depending on whether the assets or subsidiary is of businesses nature, as defined in IFRS 3. These amendments will not have an impact on the Bank's financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: applying the consolidation exception» *(effective for annual periods beginning on or after 1 January 2016, earlier application is permitted).* Amendments to IFRS 10 clarify that exception from the requirement on preparation of consolidated financial statements is applied to a parent company, which is a subsidiary of an investing company, if such investing company measures its subsidiaries at fair value. Moreover, amendments clarify that only the subsidiary which render supporting services to its parent company and which is not being an investing company has to be consolidated. Other subsidiaries of the investing company measured at fair value. Amendments to IAS 28 permit investor, applying equity method, keep measurement at fair value, applying by its associated or joint company, which is an investing entity, to its own subsidiaries. This amendment will not influence on financial statements of the Bank.

Improvements to IFRSs 2010-2012 (effective from 1 July 2014) introduce amendments to the following standards. Amendments to IFRS 2 make more specific the definition of “vesting conditions” and “market conditions”, as well as introduce the definition of “condition of results achievement” and “condition of service life”. Amendments to IFRS 3 clarify that contingent consideration classified as an asset or liability should be measured at fair value at each reporting date, regardless of whether they fall within the scope of IAS 39 or IFRS 9, or are non-financial asset or liability. Amendments to IFRS 8 require to disclose the management’s judgments in applying criteria for aggregation of operating segments, and explain that the reconciliation of the aggregated reporting segments and assets of the company should be disclosed in the financial statements only if such information is regularly reviewed by the operating decision maker. Amendments to IFRS 13 (entered into force on the date of issue) clarify that the short-term receivables and payables with no set interest rates can be recorded without taking into account the discounting, if its effect is not significant. Amendments to IAS 16 and IAS 38 are applied retrospectively and eliminate contradictions in the accounting for accumulated depreciation and amortization when applying the revaluation model. The amended standards clarify that gross value should be restated in a manner consistent with the method of revaluating the carrying amount of the asset, and accumulated depreciation - the difference between the gross value and the book value of the asset, taking into account any accumulated impairment losses. Amendments to IAS 24 clarify that companies that render services on provision of key management personnel to the reporting entity, are related parties to such company.

These amendments will not have a significant impact on the Bank's financial statements.

Improvements to IFRSs 2011-2013 (effective for periods beginning on or after 1 July 2014) include amendments to the following standards. Amendments to IFRS 3 clarify that this Standard is not applicable to the accounting of formation of any joint operation in the financial statements of the joint operation. Amendments to IFRS 13 clarify that the portfolio exception, which allows measuring the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts within the scope of IAS 39 or IFRS 9 regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. Amendments to IAS 40 clarify that upon acquisition of an investment property item, IAS 40 and IFRS 3 should be applied simultaneously and not alternatively. Amendments to IFRS 1 clarify that an entity can apply an effective standard or a new one, not still mandatory and for which earlier application is permitted, provided that any of these standards is consistently applied for all periods of the first financial statements under IFRS.

These Amendments will not have a significant impact on the financial statements of the Bank.

Improvements to IFRSs 2012-2014 (effective for periods beginning on or after 1 January 2016) include amendments to a number of IFRSs. Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued clarify that the case when an asset (disposal group) is transferred from the category “held for sale” to the category “held for distribution” or vice versa is not a change in a plan to sell or distribute. IFRS 7 Financial Instruments: Disclosures includes amendments in the guidance for application, which allows determining whether there is a continued interest in a transferred financial asset under the terms of servicing contract, as well as in clarifications meaning that additional disclosure on offsetting is not mandatory for interim periods unless IFRS 7 requires otherwise. Amendments to IAS 19 Employee Benefits clarify that when determining the discount rate on contributions upon retirement, the currency of liabilities should import and not the country when the liabilities arose. Amendments to IAS 34 Interim Financial Reporting clarify the meaning of disclosure of information “elsewhere in the interim financial report”, and requires a cross reference to location of information to be included in interim financial report.

These Amendments will not have a significant impact on the financial statements of the Bank.

4. Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents represent assets which can be easily converted into certain amounts of cash and which are subject to an insignificant risk of changes in value with original maturity up to 90 days and include cash in hand, balances with the National Bank of the Republic of Belarus, balances with other credit institutions. Assets with longer-term maturity exceeding 90 days cannot be considered as cash equivalents when their residual period to maturity reduces to 90 days. Amounts that are subject to restrictions on their availability are not included in cash and cash equivalents.

Mandatory reserve deposits with the National Bank of the Republic of Belarus

Mandatory reserve deposits with the National Bank of the Republic of Belarus (the "National Bank") are funds deposited with the National Bank, which are not intended for the financing of current operations. Mandatory reserves with the National Bank are not included in cash and cash equivalents for the purposes of statement of cash flows.

Financial instruments

Classification of financial instruments on initial recognition is performed on the basis of intention, for which they were acquired and their characteristics.

Reclassification of financial instruments after their initial recognition is permitted or required only when certain criteria established by appropriate IFRS are met. During the analysis of the possibility of reclassification of financial instruments the Bank follows the principle that the financial instrument should meet the definition of the category where it is aimed to be reclassified.

Financial instruments are classified into the following categories.

Financial assets and liabilities carried at fair value through profit or loss are those that have been classified by the Bank as carried at fair value through profit or loss or as held for trading. Financial instruments held for trading are those that the Bank buys for the purpose of generating profit from short-term fluctuations in their price. Derivatives also fall to this category.

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. Investments held-for-maturity, generally, include debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the nearest term;
- those that the Bank designates upon initial recognition as carried at fair value through profit or loss or as available for sale;
- those for which the Bank may not recover substantially all of its initial investments, for the reason other than credit deterioration, and which shall be classified as available for sale.

Loans and receivables include amounts due from other banks, loans to customers and other financial assets which comply with these classification criteria.

Financial assets available for sale are non-derivative financial assets that are not included into any of other categories described above. Available-for-sale instruments may include certain debt and equity investments.

Financial liabilities carried at amortised cost include financial liabilities except for:

- liabilities measured at fair value with any gains or losses arising on remeasurement recognised in profit or loss;
- liabilities which arise from a transfer of financial assets not qualifying for derecognition and are accounted using the continuing involvement method (i.e. recognition of the assets to the extent of continuing involvement).

Financial liabilities measured at amortised cost include balances due to other banks, customer accounts, debt securities issued, subordinated debts and other borrowed funds.

Initial recognition of financial instruments

The Bank recognises financial assets and liabilities in the statement of financial position when it becomes a party to the contractual obligation concerning the instrument. Purchase and sale of the financial assets and liabilities on standard terms are recognised at settlement date.

Financial assets and liabilities are initially recognised at fair value plus, in the case of a financial asset or financial liability not carried at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

Fair value of financial instruments

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 in principal (or more advantageous) market at the measurement date under current market terms. Principal (or more advantageous) market price used to measure fair value of assets or liabilities shall not be adjusted for transaction expenses, as they do not characterize asset or liability, but reflect transaction terms for asset or liability.

To measure fair value the Bank uses such methods which are acceptable in particular situation and for which there are sufficient available inputs; when measuring observable inputs shall be applied to the maximum and unobservable inputs shall be applied to the minimum.

The Bank measures fair value of financial instruments using quoted prices in an active market for that instrument, otherwise, using external independent inputs on demand (supply) prices for identical financial instruments. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

To measure fair value of financial instruments for which there is no observable market prices, the Bank uses information (if available) on recent market transactions between knowledgeable, willing parties in an arm's length transaction, references to current value of the most similar financial instruments, discounted cash flows model, analysis of financial information on investees and other methods, provided that such methods can ensure reliable measurement of financial instruments fair value. When using discounted cash flows model the Bank applies discounting rates calculated based on prevailing market interest rates for financial instruments under similar terms, including counterparty solvency, remaining maturity of fixed interest rate, remaining maturities for repayment, currency, collateral etc.

When it is not possible to use one of valuation methods to measure fair value of financial instrument, the Bank uses judgements based on liquidity, concentration, uncertainty of market factors, assumptions on price and other factors affecting that specific instrument.

Derecognition of financial assets

Derecognition of financial assets (or, if applicable, of a part of the financial asset or of a part of the group of similar financial assets) takes place only when:

- the contractual rights to the cash flows from the financial asset expire;
- the Bank transfers the contractual rights to receive the cash flows from the financial asset, or if the Bank retains the right to obtain cash receipt from such asset with simultaneous obligation to pay it in full to the third party without significant delays; or
- the Bank either transfers substantially all risks and rewards related to the asset, or does not transfer and does not retain all related risks and rewards, but at the same time transfers the control over this asset. The control is retained when the counterparty has no practical ability to sell the asset in its entirety to an unrelated third party without imposing additional restrictions on the sale.

Derivative financial instruments

Derivative financial instruments used by the Bank include foreign currency forwards and swaps. The Bank uses derivative financial instruments to manage currency and liquidity risks. Derivative financial instruments used by the Bank do not qualify for hedge accounting as the Bank does not formally determine and document the strategy for hedge accounting and does not evaluate the hedge effectiveness in order to apply special rules for hedge accounting.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from the discounted cash flows model. Derivatives financial instruments are recognised in assets if their fair value is positive or otherwise in liabilities. Respective transaction costs are recognised in the income statement in the period in which they are incurred. Both positive and negative valuation results on change in fair value of derivative financial instruments are recognised in the income statement on line “Net gain/(loss) on derivative financial instruments”.

Due from other banks

In the normal course of business, the Bank maintains advances and deposits for various periods of time with other banks. Balances due from banks with fixed maturity are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortised cost is based on fair value of loans issued (deposits placed) determined considering interest rates of analogous (similar) loans and deposits effective at the date of loan issuing (deposit placement). If loans are issued (deposits placed) at interest rates which are higher (lower) than the market rates the difference between fair value and nominal value of a loan (deposit) is recognised in the income statement as effect on initial recognition of financial instruments at fair value. The due from other banks balances with undefined maturity are measured at amortised cost based on the expected maturity. Due from other banks are recorded at amortised cost less any impairment.

Loans to customers

Loans to customers are recognised at the moment of lending funds to customers in the amount of funds lent including transaction costs (i.e. at fair value). Loans issued at non-market interest rates are evaluated at the date of issue at fair value which is determined as future cash flows from the loan discounted at market rates for analogous loans. The difference between fair value and nominal value of loans is recognised in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently, loans to customers are carried at amortised cost using the effective interest rate method. Loans to customers are carried less allowance for impairment loss.

Loans renegotiated during the reporting period which otherwise would be overdue are accounted for in accordance with new (renegotiated) terms.

Investments held to maturity

Investments held to maturity include debt securities. During initial recognition securited are posted at fair value and further measured at amortized cost by the method of effective interest rate. Amortized cost based on the fair value of securities, calculated with regard of market adjustments or interest rates for similar financial instruments available at the date of acquisition of securities. Difference between fair and nominal value of securities recognized in the income statement as effect from initial recognition of financial instruments at fair value. Securities held for maturity measured less allowance for impairment, if any.

Bank assess its intention and ability to held financial instrument to maturity at the moment of initial recognition and at each reporting date.

Financial assets available for sale

Financial assets available for sale are represented by debt securities. Such securities are initially recorded at fair value. Subsequently these securities are measured at fair value with re-measurement recognised in other comprehensive income until sold when the gain/loss previously recorded in other comprehensive income recycles through the income statement. Interest income is accrued using the effective interest rate method and is recognised directly in the income statement. The Bank uses quoted market prices to determine the fair value of Bank's financial assets available-for-sale. Non-marketable debt securities for which fair value cannot be reliably measured are stated at amortised cost less allowance for impairment, if any.

Financial assets impairment

The carrying amounts of financial assets or groups of financial assets of the Bank are reviewed at each reporting date to determine whether there is any indication of impairment. Impairment losses are recognized in profit and loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of financial asset and which have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If there is no objective evidence that a financial asset is individually impaired (irrespective of its materiality), this asset is included in a group of financial assets with similar features of credit risk and is collectively assessed for impairment with other assets.

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

- delinquency in any instalment;
- significant financial difficulties of the borrower evidenced by the financial information available to the Bank;
- the risk of bankruptcy or other financial reorganisation of the borrower;
- negative change in national or local economic conditions that affect the borrower's business;
- breach of a contract, such as refusal or evasion to make interest or principal payments;
- granting to the borrower a concession for economic or legal reasons relating to the borrower's financial difficulty that the lender would not otherwise consider.

The key criteria applied for determination of impairment of securities are an ability of issuer to fulfil its obligation to the Bank, and information about the ability to service its securities, market conditions and other information.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. The chosen 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.

Impairment losses are always recognised by the allowance charge in the amount of the loss measured as the difference between the asset's carrying amount in the statement of financial position and the present value of estimated future cash flows (excluding future credit losses that have not been incurred yet) discounted at the original effective interest rate of an asset. If the loan is issued at the floating interest rate, future cash flows are discounted at the current effective interest rate. 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 shall be reversed by adjusting an allowance in the income statement.

If the decline in fair value of an available-for-sale financial assets are recognized in other comprehensive income, and thus there is objective evidence of impairment of an asset, the cumulative loss recognized in other comprehensive income is excluded from equity and recognized in profit or loss an adjustment to the reclassification, even if the recognition of the financial asset has not been terminated.

Assets are written off against allowance for impairment losses in case of uncollectibility of loans and advances in respect of which all procedures were performed in order to recover assets fully or partially and as a result the amount of impairment loss was determined. Loan debt to individuals is written off due to relevant reserves after its attribution to the debt with maximum credit risk.

Financial liabilities

Financial liabilities, except for those carried at fair value through profit or loss, are classified as financial liabilities accounted at amortised cost. Financial liabilities carried at amortised cost are initially recognised at fair value, less any transaction costs incurred. Subsequent to initial recognition, they are stated at amortised cost. When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

If financial liabilities are issued at interest rates above (below) the market rates the difference between fair value and nominal value of financial liabilities is recognized in the income statement as effect on initial recognition of financial instruments at fair value. Subsequently the carrying value of financial liabilities in the statement of financial position is amortized with respective expenses being recorded as interest expenses in the income statement.

For borrowings received from shareholders at other than market rates the difference between the nominal amount of consideration received and the fair value is recognised in the statement of changes in equity as additional capital contribution in the period when such instruments were acquired. Subsequently, the carrying amount of such instruments is amortised, and the related expense is recorded in the income statement as interest expense using the effective interest rate method.

Preference shares

Preference shares are classified as a financial liability as they provide mandatory fixed dividends payments. In this case dividends are recognised as interest expense in the income statement as accrued.

Derecognition of financial liabilities

The Bank derecognises a financial liability when the Bank's obligation is discharged or cancelled or expires. Where an existing financial liability(or its part) is replaced by another liability from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original and new financial liability is recognized in the income statement.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Two financial instruments are accounted for as one combined financial instrument in the following cases:

- agreements are entered into at the same time and interrelated;
- agreements are concluded by the same counterparty;
- instruments are subject to the same risk;
- there is no apparent economic need or substantive business purpose for accounting the transactions separately that could not also have been accomplished in a single transaction.

Investment property

Bank classifies as investment property, property including assets under construction or reconstruction for future use as an investment property, being in the ownership (as owner or lessee under financial lease agreement) to earn rentals or for capital appreciation or both, rather than for use in the supply of services or for administrative purposes; or sale in short-term perspective in the ordinary course of business. Investment property also includes assets with undefined use at the date of recognition or at the reporting date.

Investment property is initially recognized at cost, including direct transaction costs. After initial recognition the Bank measures investment property at fair value with any gain or loss arising from a change in the fair value of investment property being recognized in profit or loss in the period in which it occurs.

