

Translation from the original in Russian

# **"Priorbank" JSC**

## **Consolidated financial statements**

*Year ended 31 December 2015  
together with the audit report of an independent audit firm*

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## **Translation from the original in Russian**

### **Audit report of the independent audit firm on the consolidated financial statements of "Priorbank" Joint-Stock Company for the period from 1 January 2015 to 31 December 2015**

To the Chairman of the Management Board  
of "Priorbank" Joint-Stock Company  
Mr. S.A. Kostyuchenko

To the shareholders, Supervisory Board and Executive Committee  
of "Priorbank" Joint-Stock Company

We have audited the accompanying consolidated financial statements of "Priorbank" Joint-Stock Company and its subsidiaries (hereinafter, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated income statement, consolidated statements of comprehensive income, of changes in equity and of cash flows for the year 2015, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of management of the audited entity for the preparation of consolidated financial statements*

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

#### *Responsibility of the audit firm*

Our responsibility is to express an opinion on the fairness of the consolidated financial statements based on our audit.

We conducted our audit in accordance with the Law of the Republic of Belarus "On Auditing Activity" of 12 July 2013, National Rules for Auditing Activities effective in the Republic of Belarus and International Standards on Auditing. Those rules and standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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



Совершенствуя бизнес,  
улучшаем мир

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

### *Audit opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of "Priorbank" Joint-Stock Company and its subsidiaries as at 31 December 2015, and its financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.



P.A. Laschenko  
Partner, FCCA  
Director, Ernst & Young LLC

22 April 2016

### **Details of the audited entity**

Name: "Priorbank" Joint-Stock Company  
"Priorbank" Joint-Stock Company was registered by the National Bank of the Republic of Belarus on 12 July 1991, registration No. 12.  
Address: 220002, Republic of Belarus, Minsk, V. Khoruzhey str., 31-A

### **Details of the audit firm**

Name: Ernst & Young Limited Liability Company  
Certificate of State Registration No. 577 issued by the Minsk City Executive Committee on 7 April 2005.  
Address: 220004, Republic of Belarus, Minsk, Klary Tsetkin str., 51A, 15th floor.

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Consolidated financial statements

**Consolidated statement of financial position**

**As at 31 December 2015**

(millions of Belarusian rubles)

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Cash and cash equivalents	6	7,699,939	2,895,367
Amounts due from credit institutions	7	239,347	177,875
Derivative financial assets	8	7,513	953,897
Loans to customers	9	17,567,434	15,175,224
Held-to-maturity investment securities	11	2,140,931	1,366,148
Property and equipment	12	1,261,028	1,218,567
Intangible assets	13	245,470	229,365
Current income tax assets		335	3,160
Deferred income tax assets	14	-	41
Other assets	15	581,854	744,716
<b>Total assets</b>		<b>29,743,851</b>	<b>22,764,360</b>
<b>Liabilities</b>			
Amounts due to credit institutions	16	5,130,609	4,721,131
Derivative financial liabilities	8	5,777	16,122
Amounts due to customers	17	16,470,125	12,091,135
Amounts due to international financial institutions	18	174,659	176,202
Debt securities issued	19	68,892	177,225
Current income tax liabilities		56,066	41,423
Deferred income tax liabilities	14	627,489	329,247
Provisions	10	4,797	3,699
Other liabilities	15	671,882	457,697
<b>Total liabilities</b>		<b>23,210,296</b>	<b>18,013,881</b>
<b>Equity</b>			
Share capital	20	2,969,080	2,969,080
Additional paid-in capital		1,929	1,929
Foreign currency translation reserve		17,580	-
Retained earnings		3,433,682	1,710,647
Revaluation reserve for the net pension liability		(67,809)	(35,368)
<b>Total equity attributable to shareholders of the Bank</b>		<b>6,354,462</b>	<b>4,646,288</b>
Non-controlling interests		179,093	104,191
<b>Total equity</b>		<b>6,533,555</b>	<b>4,750,479</b>
<b>Total equity and liabilities</b>		<b>29,743,851</b>	<b>22,764,360</b>

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

Vadim B. Matyushkin



Acting Chairman of the Board

Zoya P. Yarmosh

Executive Director

22 April 2016

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

## Translation from the original in Russian

"Priorbank" JSC

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### Consolidated income statement

**For the year ended 31 December 2015**

*(millions of Belarusian rubles)*

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
<b>Interest income</b>			
Loans to customers		3,313,710	2,603,299
Held-to-maturity securities		130,102	57,874
Cash and cash equivalents		107,256	62,444
Amounts due from credit institutions		7,429	8,239
		<b>3,558,497</b>	<b>2,731,856</b>
Securities designated at fair value through profit or loss		83,727	36,091
		<b>3,642,224</b>	<b>2,767,947</b>
<b>Interest expense</b>			
Amounts due to customers		(995,230)	(808,514)
Amounts due to credit institutions		(263,569)	(233,842)
Debt securities issued		(49,308)	(21,270)
Amounts due to the National Bank of the Republic of Belarus		(20,708)	(426)
Amounts due to international financial institutions		(1,640)	(6,243)
		<b>(1,330,455)</b>	<b>(1,070,295)</b>
<b>Net interest income</b>		<b>2,311,769</b>	<b>1,697,652</b>
Charge of allowance for loan impairment	9	(626,777)	(156,270)
<b>Net interest income after allowance for loan impairment</b>		<b>1,684,992</b>	<b>1,541,382</b>
Fee and commission income		1,203,896	1,126,954
Fee and commission expense		(441,780)	(319,270)
<b>Net fee and commission income</b>	22	<b>762,116</b>	<b>807,684</b>
Net gains from foreign currencies:			
- dealing		791,114	217,109
- translation differences		910,333	118,091
Net gains from available-for-sale investment securities		-	29,452
Other income	23	83,469	60,111
<b>Non-interest income</b>		<b>1,784,916</b>	<b>424,763</b>
Personnel expenses	24	(675,073)	(563,935)
Depreciation and amortization	12, 13	(173,738)	(164,789)
Other operating expenses	24	(497,670)	(471,883)
Taxes other than income tax		(26,991)	(19,913)
(Provision)/reversal of other provisions	10	(1,098)	3,145
<b>Non-interest expense</b>		<b>(1,374,570)</b>	<b>(1,217,375)</b>
Loss on net monetary position		-	(414,573)
<b>Income before income tax expense</b>		<b>2,857,454</b>	<b>1,141,881</b>
Income tax expense	14	(690,805)	(373,037)
<b>Profit for the year</b>		<b>2,166,649</b>	<b>768,844</b>
Attributable to:			
- shareholders of the Bank		2,102,069	746,437
- non-controlling interests		64,580	22,407
		<b>2,166,649</b>	<b>768,844</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

## Translation from the original in Russian

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### Consolidated statement of comprehensive income

For the year ended 31 December 2015

(millions of Belarusian rubles)

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
<b>Profit for the year</b>		<b>2,166,649</b>	<b>768,844</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of the financial statements of a foreign subsidiary	20	27,904	–
Realized gains on available-for-sale investment securities, reclassified to profit or loss	20	–	(29,452)
Income tax effect	20	–	5,301
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>		<b>27,904</b>	<b>(24,151)</b>
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gain/(loss) on defined pension plans	20	(43,255)	17,109
Income tax effect	20	10,814	222
<b>Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods</b>		<b>(32,441)</b>	<b>17,331</b>
<b>Other comprehensive loss for the year, net of tax</b>		<b>(4,537)</b>	<b>(6,820)</b>
<b>Total comprehensive income for the year</b>		<b>2,162,112</b>	<b>762,024</b>
Attributable to:			
- shareholders of the Bank		2,087,208	739,617
- non-controlling interests		74,904	22,407
		<b>2,162,112</b>	<b>762,024</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