Fair value of investment property is the price that would be received to sell an asset in an orderly transaction between market participants in principal (or more advantageous) market at the measurement date under current market terms, the price can be observable or measured using a valuation technique. Current prices for identical real estate properties in an active market are the best evidence of the fair value of investment property. In absence of current prices in active market, the Bank is guided by: current prices in an active market for similar real estate properties, adjusted for differences; recent prices for similar real estate properties in less active markets, adjusted to any changes from the transaction date to the reporting date; expected discounted cash flow.

At the date of transfer from other types of assets to investment property, the object is recognized at fair value. During the transfer of property and equipment, the difference between the carrying amount and fair value is recognized as reevaluation of property and equipment at the date of the transfer. In case of disposal of such asset, the amount of reevaluation is posted to retained earnings. Whereas transfer to investment property from inventories, at the date of the transfer the difference between the carrying amount and fair value is recognized in profit or loss for the period. Proceeds from lease of investment property is recognized in the income statement in Other income.

Transfer into investment property category or exclusion from this category may be performed upon actual change in intended use of investment property item.

The investment property is derecognized at its disposal or final withdrawal from operation when after the disposal of the investment property item it is not expected to receive economic benefits.

Property and equipment

Property and equipment are recorded at initial cost (property and equipment, acquired before 1 January 2015 – at adjusted acquisition cost, in order to be presented in monetary units current as at 31 December 2014), less accumulated depreciation and impairment loss (if any).

The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. This is the obligation which the Bank incurs either when the item is acquired or as a consequence of having used the item during a particular period for other than administrative purposes.

Gains and losses on disposals of property and equipment are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the income statement as other income. Repair and maintenance costs recognized in the income statement in operating expenses as incurred.

Depreciation is charged from the month following the month property and equipment has been put into operation. Depreciation is charged on a straight line basis using the following annual rates of depreciation:

- buildings – 2 — 11%;
- vehicles – 11 — 15%;
- office and computer equipment – 10 — 20%;
- other property and equipment – 5 — 25%;
- safes and other engineering devices (included in other property and equipment) – 2 — 3%.

The salvage 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 would be of the age and in the condition expected at the end of its useful life. The residual values, depreciation method and useful lives are reviewed and, if necessary, adjusted at each reporting date.

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. An intangible asset is recognised if:

- it is probable that the Bank will receive future economic benefits attributable to the asset;
- the cost of the asset can be measured reliably.

Intangible assets include software, licences, rights to use land plots and other intangible assets.

Intangible assets which are separately acquired and recognised at acquisition cost (intangible assets, acquired before 1 January 2015– at adjusted acquisition cost in order to be presented in monetary units current as at 31 December 2014), less accumulated amortisation and allowance for impairment, if any.

Intangible assets with a definite useful life are amortised evenly during the useful life using the straight-line basis. Depending on the type of intangible assets useful lives are the following:

- software – 2,5 – 10 years;
- licenses – 10 years;
- rights to use land plots – 4-39 years;
- other – 2-10 years.

Useful lives and method of amortization of intangible assets with defined useful life, as well as there is an indication that the intangible asset may be impaired are reviewed at least annually at the end of the reporting period.

Gains and losses on disposals of intangible assets are determined as the difference of the net disposal proceeds and the value of assets in the statement of financial position, and recognised in the income statement as other income.

Impairment of non-financial assets

The carrying amounts of the Bank’s non-financial assets other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists than the asset’s recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value obtained from use and its net realizable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect to non-financial assets impairment losses incurred in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

After the recognition of an impairment the depreciation charge for property and equipment and intangible assets for future periods is adjusted to allocate the assets’ revised carrying value presented in the statement of financial position, less its residual value (if any), on a systematic basis over its remaining useful life.

Assets available for sale

The Bank classify an assets as available for sale whereas it is purchased with the intent of selling rather than further usage. In that case, the asset should be available for immediate sale in current conditions and under typical terms of sale of similar assets, wherein the sale should be highly probable, which is confirmed by the solution of the management to sale an asset, plan of sale, active supply of the asset in the market and search for buyers. Planning period of sale should not excess one year from the moment of classification of an asset.

Assets available for sale measured at the lower of carrying amount and fair value less costs to sell. Any impairment loss, that arises during initial classification to assets is recognized in profit or loss for the reporting period.

During the measurement of fair value the Bank is guided by actual market prices for identical assets, if there is no similar assets – the Bank takes prices for similar assets adjusted to differences between assets; also the Bank takes into acount recent prices by the similar assets adjusted to any changes after the date of transaction and before the reporting date. Moreover, the Bank regards forecasts of discounted cash flows.

Depreciation is not charged for assets available for sale.

In case of reclassification from assets available for sale to assets for use, the asset is measured at the lower of carrying amount before it has been classified into available for sale adjusted to depreciation and losses from impairment which would not be recognized if the asset were classified as available for sale and its recoverable amount at the date of refusal from sale.

Repossessed assets

In the normal course of business, the Bank occasionally takes possession of non-financial assets that originally were pledged as collateral for loans. When the Bank acquires (i.e. gains a complete ownership) a non-financial asset in this way, the asset's classification follows the nature of its intended use by the Bank. Such assets are initially recognised at the carrying value of appropriate loans recorded in the statement of financial position. Subsequently such assets are usually classified as other assets and accounted for in accordance with IAS 2 at the lower of cost (for assets, acquired before 1 January 2015 - cost restated in order to be presented in monetary units current as at 31 December 2014) and net realisable value. These policies are also applicable to property acquired by the Bank as loan repayment through repossession of collateral or as compensation for credit and other contracts, and intended solely for subsequent sale or for renovation and resale (by decision of the authorized body of the Bank on the implementation of such reconstruction).

Net realisable value is the estimated selling price for repossessed assets in the ordinary course of business less the estimated costs necessary to make the sale.

At each reporting date the Bank revises the net realisable value and compares it with the cost of repossessed assets recorded in the statement of financial position. If the cost of such assets is not recoverable due to damage or obsolescence of assets, market prices decline or increase in estimated costs of completion and costs necessary to make the sale, the Bank writes such assets down to their net realisable value and recognises the write down in operating expenses in the period such write down occurs or losses takes place. Subsequently, if the circumstances which led to write down of assets change or if there is an evidence of net realisable value growth, the amount of write down is reversed so that the revised carrying amount in the statement of financial position would be the lower of net realisable value and cost.

Repossessed assets initially intended for purposes other than sale in the normal course of business are subsequently valued according to the accounting policy based on the classification of such assets in the statement of financial position.

Operating lease - Bank as a lessee

Operating lease is a lease under which all the risks and rewards incidental to the ownership of an asset are substantially maintained by the lessor. Lease payments under an operating lease are recognised as operating expenses on a straight-line basis over the lease term.

Operating lease - Bank as a lessor

The Bank accounts for and depreciates assets leased into operating lease in the same way as assets analogous in nature and functions. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease in income statement in "Other income".

Finance lease – Bank as a lessee

The lease of property classified as finance lease when all risks and benefits, connected with ownership, are transferred to the lessee.

In case of finance lease when the Bank acts as a lessee, leased assets are recognized similar to its own at the beginning date of lease and at the lower of the following values: discounted amount of minimum lease payments or fair value of leased property. During the calculation of current value of minimum lease payments, the interest rate on the lease contract, if any, is applied as discounting rate. In other cases the Bank's borrowing rate is applied. Depreciation policy for such assets complies with policy for other assets of the Bank. Depreciation is charged for the shortest of periods: expected useful life or term of lease, if there is no reasonable assurance that the Bank will get the property right for the asset before the end of lease's term.

Lease payables less the future lease expenses are recognized in other financial liabilities of the Bank, financial lease expenses are posted in interest expenses. Lease payments are partially attributable to repayment of liability and partially to interest expenses in order to maintain a constant interest rate on the outstanding balances under finance leases.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share capital is accounted for at historical cost (contributions in authorized capital before 1 January 2015– at historical cost restated in order to be presented in monetary units current as at 31 December 2014).

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to retained earnings.

Loan commitments

The Bank assumes loan commitments, including financial guarantees, letters of credit and commitments to issue loans. Guarantees are the Bank's irrevocable obligations to perform payments when the customer does not fulfil his obligations to the third parties, guarantees carry the same credit risk as loans. Letters of credit are the Bank's written obligations to make payments on behalf of customers in the agreed amount when certain conditions are met; they are secured with the corresponding deliveries of goods or deposits, therefore carry less risk than a direct borrowing. Loan commitments represent an unused part of loans, guarantees or letters of credit authorized for issue. In respect of commitments to issue loans the Bank potentially has the risk to sustain losses equal to the total amount of the unused commitments. Though it is likely that the probable loss amount is less than the total amount of the unused obligations, as many loan commitment arrangements also stipulate customers' compliance with certain credit standards.

Loan commitments are initially recognised at fair value confirmed by the amount of commissions received. At each reporting date loan commitments are measured at the higher of the unamortized amount initially recognised (commission received) or the amount recognized as a provision. In case when commissions are accrued periodically in respect of unfulfilled liability they are recognised as revenue during the term of the respective liability.

Provisions, contingent liabilities and assets

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

Provisions are recognized in the amount representing optimal current assessment of expenses including time value of money and, if necessary, risks inherent to this liability. Provisions are reevaluated at each reporting date in order to determine the most beneficial amount of liabilities, due to changes in value or terms of outflow of respective resources, or changes in discounting rate. In case of discounting increase in provision over time is recognized as interest expenses.

Contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank; or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Bank.

The Bank does not recognise contingent assets and liabilities in its financial statements because their existence depends on events not wholly within the control of the Bank.

Information about contingent liabilities is disclosed in the financial statements except for cases when an outflow of resources embodying economic benefits to settle the obligation is remote. Information about contingent assets is disclosed when inflow of resources embodying economic benefits is probable (more likely than not).

Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided or work performed.

According to the requirements of the Republic of Belarus the Bank makes statutory payments to the Fund for social protection of the population of the Labour and Social Protection Ministry of the Republic of Belarus from its employee salaries. The Bank carries no further pension obligations in respect of its retired and former employees.

Taxation

Income tax expenses are recognised in the financial statements in accordance with requirements of the legislation of the Republic of Belarus. Income tax expenses include current and deferred tax expenses.

The current tax expense is based on taxable profit for the year using tax rates that have been enacted during the reporting period.

As some types of expense are tax exempt and due to tax incentives permanent taxable differences arise. In 2015 and 2014 the Bank applied the following tax incentives provided by law:

- tax exemption for operations with state securities, bonds of the National Bank and bonds of other legal entities;
- investment deduction as for reacquired fixed assets, investments in their reconstruction and modernization;

- an exemption on profit discharged of taxation directed to support state sports clubs.

Deferred tax is recognized on the basis of balance method and represents assets and liabilities on income tax accrued on the differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the settlement of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences increasing taxable income, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets recorded in the statement of financial position is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset.

Deferred tax is calculated at the tax rates that are expected to be applied in the period when the liability is settled or the asset is realised. Deferred tax is recognised in the income statement, except when it relates to items recognised directly into other comprehensive income, in this case the deferred tax is also recognised in other comprehensive income.

Taxes other than income tax are accounted in operating expenses.

Income and expense recognition

Interest income and expenses are recognised in the income statement on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability recorded in the statement of financial position. When calculating effective interest rate the Bank evaluates cash flows in accordance with contractual terms of the financial instrument, but does not account for future losses on loans. The calculated effective interest rate usually includes any fees, points paid or received, transaction costs and other premiums or discounts. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down (partially or fully) as a result of an impairment loss, interest income is recognised using interest rate applied to discount the future cash flows for the purpose of measuring the impairment loss. Significant payments on debts that were written off in the reporting period using the funds of created allowances are recorded as impairment allowance recovery of relevant financial assets.

Commission income, which is not a part of the effective interest rate, is recognized on an accrual basis when the services are provided. Commission income on a transaction for a third party is recognized on completion of the transaction. Fees and commissions for managerial or consulting services are recognized in accordance with the terms of service agreements. Commission income for services rendered for a long period of time or on continuing basis is recognized proportionally to the volume of services rendered in the reporting period.

Other income is recognized in the income statement when the related transactions are completed.

Fines (interest, penalties) which the Bank received for non-fulfillment or improper fulfillment of agreements (including credit contracts) by counterparties are classified as other income as this type of income has an accidental irregular character and represents the liability of contractual parties the payment of which is under the law and does not depend on whether it is determined by the relevant agreement.

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rate set by the National Bank of the Republic of Belarus at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the appropriate exchange rate prevailing at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated at the exchange rate set by the National Bank of the Republic of Belarus at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into Belarusian Roubles at the exchange rate of the National Bank of the Republic of Belarus at the date of fair value determination.

Gain and loss arising from these translations is included in the income statement in "Net gain/(loss) on foreign exchange operations".

The exchange rates of the Belarusian Rouble to the main Bank`s operational foreign currencies are presented below:

Reporting date	US Dollar ("USD")/ Belarusian Rouble ("BYR")	Euro ("EUR")/ Belarusian Rouble ("BYR")	Russian Rouble ("RUB")/ Belarusian Rouble ("BYR")
31 December 2015	18,569	20,300	255.33
31 December 2014	11,850	14,380	214.50

Determination and presentation of operating segments

The Bank determines and presents operating segments based on the information that is provided internally to the Management Board, which is the Bank's chief operating decision maker. Operating segments are determined and presented in accordance with IFRS 8 "Operating Segments".

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses whose operating results are reviewed regularly by the key management personnel to make decisions about resources allocated to the segment and assess its performance.

Business activities which are not allocated to a certain component are combined and disclosed in the category "Other/not distributed" in the purposes of consistent presentation of segments activities with Bank's activities in financial statements of the Bank.

For the purposes of segment reporting interest income and expenses are determined by a direct method based on the actual performance of the segment. The Bank does not use transfer pricing for allocation of funds among segments.

Income from foreign currency transactions in terms of income from the revaluation of assets and liabilities are not allocated to segments. Accounting for income tax expense and loss on net monetary position due to inflation is not allocated to segments.

5. Critical accounting estimates and assumptions 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 assumptions 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 uses professional judgements and estimates in the process of applying the accounting policies. Professional 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 are presented below.

The allowance for impairment of loans to customers

The allowance for impairment of loans assessed for impairment individually is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparties' financial position and the net realisable value of any underlying collateral. Calculation of the present value of expected cash flows of a collateralised financial asset reflects the cash flows that may come from lender's entry into possession of debtor's property less costs for obtaining and selling the collateral.

The allowance for impairment of loans, which are assessed collectively for impairment, is based on the available information, which provides evidence for the decrease of the expected future cash flows on the loan group. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows associated with these assets and the experience of management statistics on the volume of past due debt, which occur as a result of past loss events (which is not usually an indication of future losses), 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 events that do not exist in the current period.

During the collective assessment of impairment of loans to customers and based on the historical information about fulfillment of obligations by borrowers, terms of repayment and losses incurred, the Bank does not take into account pledges.

The Bank does not recognize impairment losses on new loans. By new loans are meant loans, since the issuance of which up to the reporting date passed less than 30 days.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual results.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of BYR 46,646 million in 2015 and BYR 47,933 million in 2014.

Fair value of investment property

In 2015 fair value of the property classified as investment property was estimated by the Bank itself based on the prices for similar property from public sources and adjusted to differences; on recent prices for similar real estate at less active markets and adjusted to differences after transaction date, but before the reporting date. In 2014 the estimate was made by the professional independent appraisers using a comparative method.

More information about the assumptions used to determine the fair value of investment property is set out in Note 35. Management believes that the actual proceeds from the sale or use of the investment property items may differ from the amounts reported in the statement of financial position.

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax incentives that are probable in the future are based on management's forecasts.

Initial recognition of related party transactions

In the normal course of business, the Bank enters into transactions with 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. All transactions with related parties were performed on the same terms as transactions with independent parties. Terms and conditions of related party balances are disclosed in Note 37.

6. Adjustments of the previous period

In 2015 the Bank identified that loss on net monetary position was overevaluated and the reversal of cost of assets was posted instead of devaluation (in accordance with IAS 2) in 2014 due to mistake occurred during measurement of initial cost of assets transferred to counterparty as repayment of debt and adjusted to post the monetary unit current at 31 December 2014. Wherein, this mistake did not effected on the amount of assets in the statement of financial position and on the net profit and on the other comprehensive income. The error was corrected by the reclassification between items of the income statement.

Effect of adjustments on the Bank's financial statements for the year, ended 31 December 2014 and at the specified date is presented below:

In millions of Belarusian Roubles	**Before adjustment**	**Adjustment**	**After adjustment**
The income statement			
Recovery of value of repossessed assets	1,019	(1,192)	(173)
Loss on net monetary position	(27,145)	1,192	(25,953)

Adjustment did not effect on the income statement at 1 January 2015 and due to that fact, the third balance was not presented.

7. Cash and balances with the National Bank of the Republic of Belarus

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Cash balances with the National Bank of the Republic of Belarus	129,279	145,173
Cash in hand	41,585	47,186
Total cash and balances with the National Bank of the Republic of Belarus	**170,864**	**192,359**

The maximum exposure to credit risk of cash balances with the National Bank of the Republic of Belarus equals to their value presented in the statement of financial position.

Information on cash and cash equivalents is disclosed in Note 31.

8. Derivative financial instruments

As at 31 December 2015 derivative financial instruments are presented as follows:

In millions of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	**Amount of currency acquired**	**Assets**	**Liabilities**
Foreign currency swap contracts				
RUB/USD	RUB	25,533	177	-
EUR /USD	EUR	117,740	-	7
Total derivative financial instruments		**143,273**	**177**	**7**

As at 31 December 2014 derivative financial instruments are presented as follows:

In millions of Belarusian Roubles	Nominal amount		Fair value	
	Currency acquired	**Amount of currency acquired**	**Assets**	**Liabilities**
Foreign currency forward contracts				
USD/BYR	USD	183,675	134,527	-
EUR/BYR	EUR	28,760	20,927	-
Total forward contracts		**212,435**	**155,454**	**-**
Foreign currency swap contracts				
USD/BYR	USD	425,698	293,331	-
EUR /USD	EUR	66,867	-	-
Total swap contracts		**492,565**	**293,331**	**-**
Total derivative financial instruments		**705,000**	**448,785**	**-**

The presence of these derivatives leads to the Bank credit risk. The maximum credit risk of the asset which appeared as a result from the fair value of derivative financial instrument equals to its carrying amount in the statement of financial position. As at 31 December 2015 derivative financial assets are presented by transactions with banks, which do not have ratings, assigned by the international rating agency Fitch Ratings. As at 31 December 2014 derivative financial assets are presented by transactions with the National Bank.

9. Due from other banks

In millions of Belarusian Roubles	**31 December 2014**	**31 December 2014**
Nostro accounts	44,765	12,720
Deposits placed with other banks as fulfilment of obligations	4,141	5,234
Cash on temporary accounts	-	1,630
Total due from other banks	**48,906**	**19,584**
Allowance for impairment	(33)	(40)
Total due from other banks net of allowance for impairment	**48,873**	**19,544**

As at 31 December 2015 and 2014 deposits placed with other banks as fulfilment of obligations were presented by guarantee deposits placed with other banks for plastic cards transactions, guarantees and letters of credit.

As at 31 December 2014 cash on temporary accounts is presented by contribution of cash to the Bank's share capital. In accordance with the legislation cash is subject to accumulation on temporary accounts till the National bank registers relevant changes to the Charter of the Bank.

(a) Credit quality of amounts due from other banks

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2015, some of them are graded according to the current credit rating assessed by international rating agency Fitch Ratings:

In millions of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Neither past due nor impaired			
BBB	33,740	-	33,740
BB+	1,245	-	1,245
B	104	-	104
B-	4,234	4,141	8,375
Not rated	5,150	-	5,150
Total neither past due nor impaired	**44,473**	**4,141**	**48,614**
Individually assessed for impairment (current)	292	-	292
Total due from other banks	**44,765**	**4,141**	**48,906**
Allowance for impairment	(33)	-	(33)
Total due from other banks net of allowance for impairment	**44,732**	**4,141**	**48,873**

The following table provides information on the credit quality of amounts due from other banks as at 31 December 2014:

In millions of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Cash on temporary accounts**	**Total**
Neither past due nor impaired				
A+	803	1,667	-	2,470
BBB-	7,356	-	-	7,356
B	9	-	-	9
B-	1,103	3,567	1,630	6,300
Not rated	3,158	-	-	3,158
Total neither past due nor impaired	**12,429**	**5,234**	**1,630**	**19,293**
Individually assessed for impairment (current)	291	-	-	291
Total due from other banks	**12,720**	**5,234**	**1,630**	**19,584**
Allowance for impairment	(40)	-	-	(40)
Total due from other banks net of allowance for impairment	**12,680**	**5,234**	**1,630**	**19,544**

As at 31 December *2015 and 2014* amounts due from other banks marked as 'Not rated' comprised resources placed with Belarusian banks with good reputation.

(b) Movement in the impairment allowance for amounts due from other banks

Movement in the impairment allowance for due from other banks in the year 2015 is presented below:

In millions of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Total**
Allowance for impairment as at 1 January 2015	**40**	**-**	**40**
Reversal for the year	(7)	-	(7)
Allowance for impairment as at 31 December 2015	**33**	**-**	**33**

Movement in the impairment allowance for due from other banks in the year 2014 is presented below:

In millions of Belarusian Roubles	**Nostro accounts**	**Deposits placed with other banks as fulfilment of obligations**	**Cash on temporary accounts**	**Total**
Allowance for impairment as at 1 January 2014	**12**	**-**	**-**	**12**
Charge for the year	31	-	-	31
Effect of inflation	(3)	-	-	(3)
Allowance for impairment as at 31 December 2014	**40**	**-**	**-**	**40**

(в) Concentration of due from other banks

As at 31 December 2015 and 2014 the Bank had no significant concentration of due from other banks.

(г) Maximum exposure to credit risk

The maximum exposure to credit risk of balances due from other banks equals to the net carrying amounts as reported in the statement of financial position.

10. Financial assets available-for-sale

As at 31 December 2015, financial assets available for sale composed of bonds of the National Bank denominated in USD with maturity date in December 2016 and with yearly interest rate 8.3%.

Maximum credit risk of financial assets available for sale equals to their carrying amounts as reported in the statement of financial position.

11. Loans to customers

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Commercial loans	289,834	262,334
Loans to individuals	349,247	399,858
Total loans to customers	**639,081**	**662,192**
Allowance for impairment	(21,801)	(20,004)
Total loans to customers net of allowance for impairment	**617,280**	**642,188**

(a) Credit quality of loans to customers

The following table provides information on the credit quality of the loan portfolio as at 31 December 2015:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Undue and not individually impaired loans			
New loans granted	6,003	18,601	24,604
Standard	18,379	294,480	312,859
Watch	33,068	7,377	40,445
Substandard	54,328	6,487	60,815
Doubtful	31,597	4,840	36,437
Loss	10,262	5,646	15,908
Total undue and not individually impaired loans	**153,637**	**337,431**	**491,068**
Overdue but not impaired loans			
Overdue less than 1 month	2,253	-	2,253
Total overdue but not impaired loans	**2,253**	**-**	**2,253**
Individually impaired loans			
Current	131,062	11,561	142,623
Overdue less than 1 month	-	185	185
Overdue from 1 to 3 months	2,668	18	2,686
Overdue from 3 to 6 months	-	52	52
Overdue more than 1 year	214	-	214
Total loans individually impaired	**133,944**	**11,816**	**145,760**
Total loans to customers	**289,834**	**349,247**	**639,081**
Allowance for impairment	(9,981)	(11,820)	(21,801)
Total loans to customers net of allowance for impairment	**279,853**	**337,427**	**617,280**

The following table provides information on the credit quality of the loan portfolio as at 31 December 2014:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Undue and not individually impaired loans			
New loans granted	574	37,589	38,163
Standard	35,513	333,906	369,419
Watch	69,121	5,641	74,762
Substandard	12,133	6,619	18,752
Doubtful	2,134	5,424	7,558
Loss	5,489	3,350	8,839
Total undue and not individually impaired loans	**124,964**	**392,529**	**517,493**
Overdue but not impaired loans			
Overdue less than 1 month	4,442	-	4,442
Overdue from 1 to 3 months	14,769	-	14,769
Total overdue but not impaired loans	**19,211**	**-**	**19,211**
Individually impaired loans			
Current	117,834	-	117,834
Overdue less than 1 month	-	6,706	6,706
Overdue from 1 to 3 months	290	350	640
Overdue from 3 to 6 months	-	198	198
Overdue from 6 months to 1 year	-	75	75
Overdue more than 1 year	35	-	35
Total loans individually impaired	**118,159**	**7,329**	**125,488**
Total loans to customers	**262,334**	**399,858**	**662,192**
Allowance for impairment	(8,904)	(11,100)	(20,004)
Total loans to customers net of allowance for impairment	**253,430**	**388,758**	**642,188**

For credit quality analysis the Bank uses classification of loans to customers by 5 risk groups. When classifying commercial loans, the following criteria are taken into account: debt service, financial indicators and other analytical information. When classifying loans to individuals the basic factor is payment discipline.

The Standard risk group includes loans to customers with stable financial position which are able to settle their obligations promptly and entirely. The Watch group comprises loans to customers with either insignificant worsening of financial position or appearance of separate short-term cases of loan delay. The Substandard group comprises loans to customers with particular risk degree but able to fulfil independently their obligations. The Doubtful group includes troubled debtors with increased risk of non-repayment of debts. The Loss group comprises borrowers with insufficient financial position and high risk of non-repayment of loans.

(b) Movements in the impairment allowance for loans to customers

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2015 are as follows:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2015	**8,904**	**11,100**	**20,004**
Charge for the year	17,458	16,777	34,235
Write-off	(16,381)	(16,057)	(32,438)
Allowance for impairment as at 31 December 2015	**9,981**	**11,820**	**21,801**

Movements in the loan impairment allowance for loans to customers for the year ended 31 December 2014 are as follows:

In millions of Belarusian Roubles	**Commercial loans**	**Loans to individuals**	**Total**
Allowance for impairment as at 1 January 2014	**5,585**	**10,424**	**16,009**
Charge for the year	4,318	17,268	21,586
Write-off against allowance	(11)	(15,416)	(15,427)
Inflation effect	(988)	(1,176)	(2,164)
Allowance for impairment as at 31 December 2014	**8,904**	**11,100**	**20,004**

(c) Financial effect of collateral for loans to customers

Securing loans by collateral allows the Bank to minimize Bank’s credit risks. The tables below summarize loans to customers by types of collateral. The tables present the amount of loans secured by collateral and indicated in the statement of financial position, rather than the fair value of the collateral itself. Other collaterals generally include equipment, transport vehicles and goods in turnover. Financial effect of collateral is presented by the amount of allowance for loans impairment with collateral taken into account and without collateral.

The loans to customers by types of collateral as at 31 December 2015 are presented below:

In millions of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Commercial loans			
Real estate	184,117	8,322	47,821
Other collateral	48,713	1,068	18,973
Guarantees	46,872	311	14,305
Cash security deposit	6,276	-	829
Unsecured loans	3,856	280	280
Total commercial loans	**289,834**	**9,981**	**82,208**
Loans to individuals			
Guarantees	68,720	863	863
Other collateral	3,078	210	221
Unsecured loans	277,449	10,747	10,747
Total loans to individuals	**349,247**	**11,820**	**11,831**
Total loans to customers	**639,081**	**21,801**	**94,039**

The loans to customers by types of collateral as at 31 December 2014 are presented below:

In millions of Belarusian Roubles	**Gross loans**	**Impairment allowance**	**Impairment allowance without collateral effect**
Commercial loans			
Real estate	160,505	6,013	40,354
Other collateral	58,245	1,257	17,116
Insuring risk of loan default	13,250	-	13,250
Guarantees	7,958	246	5,451
Cash security deposit	2,523	5	54
Unsecured loans	19,853	1,383	1,227
Total commercial loans	**262,334**	**8,904**	**77,452**
Loans to individuals			
Guarantees	47,658	405	405
Other collateral	3,942	154	217
Unsecured loans	348,258	10,541	10,541
Total loans to individuals	**399,858**	**11,100**	**11,163**
Total loans to customers	**662,192**	**20,004**	**88,615**

Insignificant financial effect of collateral for loans to individuals is explained by the fact that only collateral (if any) for individually impaired loans is taken into account for allowance calculation (Note 5).

(d) Loans to customers by industry sectors

Analysis of loans to customers by industry sectors for the years ended 31 December 2015 and 2014 is as follows:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Individuals	349,247	399,858
Trade	89,750	52,409
Leasing	69,914	80,788
Manufacturing and other material production	54,713	59,254
Real estate transactions	51,481	44,219
Other	23,976	25,664
Total loans to customers	**639,081**	**662,192**
Allowance for impairment	(21,801)	(20,004)
Total loans to customers less allowance for impairment	**617,280**	**642,188**

(e) Significant credit exposure

As at 31 December 2015 the Bank had balances with one borrower exceeding 10% of the Bank's equity. The total of those loan balances as at 31 December 2015 comprised BYR 44,379 million. As at 31 December 2014 the Bank had no significant concentration of loans to customers.

(f) Maximum exposure to credit risk

The maximum exposure to credit risk of loans to customers equals to net carrying amounts as reported in the statement of financial position.

12. Investments held to maturity

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Bonds of the National Bank of the Republic of Belarus	720,297	-
Total investments held to maturity	**720,297**	**-**

As at 31 December 2015 investments held-to-maturity represented by bonds of the National Bank denominated in USD with maturity of 365 days. Bonds in the amount of BYR 169,037 million were acquired at interest rate of 6.5% per annum. Bonds in the amount of BYR 551,260 million were acquired at interest rate of 2.2% per annum and initially were recognized at fair value based on the discounted cash flows model using a market interest rate for identical instruments (6.5%). Difference between fair and minimum value of the bonds at their initial recognition were posted in the income statement. (Note 24).

The maximum exposure to credit risk of financial assets available for sale equals their amounts reported in the statement of financial position.

13. Investment property

In millions of Belarusian Roubles	2015	2014
Balance as at 1 January	**26,876**	**11,919**
Acquisition	74,856	3,273
Transfer from property and equipment	2,591	-
Sales	-	(122)
Gain/(loss) from fair value changes	(3,041)	11,806
Balance as at 31 December	**101,282**	**26,876**

In 2015 the Bank obtained property items towards debt repayment in the amount of BYR 31,548 million. The Bank made a decision to let this property on a lease. Moreover, by its own means the Bank acquired administrative buildings for rent in the amount of BYR 43,308 million. Initial recognition of investment property was made at acquisition cost. Bank's approaches to assessment of fair value of investment property are stipulated in the Note 35.

As at 31 December 2015 and 2014 profit from changes in fair value of investment property is unrealized.

The table below summarizes the amount of rental income and direct operating expenses arising from the investment property and recognized in profit or loss for the year:

In millions of Belarusian Roubles	2015	2014
Rental income arising from investment property	5,420	1,636
Direct operating expenses (including repair and maintenance) arising from investment property generating rental income	(1,338)	(148)
Net income arising from investment property	**4,082**	**1,488**

The table below summarizes the future minimum lease payments under non-cancellable operating lease of the building classified as investment property where the Bank is a lessor

In millions of Belarusian Roubles	31 December 2015	31 December 2014
Not later than 1 year	678	153
Total payments receivable under operating leases	**678**	**153**

The majority of rent agreements are concluded on standard terms according to which the lessee has a right to terminate an agreement ahead of schedule with notification to the Bank not later than 30 days before termination. Payment receipts for non-cancellable operating lease of investment property are calculated in accordance with the terms of rent agreements. The Bank believes that anticipatory termination of the contract is unlikely. The Bank has no restrictions on the disposal of investment property as well as no contractual obligations to purchase, construct or develop any investment property or for repairs, maintenance or enhancements.