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### Consolidated statement of changes in equity

For the year ended 31 December 2015

(millions of Belarusian rubles)

	<i>Attributable to shareholders of the Bank</i>						<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Foreign currency translation reserve</i>	<i>Retained earnings</i>	<i>Revaluation reserve for the net pension liability</i>	<i>Other reserves</i>			
<b>At 31 December 2013</b>	<b>2,969,080</b>	<b>1,929</b>	<b>–</b>	<b>1,252,843</b>	<b>(52,699)</b>	<b>24,151</b>	<b>4,195,304</b>	<b>71,361</b>	<b>4,266,665</b>
Profit for the year	–	–	–	746,437	–	–	746,437	22,407	768,844
Other comprehensive income/(loss) for the year	–	–	–	–	17,331	(24,151)	(6,820)	–	(6,820)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>746,437</b>	<b>17,331</b>	<b>(24,151)</b>	<b>739,617</b>	<b>22,407</b>	<b>762,024</b>
Dividends to shareholders of the Bank (Note 20)	–	–	–	(278,212)	–	–	(278,212)	–	(278,212)
Changes in non-controlling interests	–	–	–	(10,421)	–	–	(10,421)	10,421	–
Establishment of subsidiaries	–	–	–	–	–	–	–	2	2
<b>At 31 December 2014</b>	<b>2,969,080</b>	<b>1,929</b>	<b>–</b>	<b>1,710,647</b>	<b>(35,368)</b>	<b>–</b>	<b>4,646,288</b>	<b>104,191</b>	<b>4,750,479</b>
Profit for the year	–	–	–	2,102,069	–	–	2,102,069	64,580	2,166,649
Other comprehensive income/(loss) for the year	–	–	17,580	–	(32,441)	–	(14,861)	10,324	(4,537)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>17,580</b>	<b>2,102,069</b>	<b>(32,441)</b>	<b>–</b>	<b>2,087,208</b>	<b>74,904</b>	<b>2,162,112</b>
Dividends to shareholders of the Bank (Note 20)	–	–	–	(379,036)	–	–	(379,036)	–	(379,036)
Changes in non-controlling interests	–	–	–	2	–	–	2	(2)	–
<b>At 31 December 2015</b>	<b>2,969,080</b>	<b>1,929</b>	<b>17,580</b>	<b>3,433,682</b>	<b>(67,809)</b>	<b>–</b>	<b>6,354,462</b>	<b>179,093</b>	<b>6,533,555</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.



## Translation from the original in Russian

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### Consolidated statement of cash flows

For the year ended 31 December 2015

(millions of Belarusian rubles)

	<i>Notes</i>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>			
Interest received		3,616,141	2,709,153
Interest paid		(1,336,577)	(1,077,844)
Fees and commissions received		1,206,477	1,112,580
Fees and commissions paid		(440,142)	(305,557)
Gains less losses from foreign currencies		2,458,249	1,246,695
Other income received		72,090	62,163
Personnel expenses paid		(707,363)	(553,787)
Other operating expenses paid		(430,702)	(469,030)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>4,438,173</b>	<b>2,724,573</b>
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(61,472)	(21,680)
Loans to customers		1,321,242	(2,059,795)
Other assets		185,647	(58,714)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the National Bank of the Republic of Belarus		-	(131)
Amounts due to credit institutions		(1,653,645)	(106,031)
Amounts due to international financial institutions		(63,657)	(89,859)
Amounts due to customers		570,591	18,739
Other liabilities		81,759	165,147
<b>Net cash from operating activities before income tax</b>		<b>4,818,638</b>	<b>572,249</b>
Income tax paid		(364,240)	(211,629)
<b>Net cash from operating activities</b>		<b>4,454,398</b>	<b>360,620</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		-	(501,700)
Proceeds from sale of property and equipment and intangible assets		30,797	15,064
Purchase of property and equipment and intangible assets	12, 13	(268,439)	(211,518)
Proceeds from sale of available-for-sale investment securities		-	46,610
Establishment of subsidiaries		-	2
<b>Net cash used in investing activities</b>		<b>(237,642)</b>	<b>(651,542)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of debt securities		8,456	30,296
Redemption of debt securities		(137,863)	(51,391)
Dividends to shareholders of the Bank		(379,036)	(265,016)
<b>Net cash used in financing activities</b>		<b>(508,443)</b>	<b>(286,111)</b>
Effect of exchange rates changes on cash and cash equivalents		1,096,259	204,192
<b>Net increase in cash and cash equivalents</b>		<b>4,804,572</b>	<b>(372,841)</b>
Effect of inflation on monetary items		-	(579,835)
Cash and cash equivalents at 1 January		2,895,367	3,848,043
<b>Cash and cash equivalents at 31 December</b>	6	<b>7,699,939</b>	<b>2,895,367</b>

The accompanying notes on pages 6-60 are an integral part of these consolidated financial statements.

## Translation from the original in Russian

"Priorbank" JSC

Notes to the 2015 consolidated financial statements

(millions of Belarusian rubles)

### 1. Principal activities

"Priorbank" Joint-Stock Company (hereinafter, "Priorbank" or the "Bank") was founded in 1989 as an open joint-stock company under the laws of the Republic of Belarus. The Bank operates under a banking license issued by the National Bank of the Republic of Belarus (hereinafter, the "NBRB") in August 2008 and extended in May 2013. The Bank also possesses licenses for securities operations and trust activities from the State Committee for Securities under the Ministry of Finance of the Republic of Belarus, which were granted in April 1997 and extended in April 2011.

The Bank accepts deposits from the public and legal entities, extends credit, transfers payments in Belarus and abroad, maintains foreign exchange operations and provides banking services to legal entities and individuals. Its head office is in Minsk, and it has 95 operating outlets in the Republic of Belarus.

These consolidated financial statements comprise the Bank and its subsidiaries (jointly referred to as the "Group"). The list of consolidated subsidiaries is disclosed in Note 2. The Bank's legal address is 31-A, ul. V. Khoruzhey, Minsk, 220002, Republic of Belarus.

As at 31 December 2015 and 2014, Priorbank had the following shareholding structure:

<b>Shareholders</b>	<b>2015</b> <b>%</b>	<b>2014</b> <b>%</b>
Raiffeisen CIS Region Holding GmbH	87.74	87.74
Other	12.26	12.26
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Raiffeisen Bank International AZ is the ultimate parent company of the Group, owning 100% of shares of Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

### 2. Basis of preparation

#### General

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

The Bank and its subsidiaries are required to maintain accounting records and prepare financial statements in accordance with Belarusian accounting and reporting legislation and related instructions. These consolidated financial statements are based on the statutory financial statements and accounting records of the Bank and its subsidiaries, as adjusted and reclassified in order to comply with IFRS.

These consolidated financial statements have been prepared under the historical cost convention, taking into account the effect of hyperinflation for non-monetary items in accordance with IAS 29 *Financial Reporting in Hyperinflationary Economies*, except as disclosed in the summary of accounting policies. For example, derivative financial instruments have been measured at fair value.