14. Property and equipment and intangible assets

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2015:

In millions of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Intangible assets**	**Capital expenditures and investments in intangible assets**	**Total**
Net book value as at 1 January 2015	**90,733**	**2,334**	**13,503**	**3,670**	**1,739**	**111,979**
Cost						
Balance as at 1 January 2015	95,702	4,115	32,397	5,767	1,739	139,720
Additions	15,864	-	-	-	11,038	26,902
Transfers	7,037	333	4,972	335	(12,677)	-
Revalution over transfer to investment property	1,500	-	-	-	-	1,500
Transfer to investment property	(3,436)	-	-	-	-	(3,436)
Transfer to assets available-for-sale	-	(175)	-	-	-	(175)
Disposals	(854)	(8)	(3,556)	(208)	(58)	(4,684)
Balance as at 31 December 2015	**115,813**	**4,265**	**33,813**	**5,894**	**42**	**159,827**
Accumulated depreciation						
Balance as at 1 January 2015	4,969	1,781	18,894	2,097	-	27,741
Charge for the year	1,958	511	3,832	795	-	7,096
Revalution of accumulated depreciation over transfer to investment property	841	-	-	-	-	841
Disposal of accumulated depreciation over transfer to investment property	(845)	-	-	-	-	(845)
Disposal of accumulated depreciation over transfer to assets available-for-sale	-	(150)	-	-	-	(150)
Accumulated depreciation on disposals	(580)	(8)	(3,194)	(184)	-	(3,966)
Balance as at 31 December 2015	**6,343**	**2,134**	**19,532**	**2,708**	**-**	**30,717**
Net book value as at 31 December 2015	**109,470**	**2,131**	**14,281**	**3,186**	**42**	**129,110**

The table below presents information about movements in property and equipment and intangible assets for the year ended 31 December 2014:

In millions of Belarusian Roubles	**Buildings**	**Vehicles**	**Office and computer equipment, other property and equipment**	**Intangible assets**	**Capital expenditures and investments in intangible assets**	**Total**
Net book value as at 1 January 2014	**4,831**	**982**	**12,794**	**1,694**	**864**	**21,165**
Cost						
Balance as at 1 January 2014	8,624	3,922	29,692	3,076	864	46,178
Additions	84,643	-	-	2,181	10,081	96,905
Transfers	2,931	1,712	4,053	510	(9,206)	-
Disposals	(496)	(1,519)	(1,348)	-	-	(3,363)
Balance as at 31 December 2014	**95,702**	**4,115**	**32,397**	**5,767**	**1,739**	**139,720**
Accumulated depreciation						
Balance as at 1 January 2014	3,793	2,940	16,898	1,382	-	25,013
Charge for the year	1,615	360	3,188	715	-	5,878
Accumulated depreciation on disposals	(439)	(1,519)	(1,192)	-	-	(3,150)
Balance as at 31 December 2014	**4,969**	**1,781**	**18,894**	**2,097**	**-**	**27,741**
Net book value as at 31 December 2014	**90,733**	**2,334**	**13,503**	**3,670**	**1,739**	**111,979**

In 2015 the Bank made a decision to lease temporary unused property, which was acquired in the primary activities purposes in 2014. Respectively, the Bank decided to transfer this property into investment property. The difference between the carrying amount and fair value at the moment of transfer amounted to BYR 659 million were recognized as reevaluation of property and equipment in the statement of other comprehensive income. (Notes 13, 30).

In 2014-2015 LLC “Dikris” made a contribution in authorized capital in office buildings: in the amount of BYR 11,020 million in 2015 and in the amount of BYR 84,639 million in 2014. The cost of contributions in authorized capital was approved by the independent professional appraiser. (Note 23).

In 2015 the Bank acquired the building under the finance lease agreement for 3 years in the amount of BYR 4,844 million for accommodation of regional office in Vitebsk. The building was acquired by the leasing company at public auction for its further transfer to the Bank. The building was recognized at the statement of financial position at discounted amount of minimum lease payments amounted to its fair value at the moment of recognition. As at 31 December 2015 the net book value of the asset amounted to BYR 4,844 million. Information on the balances outstanding under finance lease agreement is presented in the Note 20.

As at 31 December 2015 the bank used fully amortized property and equipment in the amount of BYR 9,024 million (as at 31 December 2014 - BYR 8,923 million), intangible assets in the amount of BYR 349 million (as at 31 December 2014 - BYR 208 million). The value of the property is gross, i.e. the acquisition cost adjusted to present in terms of the measuring unit current as of 31 December 2014 before depreciation.

15. Other assets

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Other non-financial assets		
Assets transferred to the Bank as repayment of debts	22,623	31,241
Prepayments for taxes (other than income tax)	6,779	1,145
Advance payments	1,960	1,055
Prepayments on capital investments	300	2,014
Other	67	34
Total non-financial assets	**31,729**	**35,489**
Other financial assets		
Accrued commission income and penalties	5,825	4,037
Receivables on reimbursement of state fees	1,865	1,661
Settlements with customers	1,837	3,882
Other receivables	1,469	303
Total other financial assets	**10,996**	**9,883**
Allowance for impairment	(2,842)	(1,895)
Total other financial assets less allowance for impairment	**8,154**	**7,988**
Total other assets	**39,883**	**43,477**

(a) Assets transferred to the Bank as repayment of debts

The table below summarizes the information about assets transferred to the Bank as repayment of debts:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Residential real estate under construction	22,587	28,118
Industrial property	-	3,087
Other assets	36	36
Total assets transferred to the Bank as repayment of debts	**22,623**	**31,241**

As at 31 December 2015 the assets transferred to the Bank to repay debts were measured at estimated net realizable value equal to the present value of estimated future cash flows from the sale of this property in the amount of BYR 3,680 million, and recognized in the amount of BYR 18,943 million.

In 2015 “Recovery of value of repossessed assets” in Income statement includes negative recovery of value of the repossessed assets in the amount of BYR 5,531 million. BYR 11,755 million of which is recognized on recovery to the potential net realizable price of one of assets resulted from the litigations connected with Bank’s challenging the right on the asset (Note 32, 38). Increase in value of other assets accounted at adjusted cost in order to be presented in monetary units current as at 31 December 2015, was BYR 6,224 million.

As at 31 December 2014 the assets transferred to the Bank to repay debts were measured at estimated net realizable value equal to the present value of estimated future cash flows from the sale of this property in the amount of BYR 28,118 million, and recognized in the amount of BYR 3,123 million.

(b) Credit quality of other financial assets

The following table provides information on the credit quality of other financial assets as at 31 December 2015:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Undue and not individually impaired other financial assets	**2,841**	**801**	**1,837**	**640**	**6,119**
Overdue but not impaired other financial assets					
Overdue less than 1 month	271	44	-	266	581
Overdue from 1 to 3 months	317	59	-	96	472
Overdue from 3 to 6 months	1,024	130	-	63	1,217
Overdue from 6 months to 1 year	1,318	265	-	16	1,599
Total overdue but not impaired other financial assets	**2,930**	**498**	**-**	**441**	**3,869**
Individually impaired other financial assets					
Overdue from 1 to 3 months	1	-	-	-	1
Overdue from 6 months to 1 year	2	11	-	338	351
Overdue more than 1 year	51	555	-	50	656
Total individually impaired other financial assets	**54**	**566**	**-**	**388**	**1,008**
Total other financial assets	**5,825**	**1,865**	**1,837**	**1,469**	**10,996**
Allowance for impairment	(1,499)	(955)	-	(388)	(2,842)
Total other financial assets less allowance for impairment	**4,326**	**910**	**1,837**	**1,081**	**8,154**

The following table provides information on the credit quality of other financial assets as at 31 December 2014:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Undue and not individually impaired other financial assets	**1,542**	**550**	**3,882**	**204**	**6,178**
Overdue but not impaired other financial assets					
Overdue less than 1 month	224	73	-	26	323
Overdue from 1 to 3 months	779	138	-	12	929
Overdue from 3 to 6 months	634	181	-	9	824
Overdue from 6 months to 1 year	664	182	-	16	862
Total overdue but not impaired other financial assets	**2,301**	**574**	**-**	**63**	**2,938**
Individually impaired other financial assets					
Overdue from 1 to 3 months	-	126	-	-	126
Overdue from 6 months to 1 year	3	63	-	-	66
Overdue more than 1 year	191	348	-	36	575
Total individually impaired other financial assets	**194**	**537**	**-**	**36**	**767**
Total other financial assets	**4,037**	**1,661**	**3,882**	**303**	**9,883**
Allowance for impairment	(1,173)	(686)	-	(36)	(1,895)
Total other financial assets less allowance for impairment	**2,864**	**975**	**3,882**	**267**	**7,988**

Key factors which the Bank takes into account while considering impairment of other financial assets are existence and duration of overdue debt and the possibility of collateral sale if any.

The maximum exposure to credit risk of other financial assets equals to net carrying amounts as reported in the statement of financial position in other assets.

(c) Movements in the allowance for impairment of other financial assets

The movement in allowance for impairment of other financial assets for the year ended 31 December 2015 is presented below:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2015	**1,173**	**686**	**-**	**36**	**1,895**
Charge for the year	326	269	-	352	947
Allowance for impairment as at 31 December 2015	**1,499**	**955**	**-**	**388**	**2,842**

The movement in allowance for impairment of other financial assets for the year ended 31 December 2014 is presented below:

In millions of Belarusian Roubles	**Accrued commission income and penalties**	**Receivables on reimbursement of state fees**	**Settlements with customers**	**Other receivables**	**Total**
Allowance for impairment as at 1 January 2014	**1,032**	**430**	**-**	**60**	**1,522**
Charge/(reversal) for the year	299	332	-	(2)	629
Write-down due to provision	-	-	-	(13)	(13)
Inflation effect	(158)	(76)	-	(9)	(243)
Allowance for impairment as at 31 December 2014	**1,173**	**686**	**-**	**36**	**1,895**

16. Due to the National Bank of the Republic of Belarus

As at 31 December 2015, the amounts due to the National Bank are presented by short-term credit lines for the period until 1 year. Credit lines were granted at refinancing rate of the National Bank.

17. Due to other banks

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Loans and deposits from other banks	83,065	28,863
Correspondent accounts of other banks	18,603	30
Total due to other banks	**101,668**	**28,893**

As at 31 December 2015 the Bank had balances exceeding 10% of the Bank's equity from two agency banks. The total amount of these balances as at 31 December 2015 amounted to BYR 101,662 million. As at 31 December 2014, the Bank had no balances with significant concentration from agency banks.

18. Customer accounts

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Corporate customers		
Term deposits	626,265	586,964
Current accounts	140,320	109,516
Total corporate customers' accounts	**766,585**	**696,480**
Individuals		
Term deposits	258,133	287,007
Current accounts /on-demand accounts	32,244	11,156
Total individuals' accounts	**290,377**	**298,163**
Total customer accounts	**1,056,962**	**994,643**

The analysis of customer accounts by industry sectors is presented below:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Individuals	290,377	298,163
Industry and other material production	439,699	300,695
Trade	130,322	174,371
Construction	49,305	32,835
Real estate	42,431	63,379
Communication and telecommunication	15,682	16,339
Information	15,135	2,825
Non-commercial organizations	14,239	8,872
Leasing	9,084	3,928
Transport	7,604	11,770
Advertising	6,157	5,792
Car service	3,885	1,234
Publishing	3,851	2,681
Education and scientific activities	2,234	33,808
Consultation services	2,209	8,202
Insurance	1,694	11,138
Other	23,054	18,611
Total customer accounts	**1,056,962**	**994,643**

As at 31 December 2015 and 2014 the Bank had one and two customers, respectively, whose balances exceeded 10% of total Bank's equity. These balances as at 31 December 2015 and 2014 amounted to BYR 385,519 million and BYR 311,009 million, respectively.

19. Debt securities issued

As at 31 December 2014 the Bank issued debt securities represented by USD bonds of the third issue at a fixed rate of 6.5% with maturity date in 2017. Bondholders are legal entities. In 2015, the Bank announced about early redemption of bonds.

20. Other liabilities

In millions of Belarusian Roubles	31 December 2015	31 December 2014
Other non-financial liabilities		
Deferred income	587	787
Contributions to the guarantee fund of protection of individual funds	439	898
Charges on taxes, other than income tax	428	560
Amounts received from originators	-	1,630
Total other non-financial liabilities	**1,454**	**3,875**
Other financial liabilities		
Finance lease payables	2,725	-
Provision for vacations not paid and other obligations under employee benefit	1,038	1,180
Payables to suppliers	482	434
Provision for credit related commitments	360	446
Other	746	381
Total other financial liabilities	**5,351**	**2,441**
Total other liabilities	**6,805**	**6,316**

As at 31 December 2014 the amounts received from originators are presented as contribution to the Bank's share capital prior to the registration by the National Bank to increase the share capital.

Finance lease payable is presented below::

In millions of Belarusian Roubles	31 December 2015	31 December 2014
Minimum lease payments		-
Less than 1 year	1,976	-
From 1 to 5 years	2,567	-
Total minimum lease payments	**4,543**	**-**
Deferred expenses on finance lease	(1,818)	-
Net finance lease payables	**2,725**	**-**
Net finance lease payables		
Less than 1 year	945	-
From 1 to 5 years	1,780	-
Net finance lease payables	**2,725**	**-**

Movements in the allowance for credit related commitments are disclosed in Note 32.

21. Subordinated debt

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Subordinated debt from Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	81,433	57,691
Subordinated debt from Dikris LLC	56,036	-
Subordinated debt from European Bank for Reconstruction and Development ("EBRD")	4,248	2,519
Total subordinated debt	**141,717**	**60,210**

The subordinated debt from EBRD was received in 2008 in the amount of USD 4,009 thousand with a maturity in 2057 and fixed interest rate of 0.5%. The debt was recognised at fair value in the liabilities of the Bank with the fair value effect on initial recognition recorded in the equity as contribution to capital contributions in the amount of BYR 35,480 million. In 2010 the Bank received the subordinated debt from DEG of EUR 4 000 thousand which has a maturity in 2016 and a floating interest rate of 12 months EUR LIBOR+6%.

In 2015 the Bank received the subordinated debt from Dikris LLC of USD 3,000 thousand which has a floating interest rate of 12 months USD LIBOR+6%.

According to subordinated debt agreements, in the case of liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

22. Preference shares

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Number of preference shares	6,886,084	6,886,084
Nominal value of 1 share, BYR	1,530	1,530
Nominal value of preference shares	10,536	10,536
Accrued dividends on preference shares	3,833	2,050
Total preference shares	**14,369**	**12,586**

Preference shares do not have voting rights and give a right to participate in net assets. Annual minimum fixed dividend income on each preference share amounts to USD 0.01394 per share.

In 2015 and 2014 the General Shareholder Meeting decided not to pay out fixed dividends on preference shares as at the end of 2014 and 2013, respectively.

23. Share capital

As at 31 December 2015 and 2014 the share capital was represented as follows:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Number of ordinary shares	120,791,295	112,523,321
Nominal value of 1 share, BYR	1,530	1,530
Nominal value of ordinary shares	184,811	172,161
Inflation effect	276,474	276,474
Total share capital	**461,285**	**448,635**

All ordinary shares are fully paid, carry one vote and give the right to receive dividends and participate in net assets. All ordinary shares rank equally with regard to the Bank’s net assets.

In 2015 the Bank additionally issued ordinary shares in the total amount of BYR 12,650 million. Dikris LLC acquired a total issue by making monetary contribution to the share capital in the amount of BYR 1,630 million and non-monetary contribution in the amount of BYR 11,020 million. Office premises which were leased out to the Bank under operating lease were transferred as a non-monetary contribution.