These consolidated financial statements are presented in millions of Belarusian rubles ("BYR"), unless otherwise indicated.

#### Inflation accounting

In accordance with the criteria in IAS 29 *Financial Reporting in Hyperinflationary Economies*, the economy of the Republic of Belarus was considered to be hyperinflationary from 1 January 2011 to 31 December 2014.

Since 1 January 2015, the economy of the Republic of Belarus has no longer been considered hyperinflationary, and the value of the Bank's non-monetary assets, liabilities and equity presented in measuring units current as at 31 December 2014 was used to calculate opening balances as at 1 January 2015.

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(millions of Belarusian rubles)

### 2. Basis of preparation (continued)

#### Subsidiaries

The consolidated financial statements include the following subsidiaries:

<i>Subsidiary</i>	<i>Ownership, %</i>		<i>Country</i>	<i>Date of incorporation</i>	<i>Industry</i>	<i>Date of acquisition</i>
	<i>2015</i>	<i>2014</i>				
Unitary Enterprise "PriortransAgro"	100	100	Belarus	June 1991	Agriculture	–
Unitary Enterprise "Dom Office 2000"	100	100	Belarus	February 2001	Construction	–
Unitary Insurance Enterprise "Priorlife"	100	100	Belarus	April 2001	Insurance	–
Raiffeisen Leasing JLLC	70	70	Belarus	July 2005	Leasing	June 2006
Raiffeisen-leasing Lithuania UAB	90	90	Lithuania	January 2011	Leasing	January 2011
Developer-Invest LLC	–	99	Belarus	April 2010	Developer organization	January 2011
Insurance broker Studiya Strakhovaniya LLC	100	99	Belarus	September 2014	Insurance	September 2014

In November 2015, the Group sold its interest in the charter capital of Developer-Invest LLC.

### 3. Summary of accounting policies

#### Changes in accounting policies

During the year the Group has adopted the following amended IFRS effective for annual reporting periods beginning on 1 January 2015:

##### *Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions*

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

##### *Annual improvements 2010-2012 cycle*

These improvements are effective from 1 July 2014 and Group has applied these amendments for the first time in these consolidated financial statements. They include:

##### *IFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- ▶ A performance condition must contain a service condition.
- ▶ A performance target must be met while the counterparty is rendering service.
- ▶ A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- ▶ A performance condition may be a market or non-market condition.
- ▶ If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

(millions of Belarusian rubles)

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

#### Changes in accounting policies (continued)

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact Group's accounting policy.

##### *IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- ▶ An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- ▶ The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 5 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of decision making.

##### *IFRS 13 Fair Value Measurement*

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

##### *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*

The amendments are applied retrospectively and clarify in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current period.

##### *IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

(millions of Belarusian rubles)

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

#### Changes in accounting policies (continued)

##### *Annual improvements 2011-2013 cycle*

These improvements are effective from 1 July 2014 and Group has applied these amendments for the first time in these consolidated financial statements. They include:

##### *IFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- ▶ Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- ▶ This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Group is not a joint arrangement, and thus this amendment is not relevant for the Bank and its subsidiaries.

##### *IFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

##### *IAS 40 Investment Property*

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

##### *Meaning of effective IFRSs – Amendments to IFRS 1*

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

#### **Basis of consolidation**

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

(millions of Belarusian rubles)

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

#### Basis of consolidation (continued)

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

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses of a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognizes the assets (including goodwill) and liabilities of the subsidiary, the carrying value of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

#### Fair value measurement

The Group measures financial instruments, such as derivatives, at fair value at each reporting date. Fair values of financial instruments measured at amortized cost are disclosed in Note 27.

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

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

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in the best and most effective way or by selling it to another market participant that would use the asset in the best and most effective way.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(millions of Belarusian rubles)

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

#### Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are classified as at fair value through profit or loss unless they are designated as effective hedging instruments. Gains and losses on financial assets at fair value through profit or loss are recognized in the consolidated income statement.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available for sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(millions of Belarusian rubles)

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

#### Financial assets (continued)

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognized in the consolidated income statement.

##### **Reclassification of financial assets**

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- ▶ A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.
- ▶ Other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value at the date of reclassification. Any gain or loss previously recognized in the income statement is not reversed. The fair value of the financial asset at the date of reclassification becomes its new cost or amortized cost, as applicable.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amounts due from the NBRB (excluding obligatory reserves) and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

#### **Derivative financial instruments**

In the normal course of business, the Group enters into various derivative financial instruments including forwards and swaps in the foreign exchange market. Such financial instruments are classified as at fair value through profit or loss. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated income statement within net gains from foreign currencies, translation differences position.



(millions of Belarusian rubles)

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

#### Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the NBRB, amounts due to credit institutions, amounts due to customers, amounts due to international financial institutions, debt securities issued and other borrowed funds. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the consolidated income statement when the borrowings are derecognized as well as through the amortization process.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying value of the liability and the consideration paid is recognized in the consolidated income statement.

#### Leases

##### *i. Finance – Group as lessor*

The Group recognizes lease receivables at a value equal to the net investment in the lease, starting from the date of commencement of the lease term. The Group presents leased assets as loans to customers. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct cost are included in the initial measurement of the lease receivables.

##### *ii. Operating – Group as lessee*

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

##### *iii. Operating – Group as lessor*

The Group presents assets subject to operating leases in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income. The aggregate cost of incentives provided to lessees is recognized as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying value of the leased asset.

#### Measurement of financial instruments at initial recognition

Upon initial recognition, financial instruments are measured at fair value adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

At initial recognition the fair value of a financial instrument is best evidenced by the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- ▶ If the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Group recognizes the difference between the fair value at initial recognition and the transaction price as a gain or loss.
- ▶ In all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognizes that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

(millions of Belarusian rubles)

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

#### Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The right to set-off must not be contingent on a future event and should be enforceable in all the following circumstances:

- ▶ The normal course of business
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of an entity or any of its counterparties

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Amounts due from credit institutions and loans to customers*

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Such assessment involves consideration of both quantitative and qualitative characteristics of a financial asset, resulting in the assignment of proper rating to each financial asset of the Group based on the established internal credit rating system. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying value of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Interest income continues to be accrued on the reduced carrying value based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated income statement.

(millions of Belarusian rubles)

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

#### Impairment of financial assets (continued)

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *Held-to-maturity financial investments*

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows. The carrying value of the asset is reduced and the amount of the loss is recognized in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated income statement.

#### *Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its initial cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement) is removed from other comprehensive income and recognized in the consolidated income statement.

Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income is based on the reduced carrying value and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

(millions of Belarusian rubles)

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

#### Impairment of financial assets (continued)

##### *Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- ▶ If the currency of the loan has been changed, the old loan is derecognized and the new loan is recognized in the statement of financial position.
- ▶ If the loan restructuring is not caused by the financial difficulties of the borrower, the Group uses the same approach as for financial liabilities described below.
- ▶ If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the future cash flows discounted using the original effective interest rate and the carrying value before restructuring as an expense for impairment in the reporting period. In case the loan is not impaired after restructuring, the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management of the Group continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Such loans continue to be subject to an individual or collective impairment assessment and their recoverable amount is calculated using the loan's original or current effective interest rate.

#### Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized in the consolidated statement of financial position where:

- ▶ The rights to receive cash flows from the asset have expired.
- ▶ The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement.
- ▶ The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying value of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying values is recognized in the consolidated income statement.

## Translation from the original in Russian

"Priorbank" JSC

Notes to the 2015 consolidated financial statements

(millions of Belarusian rubles)

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

#### Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated statement of financial position at fair value, in "Other liabilities", being the premium received.

Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement. The premium received is recognized in the consolidated income statement on a straight-line basis over the life of the guarantee.

#### Taxation

Current income tax expense is calculated in accordance with the regulations of the Republic of Belarus applicable to the Group companies operating in the Republic of Belarus, including the representative office of Raiffeisen-leasing Lithuania UAB. Current income tax of the subsidiary Raiffeisen-leasing Lithuania UAB is calculated and paid in accordance with the applicable legislation of Lithuania.

Deferred tax assets and liabilities are calculated in respect of all temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

Belarus also has various operating taxes, which are assessed on the Group's activities. These taxes are separately presented in the consolidated income statement.

#### Property and equipment

Property and equipment are initially carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment, as adjusted for hyperinflation. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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

	<u>Years</u>
Buildings	50
Furniture, fixtures and other	5-10

(millions of Belarusian rubles)

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

#### Property and equipment (continued)

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

#### Intangible assets

Intangible assets include computer software and other intangible assets (including rights to use land plots, licenses to perform activity).

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, as adjusted for hyperinflation.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of six years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at each reporting year-end.

#### Precious metals

Non-monetary gold and other non-monetary precious metals are recorded at the lower of historical cost and net realizable value at balance sheet date.

#### Provisions

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

#### Retirement and other employee benefit obligations

The Group participates in the state pension system of the Republic of Belarus, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such expense is charged in the period the related salaries are earned.

In addition, the Group operates a defined benefit plan through its wholly owned subsidiary Unitary Insurance Enterprise "Priorlife" which provides eligible employees with retirement benefits upon reaching the retirement age of 60 for men and 55 for women and upon meeting certain other requirements.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Revaluation results, including gains and losses and excluding net interest, are recognized directly in the consolidated statement of financial position with respective amount allocated to reserve of revaluation of net pension plan liability through other comprehensive income in the period when the respective gains and losses occurred. Revaluation results not to be reclassified to profit or loss in subsequent periods.

Past services costs are recognized in profit or loss on the earlier of:

- ▶ The date of the plan amendment or curtailment, and
- ▶ The date that the Group recognizes restructuring-related costs

(millions of Belarusian rubles)

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

#### Retirement and other employee benefit obligations (continued)

Net interest is calculated using the discount rate with respect to net defined benefit plan liabilities. The Group recognizes the following changes of net defined benefit plan liabilities in the consolidated income statement as personnel expenses:

- ▶ Service costs including current service costs, past service costs, gains and losses upon curtailment and unscheduled settlements under the plan
- ▶ Net interest gains or losses

#### Share capital

##### *Share capital*

Ordinary shares and preferred shares are both classified as equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Share capital and additional paid-in capital are recognized at cost adjusted for hyperinflation.

##### *Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

#### Segment reporting

The Group's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, and Other.

#### Contingencies

Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

#### Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying value of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts.

The adjusted carrying value is calculated based on the original effective interest rate and the change in carrying value is recorded as interest income or expense.

(millions of Belarusian rubles)

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

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying value.

##### *Fee and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and fees for asset management, custody and other management and advisory services.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- ▶ *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

##### *Dividend income*

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

#### Foreign currency translation

The consolidated financial statements are presented in Belarusian rubles, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated income statement as "Net gains from foreign currencies – translation differences". Non-monetary items that are measured in terms of actual cost in a foreign currency are translated using the exchange rates at the dates of the transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the NBRB exchange rate on the date of the transaction are included in net gains from foreign currencies. The official NBRB exchange rates at 31 December 2015 and 2014 were 18,569 Belarusian rubles and 11,850 Belarusian rubles to 1 US dollar, respectively.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Group are translated into Belarusian rubles at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to other comprehensive income. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Group, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in profit or loss.



(millions of Belarusian rubles)

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

#### Future changes in accounting policies

##### *Standards issued but not yet effective*

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

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The Group expects a significant impact on its equity due to adoption of IFRS 9 impairment requirements, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 *Leases*, insurance contracts within the scope of IFRS 4 *Insurance Contracts* and financial instruments and other contractual rights and obligations within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* (or IFRS 9 *Financial Instruments*, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

##### *IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

(millions of Belarusian rubles)

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

#### Future changes in accounting policies (continued)

##### *Amendments to IFRS 11 – Joint Arrangements: Accounting for Acquisitions of Interests*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### *Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

##### *Amendments to IAS 16 and IAS 41 – Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group as the Group does not have any bearer plants.

##### *Amendments to IAS 27 – Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS.

The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

##### *Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognizes a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016, with early adoption permitted.

(millions of Belarusian rubles)

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

#### Future changes in accounting policies (continued)

##### *Amendments to IAS 1 – Disclosure Initiative*

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- ▶ The materiality requirements in IAS 1
- ▶ That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- ▶ That entities have flexibility as to the order in which they present the notes to financial statements
- ▶ That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### *Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

##### *Annual improvements 2012-2014 cycle*

These improvements are effective on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

##### *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal*

Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification. The amendment must be applied prospectively to changes in methods of disposal that occur in annual periods beginning on or after 1 January 2016, with early adoption permitted.

##### *IFRS 7 Financial Instruments: Disclosures – servicing contracts*

IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The Board was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset.

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

#### Future changes in accounting policies (continued)

An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.

The amendment must be applied for annual periods beginning on or after 1 January 2016, with early adoption permitted. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

#### *IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements*

In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "An entity shall apply those amendments for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods". The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.

The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

#### *IAS 19 Employee Benefits – regional market issue regarding discount rate*

The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied for annual periods beginning on or after 1 January 2016, with early adoption permitted.

#### *IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. The amendment must be applied retrospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted.

### 4. Significant accounting judgments and estimates

#### Estimation uncertainty

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognized in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

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#### 4. Significant accounting judgments and estimates (continued)

##### Estimation uncertainty (continued)

###### *Allowance for impairment of loans and receivables*

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of actual data relating to similar borrowers.

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

The allowance for loan impairment recognized in the consolidated statement of financial position as at 31 December 2015 amounted to BYR 996,534 million (2014: BYR 407,101 million). More details are provided in Note 9.

###### *Assessment of payment liabilities under the pension plan of Unitary Insurance Enterprise "Priorlife"*

A defined benefit obligation is assessed on actuarial basis using projected unit credit method. The estimate is based on management's assumption regarding rates of salary growth, inflation and discounts. Other assumptions used, the estimate might differ. Sensitivity analysis to changes of key assumptions used in determining benefit obligations is disclosed in Note 25.

###### *Fair value of financial instruments*

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

###### *Deferred tax assets*

A deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Estimation of probabilities is based on management's estimation of future taxable profit and involves the exercise of significant judgment of the management of the Group. Further details regarding taxation issues are provided in Note 14.

#### 5. Segment information

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

Retail banking – principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit cards facilities and funds transfer facilities, provision of leasing services

Corporate banking – principally handling loans, opening of deposits and current accounts for corporate and institutional customers, except for banking financial institutions

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

For the purpose of segment reporting, interest is allocated using the direct method based on the actual results of each segment.