In 2014 the Bank additionally issued ordinary shares in the total amount of BYR 84 639 million (the amount is adjusted to record in monetary units in effect as at 31 December 2014). LLC Dikris acquired a total issue by making non-monetary contribution to the share capital. An office building which was leased out to the Bank under operating lease was transferred as a non-monetary contribution.

In accordance with the requirements of the legislation the value of non-monetary contribution to the share capital for the years 2014-2015, was confirmed by a professional independent appraiser. The real estate is recognized as the Bank’s fixed assets at the value of non-monetary contribution to the share capital including relevant expenditures on registration in accordance with legislation (Note 14).

24. Interest income and expense

In millions of Belarusian Roubles	2015	2014
Interest income		
Loans to customers	208,327	232,997
Due from other banks	3,301	1,985
Investments held to maturity	2,859	-
Due from the National Bank of Republic of Belarus	258	870
Financial assets available for sale	3	-
Total interest income	**214,748**	**235,852**
Interest expense		
Customer accounts	(94,974)	(84,826)
Due to other banks	(12,047)	(3,918)
Subordinated debt	(7,313)	(3,977)
Due to the National Bank of Republic of Belarus	(1,903)	-
Preference shares	(1,783)	(1,138)
Debt securities issued	(849)	(485)
Finance lease	(231)	-
Other	(34)	(37)
Total interest expense	**(119,134)**	**(94,381)**
Net interest income before the effect from the initial recognition of finance instruments at fair value	**95,614**	**141,471**
Effect from initial recognition of financial instruments (investments held-to-maturity) at fair value	(24,807)	-
Net interest income	**70,807**	**141,471**

Interest income includes interest income on impaired loans to customers totalling BYR 151,685 million in 2015 and BYR 169,567 million in 2014.

25. Fee and commission income and expense

In millions of Belarusian Roubles	2015	2014
Fee and commission income		
Settlement and cash transactions fees	15,706	15,248
Foreign exchange fees	2,419	7,338
Other	1,434	2,734
Total fee and commission income	**19,559**	**25,320**
Fee and commission expense		
Plastic cards transactions fees	(4,700)	(3,885)
Foreign exchange fees	(149)	(237)
Other	(912)	(789)
Total fee and commission expenses	**(5,761)**	**(4,911)**
Net fee and commission income	**13,798**	**20,409**

26. Net gain on transactions with derivative financial instruments

In millions of Belarusian Roubles	**2015**	**2014**
Gains on swap transactions with the National Bank of the Republic of Belarus	232,656	79,916
Gains on forward contracts with the National Bank of the Republic of Belarus	77,647	46,543
Income/(expenses) on swap transactions with other banks	797	(2,028)
Gains on swap transactions with customers	-	486
Total net gain on transactions with derivative financial instruments	**311,100**	**124,917**

27. Net loss on foreign exchange operations

In millions of Belarusian Roubles	**2015**	**2014**
Net expenses from revaluation of assets and liabilities	(245,117)	(93,852)
Net loss on foreign exchange operations	(831)	(7,682)
Net loss on foreign exchange operations	**(245,948)**	**(101,534)**

In 2015 the devaluation of Belarusian Rouble against US dollar, Euro comprised 56.7% and 41.2%, respectively (2014: 24.6% and 9.9% respectively). In 2015 Belarusian Rouble decreased against Russian Rouble by 19.0% (2014: strengthened by 26.2%).

28. Other income

In millions of Belarusian Roubles	**2015**	**2014**
Repayment of loans earlier written off	5,735	3,355
Rental income from operating lease	5,420	1,636
Penalties and fines received	5,394	5,663
Gain on sale of property	759	1,264
Other	360	487
Total other income	**17,668**	**12,405**

29. Operating expenses

In millions of Belarusian Roubles	**2015**	**2014**
Staff costs	(34,601)	(37,660)
Contributions to the Social Security Fund	(11,461)	(12,625)
Rental expenses	(7,281)	(10,200)
Depreciation and amortisation	(7,096)	(5,877)
Software expenses	(6,537)	(4,613)
Taxes other than income tax	(5,094)	(1,614)
Administrative expenses	(4,354)	(2,865)
Communication and information services	(3,651)	(3,523)
Repairs and maintenance	(2,950)	(2,051)
Payments to the Individuals' Deposits Security Fund	(2,455)	(3,444)
Professional services (consulting, audit, legal, etc.)	(2,272)	(1,704)
Advertising and marketing	(2,119)	(3,008)
Office expenses	(2,086)	(2,092)
Security expenses	(1,831)	(2,106)
Sponsor support	(1,373)	(640)
Delivery and encashment services	(1,262)	(1,170)
Other	(3,824)	(3,034)
Total operating expenses	**(100,247)**	**(98,226)**

30. Income tax

The Bank provides for tax based on the tax accounting maintained and prepared in accordance with the tax regulations of the Republic of Belarus.

For the years ended 31 December 2015 and 2014 the income tax rate for Belarusian banks was 25% and 18%, respectively. Deferred tax liability (deferred tax asset) is calculated using the tax rate which is expected to be effective in the period when deferred tax liability is settled (or deferred tax asset is realized) – 25%.

Income tax expense is presented as follows:

In millions of Belarusian Roubles	**2015**	**2014**
Current income tax expense	(811)	(14,056)
Deferred income tax expense	(997)	(756)
Income tax expense	**(1,808)**	**(14,812)**

Deferred tax records the net tax effects of temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for tax purposes.

Information on each type of temporary differences on deferred tax assets and liabilities recognized in the statement of financial position and on amounts of deferred tax income and expense recognized in profit and loss, as well is in other comprehensive income is presented below:

In millions of Belarusian Roubles	**1 January 2014**	**Recognised in profit/ loss in 2014**	**31 December 2014**	**Recognised in profit/ loss in 2015**	**Recognised in other comprehensive income in 2015**	**31 December 2015**
Deductible temporary differences:						
Derivative financial instruments	4,168	733	4,901	(4,901)	-	-
Investments held to maturity	-	-	-	6,155	-	6,155
Property and equipment and intangible assets	-	1,305	1,305	4,802	(165)	5,942
Other assets and liabilities	-	-	-	457	-	457
Provision for other risks and payments	-	-	-	1,067	-	1,067
Total deferred tax asset	**4,168**	**2,038**	**6,206**	**7,580**	**(165)**	**13,621**
Taxable temporary differences:						
Loans to banks and customers	(2,672)	1,781	(891)	(2,480)	-	(3,371)
Investment property	(1,136)	(708)	(1,844)	(1,529)	-	(3,373)
Property, equipment and intangible assets	(956)	956	-	-	-	-
Accrued income	(416)	(453)	(869)	(88)	-	(957)
Other assets and liabilities	(1,223)	(896)	(2,119)	2,119	-	-
Subordinated debt	(6,003)	(3,474)	(9,477)	(6,599)	-	(16,076)
Total deferred tax liability	**(12,406)**	**(2,794)**	**(15,200)**	**(8,577)**	**-**	**(23,777)**
Total net deferred tax liability	**(8,238)**	**(756)**	**(8,994)**	**(997)**	**(165)**	**(10,156)**

Relationships between actual tax expense and the theoretical tax expense for the years ended 31 December 2015 and 2014 are explained as follows:

In millions of Belarusian Roubles	**2015**	**2014**
Profit before income tax	19,249	62,580
Theoretical tax at the corresponding statutory tax rate	**4,812**	**11,264**
Tax effect of permanent differences:		
Tax incentives	(1,063)	(272)
Tax effect of non-taxable expenses	598	432
Effect of change in tax base of property, equipment and intangible assets due to revaluation performed under Belarusian statutory accounting rules	(2,539)	(6,157)
Effect of loss on tax base of assets and liabilities due to inflation	-	7,425
Inflation effect on income tax	-	(387)
Tax effect of other permanent differences	-	(11)
Effect of change in income tax rate	-	2,518
Income tax expense	**1,808**	**14,812**

31. Cash and cash equivalents

For cash flow statement purposes cash and cash equivalents are presented as follows:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Cash and balances with the National Bank of the Republic of Belarus	170,864	192,359
Nostro accounts	44,733	12,680
Less mandatory reserve deposits with the National Bank of the Republic of Belarus	(6,953)	(11,380)
Total cash and cash equivalents	**208,644**	**193,659**

32. Contingencies and provisions for other risks and payments

Taxation. Belarusian tax and other 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 authorities. Fiscal periods remain open to review by the authorities in respect of taxes for indefinite period.

The management of the Bank believes that as at 31 December 2015 and 2014 they have accrued all tax amounts due and that tax positions and interpretations of the Bank may be proved. However, there is a possibility of resources outflow due to payments if the tax positions and interpretations will be disputed by the tax authorities. The effect of such disputable situations cannot be measured reliably; however it may be material for the financial position and/or activity of the Bank.

Operating lease commitments. The future minimum non-cancellable operating lease payments under agreements where the Bank is a lessee are presented below:

In millions of Belarusian Roubles	31 December 2015	31 December 2014
Less than 1 year	2,767	4,742
From 1 to 5 years	2,766	7,261
More than 5 years	-	237
Total operating lease commitments	**5,533**	**12,240**

Legal issues. As at 31 December 2015 the Bank was engaged in legal actions connected with challenging the right of the Bank for the property, which the Bank got in terms of loan's repayment. The Bank created provision in the amount of BYR 4,268 million based on the most probable result of the law suit and on the most positive assessment of expenses at the reporting date.

Provision is recognized at discounted value of expected expenses of the Banks and at the refinancing rate of the National Bank (25%). The Bank expected that legal action will finish and created provision may be used at the end of 2016. According to the bank, the result of law suit will not lead to loss different from accrued amounts accounting the following .increment of discounted amount. However, there is a possibility of additional legal expenses during the next law suits. Amount of such expenses can not be identified reliably. (Note 38).

Loan commitments. In the normal course of business, the Bank uses financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not presented in the statement of financial position. The Bank's maximum exposure to credit risk under contingent liabilities and commitments for credit lines, in the event of non-performance by the other party provided that all counterclaims, collateral or security prove impairment, is represented by the contractual amounts of those instruments.

Loan commitments of the Bank were as follows:

In millions of Belarusian Roubles	31 December 2015	31 December 2014
Unused credit lines	51,807	47,409
Letters of credit	24,950	-
Guarantees issued	93	1,762
Total loan commitments	**76,850**	**49,171**
Allowance on loan commitments	(360)	(446)
Total loan commitments less allowance	**76,490**	**48,725**

Movement in allowance on loan commitments for the years ended 31 December 2015 and 2014 was as follows:

In millions of Belarusian Roubles	2015	2014
Loan commitment allowance		
Balance as at 1 January	446	171
Charge/(reversal) for the year	(86)	296
Inflation effect	-	(21)
Balance as at 31 December	**360**	**446**

33. Capital management

The Bank manages its capital to ensure compliance with prudential requirements, the capital maintenance on the level necessary to ensure the compliance of the capital adequacy ratio at 8% with the Basel agreement, and the ability to continue as a going concern while providing a return to stakeholders through the optimisation of the debt and equity balance.

According to the requirement of the National Bank of Belarus the minimum size of regulatory capital, calculated on the basis of accounting records prepared in accordance with Belarusian legislation for banks attracting deposits from individuals and maintaining accounts of individuals, should not be less than EUR 25 million (equivalent BYR 507,5 billion). Since 1 January 2016 the value of minimum size of regulatory capital has been changed to BYR 450 billion quarterly adjusted to consumer price index. As at 1 January 2016 regulatory capital of the Bank was BYR 471.3 billion in accordance with Belarussian legislation

The Bank reviews the capital structure on a monthly basis. As a part of this review, the capital adequacy ratio is determined by comparing the Bank's own regulatory funds with a quantified assessment of the risks it undertakes (risk-weighted assets). The Bank's management assesses the amount of capital required to achieve the strategic aims of the Bank and providing the necessary assets growth for the planned perspective, as well as the optimum relationship between profitability and capital adequacy ratio taking into account requirements of the shareholders, Bank's partners and regulating authorities. The Bank's management considers weighted average cost of capital and risks associated with each class of assets, and balances its overall capital structure through the attraction of additional and redemption of existing debt.

As at 31 December 2015 and 2014, reserve fund were recognized in the amount of BYR 9,755 million and BYR 6,752 million according to National accounting principles. Reserve fund is reserve set up in accordance with legislature of the Republic of Belarus for compensation of losses from Bank's transactions. This fund is not distributed among shareholders.

Under the current capital requirements set by the National Bank of Belarus, banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above a prescribed minimum level (10%). Regulatory capital is based on the Bank's reports prepared under the Belarusian accounting standards and comprises the following:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Basic capital	279,974	207,267
Additional capital	191,336	169,166
Total capital	**471,310**	**376,433**
Total risk weighted assets	1,206,405	1,306,881
Statutory capital ratio (%)	**39.1**	**28.8**

The following table analyses regulatory capital of the Bank for capital adequacy purposes in accordance with the Basel agreement:

In millions of Belarusian Roubles	**31 December 2015**	**31 December 2014**
Tier 1 capital		
Share capital	461,285	448,635
Treasury shares	(3)	(3)
Accumulated loss	(112,618)	(130,059)
Intangible assets	(3,186)	(3,670)
Total tier 1 capital	**345,478**	**314,903**

Tier 2 capital		
Subordinated debt	65,930	18,029
Additional capital contribution	35,480	35,480
Preference shares	14,369	12,586
Provision for revaluation of property and equipment	494	-
Total tier 2 capital	**116,273**	**66,095**
Total capital	**461,751**	**380,998**
	1,624,257	1,249,202
Total risk weighted assets	**28.4**	**30.5**

As at 31 December 2015 and 2014 the Bank included in the calculation of total capital for capital adequacy purposes the subordinated debt with original maturity exceeding 5 years (Note 21). In the last 5 years remaining to maturity the subordinated debt is included into capital calculation with the cost recorded in the statement of financial position less 20% for each full calendar year. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors. Moreover, as at 31 Deccember 2015 and 2014 the Bank included in the calculation of total capital preference shares (Note 22), with undefined maturity and fixed dividends. Default of the Bank in payment of dividends on preference shares does not cause the Bank's bankruptcy or liquidation. During the calculation of capital adequacy the Bank excluded from the capital of the first level the value of non-tangible assets (Note 14) in accordance with requirements of Basel Accord.

34. Risk management

The Bank manages its financial risks (credit, liquidity, geographical, market including currency and interest rate risk), as well as operational risk.

The Strategy For Banking Risk Management and the General Risk Policy are the main documents regulating the system and approaches to risk management in the Bank.

The Risk Management Strategy is based on compliance with the break-even activities principle, aimed at ensuring a balance between profitability and the risk level assumed by the Bank and defines the main objectives and key aspects of risk management.

The General Risk Policy includes the following strategic objectives of risk management:

- determination of key risks of the Bank and confirmation that current directions of the banking activities and future plans for the new business development correspond to the readiness of the Bank to meet those risks;
- optimization of risks that directly relate to the Bank's activities, as well as organization of the effective and independent internal control system;
- development of the effective risk management framework for the further successful development of the Bank.

To ensure efficient risk management, the Bank has developed authority systems that allow to allocate responsibility for each major type of risk between governing bodies, departments and employees of the Bank. Regardless of the type of a bank risk, the authority system necessarily includes the Board of Directors of the Bank, the Risk Committee, the Management Board, the Officer in charge of risk management, Credit and Financial Committees, Risk Management, including risk managers, the Internal Audit Department, and the Internal Control Service.

The Board of Directors ensures the organization of banking risk management system, monitors the adequacy of its functioning and the overall risk level.

The Risk Committee established by the Board of Directors, monitors and controls the implementation of risk management strategies; evaluates the effectiveness of the risk management system; monitors the timeliness and quality of reporting on risks, as well as the completeness and adequacy of measures taken by the Management Board in order to minimize risks.

The Management Board ensures the functioning of the risk management system in order to meet the goals and objectives established by the Board of Directors in risk management; approves the General Risk Policy, local regulations regulating the methods and procedures for managing certain types of risks, as well as decision-making procedures, the interaction between departments, distribution and delegation of authority in the risk management process; ensures their effective implementation in practice; makes management decisions aimed at limiting the risk appetite of the departments generating risks, maintaining the risk profile of the bank which is adequate to the nature and scope of activities.

The Officer in charge of risk management coordinates the activities of all participants in the process of risk management, provides information exchange between them in order to take the necessary management decisions; on a regular basis reports to the Board on the degree of individual bank risks, compliance with risk appetite of the departments generating risks, compliance with established risk tolerance and maintaining risk profile of the Bank; on a regular basis (at least once a year) provides reports to the Risk Committee on functioning of the risk management system and the degree of individual banking risks; provides disclosure of the risk management system in accordance with the procedures of the Bank.

The Finance Committee and the Credit Committee monitor and analyze the risk level.

The Risk Management is responsible for the organization of an effective risk management system, monitoring the timely detection, identification, measurement, monitoring, control and limitation of bank risks. This department monitors compliance with procedures for managing each type of risk. To control and manage critical situations, which may have undesirable consequences for the Bank, a risk manager of the Bank performs stress testing and assessment of the impact of changes in external and internal factors of the risk involved in the sustainability of the Bank.

The Internal Audit Department is responsible for the regular audit of individual elements of the risk management system and make evaluation of the effectiveness of risk management, as well as controlling compliance of activities and operations carried out by the management and employees of the Bank with the requirements of current legislation. The results of inspections and the estimation of efficiency are reported to the Board of Directors.

The Internal Control Service shall verify compliance with the order of controlling each type of risk by authorized bodies and employees of the Bank, as well as verification of compliance with local regulations of the Bank providing for the strategy, policy, methods and procedures of risk management.

Other departments of the Bank carried out the current management of banking risks within its competence.

Credit risk. The Bank assumes credit risk, i.e. the risk that one party to a financial instrument will fail to settle an obligation, or will discharge untimely or not in full amount, and cause the other party to incur a financial loss. The purpose of credit risk management is to guarantee the maximal safety of assets by decreasing possible losses.

Credit risk regulation is performed by using the following procedures:

- separation of powers and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within credit risk management;
- organisation of adequate and relevant to the Bank’s interests system of crediting legal entities and sole traders, individuals, the system of fixing limits on banks-counterparties;

- organization of a system to ensure fair evaluation of collateral on credit operations;
- organization of independent primary and secondary examinations of lending projects and drafts of limits on banks-counterparties;
- organization of effective work with bad debts;
- implementation of quality and timely analysis of the loan portfolio state and dynamics, safe functioning standards which characterize the level of credit risk, including sector analysis and analysis of credit portfolio concentration, fixing limits on sectors with high credit risk, as well as creating a system of quick and adequate response aimed at minimizing risk;
- development of the Bank's action plan in case of force majeure related to credit risk.

Detection, identification and assessment of credit risk level is performed via primary and secondary examinations of lending projects (drafts of limits on bank-counterparty), thus achieving the resolution of the conflict of interests in decision-making process.

Primary examination (analysis (evaluation) of the bank-counterparty's financial position and development of the limit for conducting active transactions with the bank-counterparty is performed by the economic agency (experts on banks) on the basis of assessment of the financial position and ability to promptly and fully recover funds transferred to it. Based on the analysis carried out a draft limit on active operations with the bank-counterparty is developed. When implementing active credit operations with customers the primary examination is performed by the credit officer at the stage of preparing for consideration by the Credit Committee of project to be financed and collateral to be provided by the borrower.

Secondary examination is performed by risk manager when considering and monitoring the limit for bank-counterparty. When implementing active credit operations with customers the secondary examination is performed by the risk manager when considering the project to be financed and in the process of monitoring the borrower, transaction to be financed and collateral to be provided by the borrower.

Defining the acceptable level of credit risk is carried out jointly by the Credit and Financial Committee of the Bank in accordance with their functions.

For prevention of credit risk increase the Bank regularly performs monitoring of the risk by borrowers, by loan agreements and by loan portfolio as a whole through monthly analysis of respective ratios. The Bank controls credit risk by setting limits by one borrower or a group of related borrowers and by products. The Bank forecasts fluctuations in exposure to credit risk by undertaking periodic stress-testing, which is based on assessment of potential effect of internal and external credit risk factors. The Bank creates a model where all or the majority of similar borrowers, grouped by industry, type of ownership and other criteria, experience a default, develops different scenarios of impact of such default on exposure to credit risk, forecasts the quality of loan portfolio and regulatory requirements related to credit risk. The results of stress-testing are submitted to the Finance Committee of the Bank for taking appropriate actions to minimize credit risk.

Credit risk management performed by respective departments includes regular analysis of the ability of existing and potential borrowers to repay principle and interest and, if necessary, by obtaining collateral and guarantees from companies and individuals. The Bank analyses loans by maturities and subsequently monitors overdue balances. The respective departments submit the information on overdue loans as presented in Note 11 to the management. Activities that give rise to credit risk and the associated maximum exposure to credit risk include:

- issuing loans and receivables to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets as presented in the statement of financial position (Note 9, Note 11 and Note 12);
- entering into derivative contracts, e.g. foreign exchange contracts. The maximum exposure to credit risk at the end of the reporting period will equal the carrying amount resented in the statement of financial position (Note 8);

- issuing financial guarantees. In this case, the maximum exposure to credit risk is the maximum amount the Bank could have to pay if the guarantee is called on (Note 32);
- issuing an uncancellable loan commitment or loan commitment cancellable only as a result of material adverse change. If the issuer cannot settle the loan commitment in cash or using another financial instrument, the maximum credit exposure is the full amount of the commitment as presented in Note 32.

The credit risk on financial instruments not recognised in the statement of financial position is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the financial instruments recognised in its statement of financial position, i.e. the one based on the procedures for approving loans issuance, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of contingencies not recognised in the statement of financial position as longer term commitments generally have a greater degree of credit risk than short-term commitments.

In order to minimize credit risk the Bank applies methods of the credit portfolio diversification by sector, type of collateral, credit products, forms of cash disbursement, types of transactions, currency and maturity.

Country risk. The country risk is a risk that the Bank incurs losses as a result of internal and external factors, which are not dependent on the financial position of the counterparty of the Bank (e.g. non-compliance of agreements with legislation of foreign countries, non-fulfilment of obligations by counterparties due to economic, political, social and other changes influencing their activities).

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2015 is presented as follows:

In millions of Belarusian Roubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	170,864	-	-	170,864
Derivative financial assets	177	-	-	177
Due from other banks	8,944	34,029	5,900	48,873
Financial assets available for sale	14,906	-	-	14,906
Loans to customers	617,280	-	-	617,280
Investments held to maturity	720,297	-	-	720,297
Other financial assets	8,154	-	-	8,154
Total financial assets	**1,540,622**	**34,029**	**5,900**	**1,580,551**
Liabilities				
Derivative financial liabilities	-	-	7	7
Due to the National Bank of the Republic of Belarus	127,806	-	-	127,806
Due to other banks	101,668	-	-	101,668
Customer accounts	1,033,016	612	23,334	1,056,962
Other financial liabilities	5,351	-	-	5,351
Subordinated debt	56,036	85,681	-	141,717
Preference shares	14,369	-	-	14,369
Total financial liabilities	**1,338,246**	**86,293**	**23,341**	**1,447,880**
Net position	**202,376**	**(52,264)**	**(17,441)**	

The geographical analysis of financial assets and liabilities of the Bank as at 31 December 2014 is presented as follows:

In millions of Belarusian Roubles	**Belarus**	**OECD countries**	**Other countries**	**Total**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	192,359	-	-	192,359
Derivative financial assets	448,785	-	-	448,785
Due from other banks	7,034	4,803	7,707	19,544
Loans to customers	642,188	-	-	642,188
Other financial assets	7,988	-	-	7,988
Total financial assets	**1,298,354**	**4,803**	**7,707**	**1,310,864**
Liabilities				
Due to other banks	28,893	-	-	28,893
Customer accounts	974,027	1,411	19,205	994,643
Debt securities issued	16,554	-	-	16,554
Other financial liabilities	2,441	-	-	2,441
Subordinated debt	-	60,210	-	60,210
Preference shares	12,586	-	-	12,586
Total financial liabilities	**1,034,501**	**61,621**	**19,205**	**1,115,327**
Net position	**263,853**	**(56,818)**	**(11,498)**	

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulties in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The purpose of the liquidity risk management is the maintenance of the optimal balanced financial assets and financial liabilities structure by implementing the following tasks:

- separation of duties and responsibilities between authorised and executive bodies, committees, officials and departments of the Bank within liquidity risk management;
- organisation of adequate and relevant to the Bank's interests system of financial assets and liabilities management;
- organization of quality and timely monitoring and analysis of the current state of liquidity, safe operation standards, characterizing liquidity risk level, structure and dynamics of the resource base and financial investments, liquidity gaps;
- organization of stress-testing and early warning systems to identify the causes and factors affecting the change in the liquidity risk, and forecasting the future liquidity trends;
- organisation of the system of quick and adequate response aimed at minimizing the liquidity risk, development of action plans of the Bank in case of force majeure associated with increase in liquidity risk.

The Bank aims to maintain the stable financing base comprising mainly due to other banks, including long-term loans from EBRD, current accounts and deposits of corporate customers and individuals, a long-term subordinated debt from EBRD and DEG, and invests funds in diversified portfolios of liquid assets in order to have possibility to meet unforeseen liquidity requirements immediately without delays.

The Bank calculates liquidity ratios on a daily basis in accordance with the requirements of the National Bank of the Republic of Belarus. These ratios include:

- *Quick liquidity ratio* is calculated as the ratio of demand assets to demand liabilities and overdue liabilities (minimum 20%). As at 31 December 2015, the ratio amounted to 288.4%, as at 31 December 2014 – 1053.9%.
- *Current liquidity ratio* is calculated as the ratio of assets with maturities of less than 30 days, including demand assets, to liabilities with the maturities of less than 30 days, including demand liabilities (minimum 70%). As at 31 December 2015, the ratio amounted to 98.3%, as at 31 December 2014 – 181.7%.
- *Short-term liquidity ratio* is calculated as the ratio of assets with maturities of less than 1 year to liabilities with the maturities of less than 1 year (minimum 1). As at 31 December 2015 the ratio amounted to 1.0, as at 31 December 2014 – 1.3.
- *Liquid to total assets ratio* is calculated as the ratio of demand assets and assets with maturity of less than 30 days to total assets (minimum 20%). As at 31 December 2015 the ratio amounted to 52.8%, as at 31 December 2014 – 39.4%.

The tables below represent the remaining contractual maturity of financial liabilities based on the undiscounted cash flows from financial liabilities (both interest and principal cash flows) and inflows/outflows from derivative financial instruments.

The table below represents analysis of financial liabilities by maturities as at 31 December 2015:

In millions of Belarusian Roubles	**On demand and up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Non-derivative financial liabilities								
Due to the National Bank of the Republic of Belarus	2,714	5,252	7,966	140,792	-	-	-	156,724
Due to other banks	84,090	18,314	-	-	-	-	-	102,404
Customer accounts	250,075	164,963	181,395	465,696	28,924	-	-	1,091,053
Other financial liabilities	2,278	385	554	1,029	2,923	-	-	7,169
Subordinated debt	344	666	83,728	2,044	16,228	150,206	-	253,216
Preference shares	-	-	-	-	10,964	-	10,536	21,500
Loan commitments	51,448	-	-	-	93	-	-	51,541
Total expected future cash outflows from non-derivative financial liabilities	**390,949**	**189,580**	**273,643**	**609,561**	**59,132**	**150,206**	**10,536**	**1,683,607**
Derivative financial liabilities gross settled								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
Total expected future cash outflows from financial liabilities	**390,949**	**189,580**	**273,643**	**609,561**	**59,132**	**150,206**	**10,536**	**1,683,607**

The table below represents analysis of financial liabilities by maturities as at 31 December 2014:

In millions of Belarusian Roubles	**On demand and up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**No maturity**	**Total**
Non-derivative financial liabilities								
Due to other banks	29,068	-	-	-	-	-	-	29,068
Customer accounts	380,204	69,212	344,276	124,251	100,036	-	-	1,017,979
Debt securities issued	268	-	262	16,630	-	-	-	17,160
Other financial liabilities	2,439	-	-	-	2	-	-	2,441
Subordinated debt	-	-	1,822	1,853	58,950	59,115	-	121,740
Preference shares	-	-	-	-	6,600	-	10,536	17,136
Loan commitments	46,965	948	719	-	93	-	-	48,725
Total expected future cash outflows from non-derivative financial liabilities	**458,944**	**70,160**	**347,079**	**142,734**	**165,681**	**59,115**	**10,536**	**1,254,249**
Derivative financial liabilities gross settled								
Outflow	-	16,229	14,420	41,422	99,930	-	-	172,001
Inflow	-	(59,250)	(53,784)	(153,186)	(371,913)	-	-	(638,133)
Total expected future cash outflows from financial liabilities	**458,944**	**27,139**	**307,715**	**30,970**	**(106,302)**	**59,115**	**10,536**	**788,117**

The preference shares are financial liabilities without defined term of maturity. The maximum period the Bank considers for undiscounted cash flows calculation on preference shares obligatory dividend payment is 5 years.

The tables presented above include payments on derivative financial instruments gross settled as these settlements will be followed by corresponding cash outflows and inflows.

Customer accounts are stated by maturities in the table above. However, in accordance with the Bank Code of the Republic of Belarus, individuals have the right to withdraw their cash ahead of time.