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### 5. Segment information (continued)

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

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2015 or 2014.

Non-current assets and deferred tax assets are related to the Republic of Belarus. Generally revenue is earned from sources in the Republic of Belarus.

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments:

2015	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Other/ unallocated</i>	<i>Total</i>
<b>External revenue</b>				
Interest income	942,440	2,376,808	322,976	<b>3,642,224</b>
Interest expense	(570,801)	(448,070)	(311,584)	<b>(1,330,455)</b>
<b>Net interest income</b>	<b>371,639</b>	<b>1,928,738</b>	<b>11,392</b>	<b>2,311,769</b>
Charge of allowance for loan impairment	(84,907)	(541,870)	–	<b>(626,777)</b>
<b>Net interest income after allowance for loan impairment</b>	<b>286,732</b>	<b>1,386,868</b>	<b>11,392</b>	<b>1,684,992</b>
Net fee and commission income	264,571	508,033	(10,488)	<b>762,116</b>
Net gains from foreign currencies	146,706	474,391	1,080,350	<b>1,701,447</b>
Other non-interest income	7,150	46,094	30,225	<b>83,469</b>
Non-interest expense	(654,560)	(638,084)	(81,926)	<b>(1,374,570)</b>
<b>Segment financial results</b>	<b>50,599</b>	<b>1,777,302</b>	<b>1,029,553</b>	<b>2,857,454</b>
Income tax expense				<b>(690,805)</b>
<b>Profit for the year</b>				<b>2,166,649</b>
<b>Assets and liabilities</b>				
Segment assets	2,474,091	15,093,343	12,176,417	<b>29,743,851</b>
<b>Total assets</b>				<b>29,743,851</b>
Segment liabilities	9,447,305	7,091,712	6,671,279	<b>23,210,296</b>
<b>Total liabilities</b>				<b>23,210,296</b>
<b>Other segment information</b>				
Capital expenditure	69,560	7,425	207,013	<b>283,998</b>
Depreciation and amortization	(27,292)	(19,135)	(127,311)	<b>(173,738)</b>
(Provision)/reversal of provisions	–	(1,911)	813	<b>(1,098)</b>

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### 5. Segment information (continued)

<b>2014</b>	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Other/ unallocated</i>	<i>Total</i>
<b>External revenue</b>				
Interest income	852,451	1,753,229	162,267	<b>2,767,947</b>
Interest expense	(467,573)	(367,102)	(235,620)	<b>(1,070,295)</b>
<b>Net interest income</b>	<b>384,878</b>	<b>1,386,127</b>	<b>(73,353)</b>	<b>1,697,652</b>
Charge of allowance for loan impairment	(25,002)	(131,268)	–	<b>(156,270)</b>
<b>Net interest income after allowance for loan impairment</b>	<b>359,876</b>	<b>1,254,859</b>	<b>(73,353)</b>	<b>1,541,382</b>
Net fee and commission income	275,087	534,013	(1,416)	<b>807,684</b>
Net gains from foreign currencies	87,706	88,372	159,122	<b>335,200</b>
Other non-interest income	6,083	31,601	51,879	<b>89,563</b>
Non-interest expense	(619,499)	(534,272)	(63,604)	<b>(1,217,375)</b>
<b>Segment financial results</b>	<b>109,253</b>	<b>1,374,573</b>	<b>72,628</b>	<b>1,556,454</b>
Loss on net monetary position				<b>(414,573)</b>
Income tax expense				<b>(373,037)</b>
<b>Profit for the year</b>				<b>768,844</b>
<b>Assets and liabilities</b>				
Segment assets	2,322,386	13,149,252	7,292,722	<b>22,764,360</b>
<b>Total assets</b>				<b>22,764,360</b>
Segment liabilities	6,130,090	6,488,035	5,395,756	<b>18,013,881</b>
<b>Total liabilities</b>				<b>18,013,881</b>
<b>Other segment information</b>				
Capital expenditure	32,053	13,546	148,483	<b>194,082</b>
Depreciation and amortization	(27,759)	(16,747)	(120,283)	<b>(164,789)</b>
Reversal of provisions	–	1,707	1,438	<b>3,145</b>

### 6. Cash and cash equivalents

Cash and cash equivalents comprise:

	<b>2015</b>	<b>2014</b>
Cash on hand	1,232,004	1,552,671
Current accounts with credit institutions	2,193,917	326,750
Current accounts with the National Bank of the Republic of Belarus	2,017,074	964,466
Time deposits with credit institutions up to 90 days	2,256,944	51,480
<b>Cash and cash equivalents</b>	<b>7,699,939</b>	<b>2,895,367</b>

As at 31 December 2015 liquid funds were represented by short-term deposits with two Belarusian banks and three foreign banks (2014: one foreign bank).

### 7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<b>2015</b>	<b>2014</b>
Obligatory reserves with the National Bank of the Republic of Belarus	114,315	109,083
Time deposits for more than 90 days	125,032	68,792
<b>Amounts due from credit institutions</b>	<b>239,347</b>	<b>177,875</b>

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### 7. Amounts due from credit institutions (continued)

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

As at 31 December 2015, the Bank had time deposits with four Belarusian banks (2014: four Belarusian banks).

### 8. Derivative financial instruments

The Group enters into transactions with derivative financial instruments. The outstanding deals with derivative financial instruments and trading liabilities are presented in the table below. The notional principal is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2015			2014		
	Notional principal	Fair value		Notional principal	Fair value	
		Asset	Liability		Asset	Liability
<b>Foreign exchange contracts (forwards and swaps)</b>						
BYR-EUR contract with NBRB	–	–	–	1,438,000	936,619	–
EUR-USD contract with OECD bank	1,153,135	3,537	(3,029)	1,719,049	15,586	–
USD-EUR contract with OECD bank	–	–	–	8,811	–	(73)
USD-EUR contract with customer	1,157,187	3,664	(2,726)	750,857	–	(12,118)
EUR-RUB contract with customer	–	–	–	10,725	1,692	–
RUB-EUR contract with CIS bank	–	–	–	8,972	–	(1,668)
RUB-USD contract with CIS bank	–	–	–	211,155	–	(2,099)
USD-EUR contract with Belarusian bank	–	–	–	93,470	–	(164)
USD-BYR contract with customer	34,257	188	–	–	–	–
EUR-BYR contract with customer	32,472	64	(12)	–	–	–
RUB-BYR contract with customer	4,024	60	–	–	–	–
BYR-USD contract with CIS bank	13,899	–	(10)	–	–	–
<b>Total derivative financial assets/(liabilities)</b>		<u><u>7,513</u></u>	<u><u>(5,777)</u></u>		<u><u>953,897</u></u>	<u><u>(16,122)</u></u>

As at 31 December 2015, the Group had positions in the following types of derivatives:

#### Forwards

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



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### 8. Derivative financial instruments (continued)

#### Swaps

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

### 9. Loans to customers

Loans to customers comprise:

	2015	2014
Corporate lending	13,423,634	10,829,940
Small business lending	2,491,276	2,383,915
Consumer lending	2,336,067	2,148,515
Residential mortgages	312,991	219,955
<b>Gross loans to customers</b>	<b>18,563,968</b>	<b>15,582,325</b>
Less – Allowance for loan impairment	(996,534)	(407,101)
<b>Loans to customers</b>	<b>17,567,434</b>	<b>15,175,224</b>

As at 31 December 2015, the Group had a concentration of loans represented by BYR 4,600,196 million due from the ten largest third party borrowers (25% of gross loan portfolio) (2014: BYR 3,118,681 million, or 20%). An allowance of BYR 275,465 million (2014: BYR 99,589 million) was recognized against these loans.