The Bank does not apply the above analysis by maturities based on undiscounted cash outflows on a constant basis. Instead, the Bank controls maturity terms and expected liquidity gaps based on the analysis of financial assets and liabilities as described in the tables below:

In millions of Belarusian Roubles	**On demand and up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Over-due**	**No maturity**	**Total as at 31 December 2015**
Assets									
Cash and balances with the National Bank of the Republic of Belarus	163,911	-	-	-	-	-	-	6,953	170,864
Derivative financial assets	177	-	-	-	-	-	-	-	177
Due from other banks	44,732	-	-	-	-	-	-	4,141	48,873
Financial assets available for sale	14,906	-	-	-	-	-	-	-	14,906
Loans to customers	43,088	81,937	76,807	99,650	303,791	1,081	10,926	-	617,280
Investments held to maturity	1,863	753	-	717,681	-	-	-	-	720,297
Other financial assets	703	1,837	-	-	-	-	5,614	-	8,154
Total financial assets	**269,380**	**84,527**	**76,807**	**817,331**	**303,791**	**1,081**	**16,540**	**11,094**	**1,580,551**
Liabilities									
Derivative financial liabilities	7	-	-	-	-	-	-	-	7
Due to the National Bank of the Republic of Belarus	-	-	-	127,806	-	-	-	-	127,806
Due to other banks	83,468	18,200	-	-	-	-	-	-	101,668
Customer accounts	243,260	157,610	172,588	456,997	26,507	-	-	-	1,056,962
Other financial liabilities	2,176	190	283	566	2,136	-	-	-	5,351
Subordinated debt	329	-	81,433	-	-	59,955	-	-	141,717
Preference shares	-	-	-	-	3,833	-	-	10,536	14,369
Total financial liabilities	**329,240**	**176,000**	**254,304**	**585,369**	**32,476**	**59,955**	**-**	**10,536**	**1,447,880**
Liquidity gap	(59,860)	(91,473)	(177,497)	231,962	271,315	(58,874)			
Cumulative expected liquidity gap	**(59,860)**	**(151,333)**	**(328,830)**	**(96,868)**	**174,447**	**115,573**			

In millions of Belarusian Roubles	**On demand and up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Over-due**	**No maturity**	**Total as at 31 December 2014**
Assets									
Cash and balances with the National Bank of the Republic of Belarus	180,979	-	-	-	-	-	-	11,380	192,359
Derivative financial assets	-	43,344	39,443	112,111	253,887	-	-	-	448,785
Due from other banks	14,310	948	719	-	-	-	-	3,567	19,544
Loans to customers	29,833	65,123	75,019	115,188	339,757	5,399	11,869	-	642,188
Other financial assets	318	-	3,882	-	-	-	3,788	-	7,988
Total financial assets	**225,440**	**109,415**	**119,063**	**227,299**	**593,644**	**5,399**	**15,657**	**14,947**	**1,310,864**
Liabilities									
Due to other banks	28,893	-	-	-	-	-	-	-	28,893
Customer accounts	374,452	63,714	338,556	119,798	98,123	-	-	-	994,643
Debt securities issued	189	-	-	16,365	-	-	-	-	16,554
Other financial liabilities	2,439	-	-	-	2	-	-	-	2,441
Subordinated debt	-	-	171	-	57,520	2,519	-	-	60,210
Preference shares	-	-	-	-	2,050	-	-	10,536	12,586
Total financial liabilities	**405,973**	**63,714**	**338,727**	**136,163**	**157,695**	**2,519**	**-**	**10,536**	**1,115,327**
Liquidity gap	(180,533)	45,701	(219,664)	91,136	435,949	2,880			
Cumulative expected liquidity gap Liabilities	**(180,533)**	**(134,832)**	**(354,496)**	**(263,360)**	**172,589**	**175,469**			

The Bank's management believes that coincidence and/or controlled non-coincidence of terms of placement and maturity and interest rates of assets and liabilities is a fundamental factor for successful Bank management. As a rule, there is no full coincidence of the stated positions, as operations often have undefined maturity and different nature. Non-coincidence of these positions potentially raises profitability and at the same time the risk of losses.

In the economic conditions prevailing in recent years in the Republic of Belarus (high devaluation expectations) long-term funds in Belarusian roubles are displaced by the short-term funds. Having significant liquidity gaps in the short term period the Bank manages liquidity by attracting available and most profitable resources in Belarusian roubles to maintain liquidity. The key sources of the resource base of the Bank are funds raised from legal entities. Additional current sources to cover liquidity gaps for short periods are also borrowings in the interbank market, swap transactions and foreign exchange transactions with the banks, as well as the issue of own debt securities.

In order to prevent outflow of customers funds as well as to extend the period of using them, the Bank promptly revises conditions for current products and develops the new ones, performs work to attract new customers. In addition, the terms of loan products are revised in order to diversify the loan portfolio regarding the mechanism of principal repayment.

In 2015 the swap transactions with the National Bank that had the initial maturity in 2016-2017 were terminated ahead of schedule with mutual consent.

Market risk. Market risk is related to open interest rate, currency positions, positions on debt and equity instruments, which are subject to general and specific market changes.

The identification and assessment of market risk is performed regularly and is based on the information received from respective departments for the preparation of reports to the National Bank.

Currency risk. Currency risk is risk of changes in value of financial instrument due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

Currency risk management is carried out using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of currency risk;
- implementation of limit policy;
- implementation of system for tracking the status and dynamics of open foreign currency position, total and by types of currencies, as well as of quick reaction system aimed at minimizing foreign currency risk;
- implementation of stress-testing system;
- creation of a system aimed to regular and timely informing of management bodies and committees of the Bank on efficiency of currency risk management system;
- creation of quick and adequate reaction system designed to minimize currency risk, development of Bank's action plan for unexpected changes related to currency risk.

The Bank determines risk limits by currencies and the aggregated currency position limits. Limits are set and monitored for compliance at the end of each day as well as during the day. The Treasury Department controls the state of open currency position and its actual size based on the accounting data for balance and off-balance assets and liabilities. The algorithm for calculating the open foreign currency position of the Bank and the inclusion of the currency risk in the calculation of capital adequacy is determined in accordance with the requirements of the National Bank of the Republic of Belarus.

The analysis of Bank's exposure to currency risk as at 31 December 2015 is presented in the table below:

In millions of Belarusian Roubles	**BYR**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	141,254	9,459	14,936	5,215	-	170,864
Derivative financial assets	177	-	-	-	-	177
Due from other banks	-	37,605	7,601	3,652	15	48,873
Financial assets available for sale	-	14,906	-	-	-	14,906
Loans to customers	361,778	209,104	41,106	5,292	-	617,280
Investments held to maturity	-	720,297	-	-	-	720,297
Other financial assets	7,910	160	84	-	-	8,154
Total financial assets	**511,119**	**991,531**	**63,727**	**14,159**	**15**	**1,580,551**
Liabilities						
Derivative financial liabilities	7	-	-	-	-	7
Due to the National Bank of the Republic of Belarus	127,806	-	-	-	-	127,806
Due to other banks	35,700	65,960	2	6	-	101,668
Customer accounts	272,015	645,758	99,098	40,091	-	1,056,962
Other financial liabilities	5,235	50	50	16	-	5,351
Subordinated debt	-	60,284	81,433	-	-	141,717
Preference shares	14,369	-	-	-	-	14,369
Total financial liabilities	**455,132**	**772,052**	**180,583**	**40,113**	**-**	**1,447,880**
Net open currency position	**55,987**	**219,479**	**(116,856)**	**(25,954)**	**15**	**132,671**
Claims on derivative contracts	-	-	117,740	25,533	-	143,273
Obligations on derivative contracts	-	(143,108)	-	-	-	(143,108)
Net position on derivatives financial instruments	**-**	**(143,108)**	**117,740**	**25,533**	**-**	**165**
Total net open currency position	**55,987**	**76,371**	**884**	**(421)**	**15**	

The analysis of Bank's exposure to currency risk as at 31 December 2014 is presented in the table below:

In millions of Belarusian Roubles	**BYR**	**USD**	**EUR**	**RUB**	**Other currencies**	**Total**
Assets						
Cash and balances with the National Bank of the Republic of Belarus	159,715	19,161	10,137	3,346	-	192,359
Derivative financial assets	448,785	-	-	-	-	448,785
Due from banks	1,630	7,561	2,775	7,567	11	19,544
Loans to customers	441,919	156,308	36,927	7,034	-	642,188
Other financial assets	7,728	236	24	-	-	7,988
Total financial assets	**1,059,777**	**183,266**	**49,863**	**17,947**	**11**	**1,310,864**
Liabilities						
Due to banks	25,900	2,972	16	5	-	28,893
Customer accounts	245,017	642,878	87,207	19,541	-	994,643
Debt securities issued	-	16,554	-	-	-	16,554
Other financial liabilities	2,308	24	22	87	-	2,441
Subordinated debt	-	2,519	57,691	-	-	60,210
Preference shares	12,586	-	-	-	-	12,586
Total financial liabilities	**285,811**	**664,947**	**144,936**	**19,633**	**-**	**1,115,327**
Net open currency position	**773,966**	**(481,681)**	**(95,073)**	**(1,686)**	**11**	**195,537**
Claims on derivative contracts	-	609,373	95,627	-	-	705,000
Obligations on derivative contracts	(172,001)	(66,981)	-	-	-	(238,982)
Net position on derivatives financial instruments	**(172,001)**	**542,392**	**95,627**	**-**	**-**	**466,018**
Claims on foreign currency contracts	-	8	-	-	-	8
Obligations on foreign currency contracts	-	(6)	-	-	-	(6)
Net position on foreign currency contracts	**-**	**2**	**-**	**-**	**-**	**2**
Total net open currency position	**601,965**	**60,713**	**554**	**(1,686)**	**11**	

As at 31 December 2015 and 2014 the Bank had net long currency position in US dollars, the significant influence on which was made by initial recognition of subordinated debt from EBRD at fair value (Note 21). The Bank calculates the ratio of open currency position and regulates it based on the nominal value of financial instruments according to the requirements of the National Bank.

The Bank granted 41.4 % (31.2% in 2014) of loans in foreign currencies. Depending on the currency of cash flows received by the Bank's borrowers, increase in exchange rates of foreign currencies may have a negative impact on the ability of borrowers to repay loans resulting, consequently, in higher probability of default on loans.

The following table details the sensitivity of the Bank's profit before tax and equity to possible fluctuations of foreign exchange rates used as at the end of reporting period against the Bank's functional currency with all other variables held constant:

	31 December 2015		31 December 2014	
In millions of Belarusian Roubles	**Effect on profit before taxation**	**Effect on equity (included 25% income tax rate)**	**Effect on profit before taxation**	**Effect on equity (included 18% income tax rate)**
Strengthening of US Dollar by 30%	22,911	17,183	18,214	14,935
Weakening of US Dollar by 5%	(3,819)	(2,864)	(3,036)	(2,490)
Strengthening of Euro by 30%	265	199	166	136
Weakening of Euro by 5%	(44)	(33)	(28)	(23)
Strengthening of RUB by 30%	(126)	(95)	(506)	(415)
Weakening of RUB by 10%	42	32	169	139
Strengthening of other currencies by 30%	5	4	3	2
Weakening of other currencies by 5%	(1)	(1)	(1)	(1)

The sensitivity analysis to variation of foreign exchange rates was calculated for all the items nominated in currencies other than the Bank's functional currency. Actually a correlation between suggestions and other factors exists. It should also be noted that these sensitivities are non-linear, and any impacts should not be interpolated or extrapolated from these results.

Interest rate risk. The Bank is exposed to the risk of fluctuations of market interest rates and their influence on its financial position and cash flows. Such fluctuations may result in increase of interest margin, but in case of unexpected changes in interest rates the interest margin can be also decreased or generate losses.

Interest rate risk management is performed using the following methods:

- separation of powers and responsibilities between management bodies, committees, officers and departments of the Bank for management of interest rate risk;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate;
- implementation of adequate interest policy relevant for the Bank;
- implementation of system of management of financial assets and financial liabilities sensitive to changes in interest rate, analysis of structure and dynamics of resources base and active deposits;
- implementation of stress-testing system;
- creation of quick and adequate reaction system designed to minimize interest rate risk, development of Bank's action plan for unexpected changes in interest rate.

The Bank is exposed to interest rate risk mainly due to loan granting at fixed interest rates in amounts and for periods which differ from the amounts and periods of funds raising at floating interest rates. In practice fixed interest rates, as a rule, are set for a short period. Moreover, interest rates, fixed in agreements both for assets and liabilities, are often reviewed on the basis of mutual agreement in accordance with a current market situation

Detection, identification and assessment of interest rate risk are performed monthly by calculating the parameters of interest policy and comparing their values with the parameters established in the process of elaboration and approval of the annual budget of the Bank (budgeted balance sheet and financial plan of the Bank). The structure of interest policy parameters of the Bank includes the return on financial assets, the value of financial liabilities, interest spread, interest margin, the gap (according to maturity) between financial assets and financial liabilities sensitive to changes in interest rates, and others.

The table below represents general analysis of the Bank's interest rate risk. It includes total amounts of financial assets and financial liabilities sensitive to interest rate fluctuations, as reflected in the statement of financial position by their maturities:

In millions of Belarusian Roubles	**On demand and up to 1 month.**	**1 to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**	**Total**
31 December 2015							
Total financial interest-bearing assets	66,590	82,690	76,807	817,331	303,791	1,081	1,348,290
Total financial interest-bearing liabilities	304,855	175,968	254,257	585,275	32,120	59,955	1,412,430
Interest rate gap as at 31 December 2015	**(238,265)**	**(93,278)**	**(177,450)**	**232,056**	**271,671**	**(58,874)**	**(64,140)**
31 December 2014							
Total financial interest-bearing assets	37,750	65,123	75,019	115,188	339,757	5,399	638,236
Total financial interest-bearing liabilities	363,795	63,714	338,728	136,163	157,693	2,519	1,062,612
Interest rate gap as at 31 December 2014	**(326,045)**	**1,409**	**(263,709)**	**(20,975)**	**182,064**	**2,880**	**(424,376)**

During monitoring the Bank analyses the structure and dynamics of financial assets and financial liabilities, previous and effective interest rates in the money market in the Republic of Belarus and countries of the Bank's main counterparties and their influence on interest rate risk.

As at 31 December 2015 and 2014 the balances of financial instruments with floating rates were as follows:

	31 December 2015		**31 December 2014**	
In millions of Belarusian Roubles	**BYR**	**USD/EUR/ RUB**	**BYR**	**USD/EUR /RUB**
Assets				
Due from banks	-	3,609	-	7,940
Loans to customers	428	-	482	-
Total assets with floating rates	**428**	**3,609**	**482**	**7,940**
Liabilities				
Customer accounts	2,886	-	-	-
Subordinated debt	-	137,469	-	57,691
Total liabilities with floating rates	**2,886**	**137,469**	**-**	**57,691**

The Bank is not exposed to risk of change in fair value of fixed-rate financial instruments as the Bank has the contractual right to change interest rates on such instruments.

The table below shows sensitivity analysis of profit before taxation and equity to the possible significant changes in floating interest rates used at the end of reporting period, assuming that all other estimates remain unchanged:

In millions of Belarusian Roubles	31 December 2015 Effect on profit before taxation	31 December 2015 Effect on equity (included 25% income tax rate)	31 December 2014 Effect on profit before taxation	31 December 2014 Effect on equity (included 18% income tax rate)
Increase of interest rates on financial instruments nominated in BYR by 1000 basis points	(246)	(185)	48	39
Decrease of interest rates on financial instruments nominated in BYR by 1000 basis points	246	185	(48)	(39)
Increase of interest rates on financial instruments nominated in other currencies by 100 basis points	(1,339)	(1,004)	(498)	(408)
Decrease of interest rates on financial instruments nominated in other currencies by 100 basis points	1,339	1,004	498	408

Operational risk refers to potential losses faced by the Bank as a result of non-compliance of internally established procedures and regulations related to banking and other operations with the Belarusian legislation or violation of these procedures by personnel, incompetence and errors of the personnel, inadequacy or failures of bank systems including informational, as well as resulting from external factors. Operational risk management consists of ongoing process of identification, assessment, monitoring, control and reporting to the Bank's Management. Control over operational risk level is carried out within the framework of internal control system and is based on the principles of multilateral and multilevel internal control, covering all the Bank's departments.

35. Fair value measurement

The Bank applies the following hierarchy of inputs used in measurement of fair value:

- Level 1: inputs used to measure fair value are uncorrected quoted prices in active markets for identical assets and liabilities that the Bank can access at the measurement date. Active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Any adjustment of Level 1 inputs results in fair value of lower level.

- Level 2: inputs used to measure fair value are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (price derivatives), include instruments measured using quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or other valuation techniques using inputs that are directly or indirectly observable in markets. If Level 2 significant inputs are adjusted using significant unobservable inputs, fair value measured will relate to Level 3.

- Level 3 – inputs used to measure fair value are unobservable inputs that reflect all assumptions used by market participants when fixing instrument price, including risk assumption. Fair value measured using a combination of different valuation techniques relates to Level 3.

When using inputs of different levels, the Bank categorizes fair value measurement in general within the level of inputs. The Bank records transfers between fair value levels as at the end of the reposting period.

Hierarchy of the Bank's assets and liabilities fair value inputs for items carried at fair value is presented in the table below:

In millions of Belorussian Roubles

31 December 2015	Notes	Level 1	Level 2	Level 3	Total
Derivative financial assets	8	-	177	-	**177**
Financial assets available for sale	-	14,906	-	-	**14,906**
Investment property	13	-	-	101,282	**101,282**
Derivative financial liabilities	8	-	7	-	**7**
31 December 2014	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	8	-	-	448,785	**448,785**
Investment property	13	-	-	26,876	**26,876**

For the years ended 31 December 2015 and 2014 the Bank did not transfer between fair value hierarchy levels.

(a) Fair value of financial instruments

The comparison of the values stated in the statement of financial position and fair value of financial instruments of the Bank as at 31 December 2015 and 2014 is presented in the table below:

	31 December 2015		31 December 2014	
In millions of Belorussian Roubles	**Value recorded in statement of financial position**	**Fair value**	**Value recorded in statement of financial position**	**Fair value**
Assets				
Cash and balances with the National Bank of the Republic of Belarus	170,864	170,864	192,359	192,359
Derivative financial assets	177	177	448,785	448,785
Due from banks	48,873	48,873	19,544	19,544
Financial assets available for sale	14,906	14,906	-	-
Loans to customers	617,280	617,280	642,188	642,188
Investments held to maturity	720,297	703,708	-	-
Other financial assets	8,154	8,154	7,988	7,988
Total financial assets	**1,580,551**	**1,563,962**	**1,310,864**	**1,310,864**
Liabilities				
Derivative financial liabilities	7	7	-	-
Due to the National Bank of the Republic of Belarus	127,806	127,806	-	-
Due to banks	101,668	101,668	28,893	28,893
Customer accounts	1,056,962	1,056,962	994,643	994,643
Debt securities issued	-	-	16,554	16,554
Other financial liabilities	5,351	5,351	2,441	2,441
Subordinated debt	141,717	121,273	60,210	60,234
Preference shares	14,369	14,369	12,586	12,586
Total financial liabilities	**1,447,880**	**1,427,436**	**1,115,327**	**1,115,351**

The methods and assumptions used by the Bank for measurement of fair value of the financial instruments are presented below.

(a) (i) Financial instruments recognized at fair value in the statement of financial position

As at 31 December 2015 the fair value of Financial assets available for sale and derivative financial instruments is measured using discounted cash flows model, in which the most significant inputs are observable in market for identical or similar financial instruments (level 2). The fair value of short-term foreign currency swaps with other banks with maturities up to 10 days was assessed to be nil.

As at 31 December 2014 the fair value of foreign currency swaps and forwards contracts with the National Bank, included within derivative financial instruments, is measured using discounted cash flows model, in which the most significant inputs are not observable in market or require significant adjustments of observable inputs due to absence of active market of similar non-current financial instruments (level 3). The fair value of short-term foreign currency swaps with other banks with maturities up to 10 days was assessed to be nil.

As at 31 December 2014 the foreign currency rates used for calculations were defined based on rates of long-term bonds of the Ministry of Finance of the Republic of Belarus in foreign currency, rates on Eurobonds of the Republic of Belarus, as well as the rate of US interest rate swaps for the corresponding period adjusted for the country risk. The range of rates is 7.29-10.25%. Rates for Belarusian Rouble used for calculations were based on the borrowing rates in the interbank market (for instruments maturing in 2015), as well as the average rate on deposits from customers (for instruments with terms longer than 1 year). The range of rates is 26.9–50.0%.

The reconciliation of balances recorded in the statement of financial position as at 31 December 2015 and 2014 for derivative financial instruments of level 3 of the hierarchy of fair value is presented below:

In millions of Belorussian Roubles	**2015**	**2014**
Fair value as at 1 January	**448,785**	**408,747**
Profits from transactions with derivative financial instruments	311,194	126,458
Settlement at the end of transaction	(759,979)	(25,618)
Inflation effect	-	(60,802)
Fair value as at 31 December	**-**	**448,785**

As at 31 December 2015 the profits from transactions with derivative financial instruments of level are realized, as at 31 December 2014 the profits of BYR 102,807 million were carried to change in unrealized gain on derivative financial instruments held as at the end of the reporting period.

a) (ii) Financial instruments not recognized at fair value in the statement of financial position

Financial instruments fair value of which approximately equals to the value recorded in the statement of financial position. It is assumed that the fair value of financial assets and liabilities, which are liquid or have a short maturity (less than 3 months) approximately equals to their carrying value. This assumption is also applied to interbank loans, demand deposits and current accounts with undefined maturity, as well as to other short-term account receivable and payable.

Financial instruments with floating and fixed interest rates. The fair value of financial instruments with floating interest rates approximates their value in the statement of financial position. Estimated fair value of financial instruments with floating interest rates is based on calculation of discounted cash flows using interest rates for instruments with similar terms, credit risk level and residual maturity.

Fair value assessment of financial instruments not recognized at fair value in the statement of financial position refers to level 2 of the hierarchy of inputs, except for cash and balances with the National Bank of the Republic of Belarus that refer to level 1.

(b) Fair value of investment property

The fair value of investment property was measured using a comparative assessment method by the Bank independently in 2015 and with the involvement of a professional appraiser.

The comparative method is based on quoted market prices for similar objects (except when the sale of assets to repay debt), adjusted for the differences.

The market prices of equal items adjusted for elements of comparison (location, technical condition, etc.) form the basis for measuring fair value as at 31 December 2015 and 2014. The range of prices under consideration was 550 – 1550 US dollars per square meter as at 31 December 2015 and 930 – 2900 US dollars per square meter as at 2014. Increase (decrease) in market prices of real estate by 10%, without taking into account the interaction with other factors will lead to an increase (decrease) in value of investment property by BYR 10,128 million as at 31 December 2015 and BYR 2,687 million as at 31 December 2014. Strengthening by 30% (weakening by 10%) of the US dollar against the Belarusian rouble, without taking into account the interaction with other factors, will lead to an increase in the value of investment property by BYR 30,385 million (a decrease by BYR 10,128 million).

Reconciliation of balances of investment property fair value recorded in the statement of financial position as at 31 December 2015 and 2014 is presented in Note 13.

36. Operating segments

The segment reporting of the Bank is based on the following operating segments: services to individuals, services to legal entities, treasury transactions.

- services to individuals - maintenance of current accounts, receipt of deposits, granting loans, performance of settlements on behalf of individuals, servicing bank cards, custody services;
- services to legal entities - cash management services to enterprises and organizations (both residents and non-residents of the Republic of Belarus), attraction of deposits, placing own debt securities issued, granting loans and other types of financing, implementation of documentary transactions and transactions with securities on behalf of clients;
- treasury transactions – transactions with the National Bank, maintenance of correspondent accounts of banks, attraction and placement of funds on interbank market, transactions with securities on behalf of the Bank (including REPO), transactions with derivative financial instruments, transactions of purchase, sale, conversion of foreign currency.

The information on operating segments for 2015 is presented below:

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Treasury transactions**	**Other/Not distributed**	**Total**
Interest income	161,317	47,010	6,421	-	214,748
Interest expense	(16,091)	(79,766)	(13,950)	(9,327)	(119,134)
Net interest income before the effect of initial recognition of financial instruments at fair value	**145,226**	**(32,756)**	**(7,529)**	**(9,327)**	**95,614**
Effect from initial recognition of financial instruments at fair value	-	-	(24,807)	-	(24,807)
Net interest income	**145,226**	**(32,756)**	**(32,336)**	**(9,327)**	**70,807**
Fee and commission income	6,371	9,615	2,424	1,149	19,559
Fee and commission expense	(644)	(160)	(776)	(4,181)	(5,761)
Net fee and commission income	**5,727**	**9,455**	**1,648**	**(3,032)**	**13,798**
Net gain on derivative financial instruments	-	-	311,100	-	311,100
Net loss on foreign exchange operations	-	-	(831)	(245,117)	(245,948)
Expenses/(gain) on change in fair value of investment property	-	-	-	(3,041)	(3,041)
Other income	11,635	667	-	5,366	17,668
Operating income	**162,588**	**(22,634)**	**279,581**	**(255,151)**	**164,384**
Operating expenses	(2,455)	-	-	(97,792)	(100,247)
Recovery of value of repossessed assets	-	-	-	(5,531)	(5,531)
Allowance for impairment losses on interest bearing financial assets, net	(16,777)	(17,458)	7	-	(34,228)
Allowance for impairment losses on other financial assets, net	(660)	(273)	-	(14)	(947)
Allowance for other risks and payments	-	-	-	(4,268)	(4,268)
Allowance for loan commitments, net	29	1,043	(986)	-	86
Financial result of segment before income tax expense	**142,725**	**(39,322)**	**278,602**	**(362,756)**	**19,249**
Profit before income tax					**19,249**
Income tax expense					(1,808)
Net profit for the year					**17,441**

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Treasury transactions**	**Other/Not distributed**	**Total**
Segment assets	342,347	280,177	948,164	277,708	1,848,396
Segment liabilities	291,285	767,043	229,481	175,949	1,463,758
Other segment information					
Cash and balances with the National Bank of the Republic of Belarus	-	-	163,911	-	163,911
Derivative financial assets	-	-	177	-	177
Due from banks	-	-	48,873	-	48,873
Financial assets available for sale	-	-	14,906	-	14,906
Loans to customers	337,427	279,853	-	-	617,280
Investments held to maturity	-	-	720,297	-	720,297
Other assets	4,920	324	-	-	5,244
Derivative financial liabilities	-	-	7	-	7
Due to the National Bank of the Republic of Belarus	-	-	127,806	-	127,806
Due to other banks		-	101,668	-	101,668
Customer accounts	290,377	766,585	-	-	1,056,962
Other liabilities	908	458	-	-	1,366

The information on operating segments for 2014 is presented below:

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Treasury transactions**	**Other/Not distributed**	**Inflation effect**	**Total**
Interest income	178,119	40,692	2,628	-	14,413	235,852
Interest expense	(14,479)	(65,358)	(3,616)	(4,922)	(6,006)	(94,381)
Net interest income	**163,640**	**(24,666)**	**(988)**	**(4,922)**	**8,407**	**141,471**
Fee and commission income	5,769	9,453	7,086	1,745	1,267	25,320
Fee and commission expense	(393)	(179)	(804)	(3,252)	(283)	(4,911)
Net fee and commission income	**5,376**	**9,274**	**6,282**	**(1,507)**	**984**	**20,409**
Net gain on derivative financial instruments	-	-	119,023	-	5,894	124,917
Net loss on foreign exchange operations	-	-	(7,372)	(90,060)	(4,102)	(101,534)
Gain on change in fair value of investment property	-	-	-	11,806	-	11,806
Other income	8,398	109	-	3,216	682	12,405
Operating income	**177,414**	**(15,283)**	**116,945**	**(81,467)**	**11,865**	**209,474**
Operating expenses	(3,235)	-	-	(89,470)	(5,521)	(98,226)
Recovery of value of repossessed assets	-	-		(173)	-	(173)
Allowance for impairment losses on interest bearing financial assets, net	(14,699)	(5,841)	(31)	-	(1,046)	(21,617)
Allowance for impairment losses on other financial assets, net	(453)	(181)	-	35	(30)	(629)
Allowance for loan commitments, net	29	(327)	-	-	2	(296)
Financial result of segment before loss on net monetary position and income tax expense	**159,056**	**(21,632)**	**116,914**	**(171,075)**	**5,270**	**88,533**
Loss on net monetary position	-	-	-	-	-	(25,953)
Profit before income tax						**62,580**
Income tax expense	-	-	-	-	-	(14,812)
Net profit for the year						**47,768**

In millions of Belarusian Roubles	**Services to individuals**	**Services to legal entities**	**Treasury transactions**	**Other/Not distributed**	**Inflation effect**	**Total**
Segment assets	392,091	254,002	649,308	189,807	-	1,485,208
Segment liabilities	299,897	713,732	28,893	88,633	-	1,131,155
Other segment information						
Cash and balances with the National Bank of the Republic of Belarus	-	-	180,979	-	-	180,979
Derivative financial assets	-	-	448,785	-	-	448,785
Due from banks	-	-	19,544	-	-	19,544
Loans to customers	388,758	253,430	-	-	-	642,188
Other assets	3,333	572	-	-	-	3,905
Due to other banks	-	-	28,893	-	-	28,893
Customer accounts	298,163	696,480	-	-	-	994,643
Debt securities issued	-	16,554	-	-	-	16,554
Other liabilities	1,734	698	-	-	-	2,432

Information on structure of interest and fee and commission income and expenses of the Bank by types of activities is presented in Notes 24, 25. The geographical structure analysis of financial assets and liabilities of the Bank is presented in Note 34.

37. Related parties transactions

In the ordinary course of business the Bank performs transactions with its main shareholders, management of the Bank and other related parties. These transactions include loan granting, attraction of resources and other transactions. Based on the Bank's policy all transactions with related parties shall be performed on the same terms as transactions with independent parties, except for subordinated loan received under favourable terms from EBRD (Note 21). As at 31 December 2015 average interest rates on loans in Belarusian roubles to related parties were 35% per annum, on foreign currency loans – 12% per annum; average rates on borrowings in Belarusian roubles were 29% per annum and in foreign currency were 4.5%.

Balances of transactions with related parties as at 31 December 2015 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers	-	6,075	674
Allowance for impairment	-	-	(4)
Loans to customers (less allowance for impairment)	0	6,075	670
Subordinated loans	141,717	-	-
Customer accounts	166	250	5,501

Balances of transactions with related parties as at 31 December 2014 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Loans to customers	-	11,032	444
Allowance for impairment	-	(717)	(4)
Loans to customers (less allowance for impairment)	0	10,315	440
Subordinated loans	60,210	-	-
Customer accounts	625	1,076	1,651

Credit related commitments on transactions with related parties as at 31 December 2015 and 2014 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Untapped lines of credit as at 31 December 2015	-	-	160
Untapped lines of credit as at 31 December 2014	-	-	164

The income and expenses on transactions with related parties for 2015 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	-	479	63
Interest expenses	(7,043)	(54)	(70)
Fee and commission income	30	38	7
Expenses on operating lease	(873)	(1,639)	-

The income and expenses on transactions with related parties for 2014 are presented below:

In millions of Belarusian Roubles	**Shareholders**	**Entities under common control**	**Key management personnel**
Interest income	374	1,014	16
Interest expenses	(4,189)	(9)	(755)
Fee and commission income	11	38	1
Expenses on operating lease	(3,719)	(614)	-

The information on payments to key management personnel and members of the Board of Directors for 2015 and 2014 is presented below:

In millions of Belarusian Roubles	**2015**	**2014**
Salary and other short-term personnel expenses	5,181	4,299
Remuneration to the members of Board of Directors	4,354	2,865

38. Subsequent events

In March 2016, the Government of the Republic of Belarus received a loan from Eurasian Fund for stabilization and development (EFSD) in the amount of USD 2 billion for 10 years, including 5-year grace period. Moreover, the Government of the Republic of Belarus negotiate with the International Monetary Fund (IMF) concerning the loan in the amount of USD 3 billion in terms of extended facility at 2.28% for 10 years.

International rating agency Fitch Ratings in February 2016 assigned sovereign long-term credit rating "B-" and short-term rating "B" with the "stable" forecast.

From 1 July 2016, the denomination of national currency will take place in the Republic of Belarus. Bank notes issued in 2000 will be replaced for bank notes and coins issued in 2009 in a 10 000:1 proportion.

On 1 April 2016 the refinancing rate was decreased from 25% to 24% and on 1 May 2016 to 22% . As at 1 May 2016 the Belarusian rouble weakened against a basket of currencies by 10.1% compared to 31 December 2015.

In January 2016 the Bank was informed about decision of the court, which approved existence of liabilities as at 31 December 2015 and, thus, necessitated the creation of provision (Note 32). Upon release of the real financial statements court's decision has not been effective, the Bank filed the cassational appeal in the court of highest resort.

In March 2016 the General meeting of shareholders made a decision to distribute no less then 5% of profit for 2015 in reserve fund of the Bank in accordance with legal requirements.

As at 1 May 2016 the amount of regulatory capital of the Bank was 480,4 billion of Belarusian rouble.