Loans have been extended to the following types of customers:

	2015	2014
Private companies	12,854,292	11,395,967
Individuals	2,649,058	2,368,470
State companies	3,060,618	1,817,888
<b>Loans to customers</b>	<b>18,563,968</b>	<b>15,582,325</b>

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

	2015	2014
Manufacturing, including:	7,566,608	6,514,642
Chemicals, rubber, plastics	1,809,818	1,557,739
Other manufacturing	1,306,161	851,986
Metals and metalware production	1,148,294	1,035,597
Machinery, equipment	876,458	393,008
Food, beverages, tobacco products	857,789	808,066
Coking coal, oil products	552,981	629,391
Transport facilities	310,740	440,496
Electric equipment	305,383	252,441
Wood processing	193,840	182,110
Textile industry	158,515	162,403
Pulp and paper industry	41,128	190,368
Pharmaceutical industry	5,501	11,037
Wholesale trade	3,391,454	2,823,194
Individuals	2,649,058	2,368,470
Retail trade	1,937,424	1,150,713
Real estate	1,011,315	801,419
Transport	747,931	715,318
Construction	571,023	586,114
Electrical energy, gas, water supply	122,293	99,611
Other	566,862	522,844
<b>Loans to customers</b>	<b>18,563,968</b>	<b>15,582,325</b>

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### 9. Loans to customers (continued)

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

	<i>Corporate lending 2015</i>	<i>Small business lending 2015</i>	<i>Consumer lending 2015</i>	<i>Residential mortgages 2015</i>	<i>Total 2015</i>
At 31 December 2014	228,984	63,884	91,074	23,159	407,101
Charge for the year	463,004	78,866	73,873	11,034	626,777
Amounts written off	(9,052)	(4,119)	(24,173)	–	(37,344)
<b>At 31 December 2015</b>	<b>682,936</b>	<b>138,631</b>	<b>140,774</b>	<b>34,193</b>	<b>996,534</b>
Individual impairment	533,219	106,362	75,407	23,932	738,920
Collective impairment	149,717	32,269	65,367	10,261	257,614
	<b>682,936</b>	<b>138,631</b>	<b>140,774</b>	<b>34,193</b>	<b>996,534</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>959,735</b>	<b>161,222</b>	<b>77,038</b>	<b>23,932</b>	<b>1,221,927</b>
	<i>Corporate lending 2014</i>	<i>Small business lending 2014</i>	<i>Consumer lending 2014</i>	<i>Residential mortgages 2014</i>	<i>Total 2014</i>
At 31 December 2013	135,699	56,509	84,053	35,503	311,764
Gain on monetary position	(19,019)	(7,920)	(11,779)	(4,976)	(43,694)
Charge for the year	112,543	18,725	32,370	(7,368)	156,270
Amounts written off	(239)	(3,430)	(13,570)	–	(17,239)
<b>At 31 December 2014</b>	<b>228,984</b>	<b>63,884</b>	<b>91,074</b>	<b>23,159</b>	<b>407,101</b>
Individual impairment	140,382	31,279	30,168	15,916	217,745
Collective impairment	88,602	32,605	60,906	7,243	189,356
	<b>228,984</b>	<b>63,884</b>	<b>91,074</b>	<b>23,159</b>	<b>407,101</b>
<b>Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance</b>	<b>340,228</b>	<b>47,133</b>	<b>30,168</b>	<b>15,916</b>	<b>433,445</b>

#### Individually impaired loans

As at 31 December 2015, interest income accrued on individually impaired loans comprised BYR 41,401 million (2014: BYR 13,053 million).

#### Collateral and other credit risk enhancements

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

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables
- ▶ For retail lending, mortgages over residential properties

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

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### 9. Loans to customers (continued)

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

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

The corporate lending portfolio comprises finance lease receivables. Finance lease receivables as at 31 December 2015 are analyzed as follows:

	<i>Not later than 1 year</i>	<i>From 1 year to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Investment in finance leases	925,193	1,597,805	430,144	2,953,142
Unearned future finance income on finance leases	(236,137)	(400,911)	(65,948)	(702,996)
<b>Net investment in finance leases</b>	<b>689,056</b>	<b>1,196,894</b>	<b>364,196</b>	<b>2,250,146</b>

Finance lease receivables as at 31 December 2014 are analyzed as follows:

	<i>Not later than 1 year</i>	<i>From 1 year to 5 years</i>	<i>Later than 5 years</i>	<i>Total</i>
Investment in finance leases	626,895	1,034,720	225,766	1,887,381
Unearned future finance income on finance leases	(149,831)	(252,626)	(27,426)	(429,883)
<b>Net investment in finance leases</b>	<b>477,064</b>	<b>782,094</b>	<b>198,340</b>	<b>1,457,498</b>

### 10. Provisions

The movements in provisions were as follows:

	<i>Legal claims</i>	<i>Guarantees and commitments</i>	<i>Total</i>
<b>31 December 2013</b>	<b>2,758</b>	<b>5,341</b>	<b>8,099</b>
Gain on monetary position	(387)	(748)	(1,135)
Reversal	(1,438)	(1,707)	(3,145)
Utilization	(120)	-	(120)
<b>31 December 2014</b>	<b>813</b>	<b>2,886</b>	<b>3,699</b>
Charge/(reversal)	(813)	1,911	1,098
<b>31 December 2015</b>	<b>-</b>	<b>4,797</b>	<b>4,797</b>

### 11. Investment securities

As at 31 December 2015, held-to-maturity securities comprised bonds issued by the Ministry of Finance of the Republic of Belarus with an amortized cost of BYR 2,140,931 million (2014: BYR 1,366,148 million) maturing in February 2016 (amortized cost: BYR 1,257,246 million) and October 2017 (amortized cost: BYR 883,685 million). As at 31 December 2015, interest income of bonds denominated in foreign currency was 7% per annum (bonds maturing in February 2016) and 7.15% per annum (bonds maturing in October 2017).

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### 12. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Total</i>
<b>Cost</b>			
At 31 December 2014	974,024	1,024,147	1,998,171
Additions	34,164	154,629	188,793
Disposals	(4,079)	(84,208)	(88,287)
At 31 December 2015	<u>1,004,109</u>	<u>1,094,568</u>	<u>2,098,677</u>
<b>Accumulated depreciation</b>			
At 31 December 2014	(194,883)	(584,721)	(779,604)
Depreciation	(21,482)	(88,736)	(110,218)
Disposals	314	51,859	52,173
At 31 December 2015	<u>(216,051)</u>	<u>(621,598)</u>	<u>(837,649)</u>
<b>Net book value</b>			
At 31 December 2014	<u>779,141</u>	<u>439,426</u>	<u>1,218,567</u>
At 31 December 2015	<u>788,058</u>	<u>472,970</u>	<u>1,261,028</u>
	<i>Buildings</i>	<i>Furniture, fixtures and other</i>	<i>Total</i>
<b>Cost</b>			
At 31 December 2013	947,236	1,017,803	1,965,039
Additions	36,163	102,503	138,666
Disposals	(9,375)	(96,159)	(105,534)
At 31 December 2014	<u>974,024</u>	<u>1,024,147</u>	<u>1,998,171</u>
<b>Accumulated depreciation</b>			
At 31 December 2013	(176,505)	(568,530)	(745,035)
Depreciation	(19,108)	(91,432)	(110,540)
Disposals	730	75,241	75,971
At 31 December 2014	<u>(194,883)</u>	<u>(584,721)</u>	<u>(779,604)</u>
<b>Net book value</b>			
At 31 December 2013	<u>770,731</u>	<u>449,273</u>	<u>1,220,004</u>
At 31 December 2014	<u>779,141</u>	<u>439,426</u>	<u>1,218,567</u>

As at 31 December 2015, the Group had fully depreciated furniture and fixtures that were still in use with a gross book value of BYR 281,009 million (2014: BYR 270,932 million).

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### 13. Intangible assets

The movements in intangible assets were as follows:

	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
<b>Cost</b>			
At 31 December 2014	428,725	1,844	430,569
Additions	77,841	1,805	79,646
Disposals	(3)	(24)	(27)
At 31 December 2015	<u>506,563</u>	<u>3,625</u>	<u>510,188</u>
<b>Accumulated amortization</b>			
At 31 December 2014	(200,934)	(270)	(201,204)
Amortization	(63,211)	(309)	(63,520)
Disposals	2	4	6
At 31 December 2015	<u>(264,143)</u>	<u>(575)</u>	<u>(264,718)</u>
<b>Net book value</b>			
At 31 December 2014	<u>227,791</u>	<u>1,574</u>	<u>229,365</u>
At 31 December 2015	<u>242,420</u>	<u>3,050</u>	<u>245,470</u>
	<i>Computer software</i>	<i>Other</i>	<i>Total</i>
<b>Cost</b>			
At 31 December 2013	357,336	1,325	358,661
Additions	72,132	720	72,852
Disposals	(743)	(201)	(944)
At 31 December 2014	<u>428,725</u>	<u>1,844</u>	<u>430,569</u>
<b>Accumulated amortization</b>			
At 31 December 2013	(146,980)	(150)	(147,130)
Amortization	(54,093)	(156)	(54,249)
Disposals	139	36	175
At 31 December 2014	<u>(200,934)</u>	<u>(270)</u>	<u>(201,204)</u>
<b>Net book value</b>			
At 31 December 2013	<u>210,356</u>	<u>1,175</u>	<u>211,531</u>
At 31 December 2014	<u>227,791</u>	<u>1,574</u>	<u>229,365</u>

### 14. Taxation

The corporate income tax expense comprises:

	<b>2015</b>	<b>2014</b>
Current tax charge	381,708	233,050
Deferred tax charge – origination and reversal of temporary differences	298,283	134,464
Including: deferred tax recognized in other comprehensive income	10,814	5,523
<b>Income tax expense</b>	<u>690,805</u>	<u>373,037</u>

Belarusian legal entities must file individual tax returns. In 2015 and 2014, the income tax rate for banks was 25% and 18%, respectively. In 2015 and 2014, the income tax rate for the Bank's subsidiaries in the Republic of Belarus was 18%. In 2015 and 2014, the income tax rate for the foreign subsidiary in the Republic of Lithuania was 15%.

Since 1 January 2015, the income tax rate for banks and insurance companies in the Republic of Belarus was set at 25%. The same rate was used to calculate deferred tax assets and liabilities as at 31 December 2015 and 2014.

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### 14. Taxation (continued)

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

	<b>2015</b>	<b>2014</b>
<b>Profit before tax</b>	<b>2,857,454</b>	<b>1,141,881</b>
Statutory tax rate	25%	18%
<b>Theoretical income tax expense at the statutory rate</b>	<b>714,364</b>	<b>205,539</b>
Other tax exemptions and credits	(55,706)	(42,392)
Income of subsidiaries taxed at different rates	(34,496)	(419)
Non-deductible expenses:		
- salaries and related expenses	37,684	14,047
- insurance	12,631	6,184
- translation differences	2,042	(351)
- consulting, advertising and representative expenses	4,957	2,413
- charity	4,027	2,498
- disposal of property and equipment	6,130	1,628
- depreciation and amortization	1,131	746
- maintenance and repairs	1,501	614
- taxes other than income tax	291	9,950
- other	12,126	17,003
Loss on monetary position in respect of non-deductible expenses	-	(3,960)
Change in unrecognized deferred tax assets	(451)	(7,132)
Permanent differences from the indexation for hyperinflation	-	99,552
Reversal of statutory revaluation of property and equipment	(15,426)	(17,049)
Effect of change in tax rate	-	84,166
<b>Income tax expense</b>	<b>690,805</b>	<b>373,037</b>

As at 31 December 2014, a deferred tax asset in the amount of BYR 41 million was recognized in relation to the subsidiary Unitary Insurance Enterprise "Priorlife" in the consolidated statement of financial position.

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### 14. Taxation (continued)

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

	2013	Net monetary position	Origination and reversal of temporary differences		2014	Origination and reversal of temporary differences		2015
			In the income statement	In other comprehensi ve income		In the income statement	In other comprehensi ve income	
<b>Tax effect of deductible temporary differences</b>								
Property and equipment	9,285	–	(8,834)	–	451	1,762	–	2,213
Loans to customers	3,306	–	(478)	–	2,828	(476)	–	2,352
Derivative financial assets	–	–	17,399	–	17,399	(17,399)	–	–
Amounts due to customers	–	–	15	–	15	(10)	–	5
Provisions	1,380	–	4,064	–	5,444	(4,227)	–	1,217
Other assets	2,288	–	1,598	–	3,886	9,217	–	13,103
Other liabilities	1,906	–	7,242	222	9,370	6,887	10,814	27,071
<b>Deferred tax assets</b>	<b>18,165</b>	<b>–</b>	<b>21,006</b>	<b>222</b>	<b>39,393</b>	<b>(4,246)</b>	<b>10,814</b>	<b>45,961</b>
Deferred tax assets not recognized in the statement of financial position	(7,583)	–	7,132	–	(451)	451	–	–
<b>Deferred tax asset, net amount</b>	<b>10,582</b>	<b>–</b>	<b>28,138</b>	<b>222</b>	<b>38,942</b>	<b>(3,795)</b>	<b>10,814</b>	<b>45,961</b>
<b>Tax effect of taxable temporary differences</b>								
Allowance for loan impairment	(114,868)	–	(102,476)	–	(217,344)	(229,326)	–	(446,670)
Fair value of available-for-sale securities	(6,073)	–	772	5,301	–	–	–	–
Amounts due from credit institutions	(79)	–	(62)	–	(141)	(89)	–	(230)
Provisions	(14,204)	–	(13,922)	–	(28,126)	(14,775)	–	(42,901)
Derivative financial assets	(10,452)	–	10,452	–	–	–	–	–
Loans to customers	(3,658)	–	(404)	–	(4,062)	(35,672)	–	(39,734)
Investments in subsidiaries	(15,538)	–	(3,595)	–	(19,133)	–	–	(19,133)
Other assets	(13,648)	–	3,978	–	(9,670)	(4,641)	–	(14,311)
Other liabilities	(31,971)	–	(8,321)	–	(40,292)	(49,273)	–	(89,565)
Property and equipment	(26,442)	–	(22,938)	–	(49,380)	28,474	–	(20,906)
<b>Deferred tax liability</b>	<b>(236,933)</b>	<b>–</b>	<b>(136,516)</b>	<b>5,301</b>	<b>(368,148)</b>	<b>(305,302)</b>	<b>–</b>	<b>(673,450)</b>
<b>Deferred tax liabilities, net</b>	<b>(226,351)</b>	<b>31,609</b>	<b>(139,987)</b>	<b>5,523</b>	<b>(329,206)</b>	<b>(309,097)</b>	<b>10,814</b>	<b>(627,489)</b>

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### 15. Other assets and liabilities

Other assets comprise:

	<b>2015</b>	<b>2014</b>
<b>Other financial assets</b>		
Accrued fines and fees and commissions receivable	78,118	55,700
Settlements on currency conversion operations	24,918	160,248
	<b>103,036</b>	<b>215,948</b>
<b>Other non-financial assets</b>		
Precious metals	4,439	6,043
Prepayments	48,921	45,765
Blocks of apartments owned by the Bank	181,944	192,184
VAT and other prepaid taxes other than income tax	118,315	99,333
Other non-financial assets	125,199	185,443
	<b>478,818</b>	<b>528,768</b>
<b>Total other assets</b>	<b>581,854</b>	<b>744,716</b>

The Group is involved in the construction of blocks of apartments, and these are intended to be sold in the ordinary course of business. The blocks of apartments owned by the Group comprise both finished apartments and construction-in-progress. The carrying value of apartments is the lower of initial cost and net realizable value. The gain on such operations is recorded within the other income of the Group.

Other liabilities comprise:

	<b>2015</b>	<b>2014</b>
<b>Other financial liabilities</b>		
Salaries and bonuses payable	43,088	75,378
Defined benefit plan: pension liabilities (Note 25)	193,167	106,214
Trade and other payables	23,699	8,231
Pension liabilities payable by subsidiary to third parties	49,329	8,397
Other financial liabilities	137,428	54,766
	<b>446,711</b>	<b>252,986</b>
<b>Other non-financial liabilities</b>		
Tax liabilities (taxes other than income tax)	16,700	70,635
Prepayments for construction of blocks of apartments	175,170	87,001
Other non-financial liabilities	33,301	47,075
	<b>225,171</b>	<b>204,711</b>
<b>Total other liabilities</b>	<b>671,882</b>	<b>457,697</b>

### 16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<b>2015</b>	<b>2014</b>
Current accounts	154,312	224,541
Time deposits and loans	4,976,297	4,496,590
<b>Amounts due to credit institutions</b>	<b>5,130,609</b>	<b>4,721,131</b>

As at 31 December 2015, time deposits and loans included amounts payable to the bank from Raiffeisen Group comprising BYR 4,857,320 million (2014: BYR 4,376,545 million).



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### 17. Amounts due to customers

Amounts due to customers include the following:

	2015	2014
Time deposits	9,587,725	6,944,263
Current accounts	6,882,400	5,146,872
<b>Amounts due to customers</b>	<b>16,470,125</b>	<b>12,091,135</b>
Held as collateral against letters of credit	77,188	50,033
Held as collateral against guarantees	44,935	35,690

As at 31 December 2015, amounts due to customers of BYR 1,471,721 million, or 9%, were due to the five largest third-party customers (2014: BYR 624,966 million, or 5%).

Included in time deposits are deposits of individuals in the amount of BYR 7,201,679 million (2014: BYR 4,651,238 million). Due to changes introduced to the classification of bank deposits in November 2015, new time and conditional bank deposit agreements are classified as irrevocable and revocable. Irrevocable agreements do not provide for early repayment of a deposit upon demand of a depositor. Early repayment of such deposits may be made only with the Bank's approval. In accordance with the Banking Code of the Republic of Belarus, the Bank is obliged to repay deposits of individuals under revocable deposit agreements upon demand of a depositor within 5 days. In case a time deposit is repaid upon demand of a depositor prior to maturity, interest on it is paid based on the interest rate set by the Bank for demand deposits, unless a different interest rate is specified in the agreement.

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

	2015	2014
Private companies	6,306,418	5,722,292
Individuals	9,447,305	6,130,084
State companies and budgetary organizations	716,402	238,759
<b>Amounts due to customers</b>	<b>16,470,125</b>	<b>12,091,135</b>

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

	2015	2014
Individuals	9,447,305	6,130,084
Manufacturing:	1,505,275	1,355,320
Coking coal, oil products	434,288	407,757
Electric equipment	169,218	93,660
Food, beverages, tobacco products	129,171	216,587
Chemicals, rubber, plastics	116,591	110,063
Machinery, equipment	109,949	66,168
Textile industry	86,396	8,070
Wood processing	66,999	98,747
Pharmaceutical industry	56,104	22,385
Transport facilities	35,351	20,575
Base metals production	6,966	56,708
Pulp and paper industry	2,428	23,724
Other manufacturing	291,814	230,876
Wholesale trade	1,090,627	940,353
Retail trade	1,082,929	1,185,138
Transport	561,938	212,136
Construction	207,663	381,603
Mineral development and extraction	170,498	16,526
Real estate	128,771	117,275
Electrical energy, gas, water supply	19,453	19,621
Other	2,255,666	1,733,079
<b>Amounts due to customers</b>	<b>16,470,125</b>	<b>12,091,135</b>

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### 18. Amounts due to international credit institutions

Amounts due to international credit institutions consist of the following:

	<b>2015</b>	<b>2014</b>
Amounts due to the European Bank for Reconstruction and Development ("EBRD")	174,659	176,202
<b>Amounts due to international credit institutions</b>	<b>174,659</b>	<b>176,202</b>

### 19. Debt securities issued

	<b>2015</b>	<b>2014</b>
Non-documentary bonds	68,892	177,225
<b>Debt securities issued</b>	<b>68,892</b>	<b>177,225</b>

Non-documentary bonds denominated in Belarusian rubles in the amount of BYR 37,448 million (2014: BYR 28,742 million) mature in 2016 and bear an interest rate tied to the NBRB refinancing rate, which is revised every three months, once the regular coupon payment has been made; as at 31 December 2015, the interest rate on these bonds was 25% (2014: 20%).

Non-documentary bonds denominated in euros, US dollars and Russian rubles in the amount of BYR 31,444 million (2014: BYR 148,483 million) mature in 2017. USD-denominated bonds and EUR-denominated bonds bear a fixed interest rate of 3.5%. RUB-denominated bonds bear an interest rate of 11.79% which is revised every three months.

### 20. Equity

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

	<i>Number of shares</i>		<i>Nominal value</i>		<i>Inflation adjustment</i>	<i>Total</i>
	<i>Preferred</i>	<i>Ordinary венные</i>	<i>Preferred</i>	<i>Ordinary</i>		
31 December 2013, 2014 and 2015	10,000	123,058,441	33	412,246	2,556,834	<b>2,969,080</b>

Each ordinary share of the Bank is entitled to one vote at the general meeting. Ordinary shareholders are entitled to dividends and, in case of liquidation of the Bank, to a share of property remaining after settlements with creditors or its cost. Preferred shares are non-voting, but guarantee a share of profit in the form of fixed dividends. The amount of fixed dividends for each preferred share is established by the Bank's Charter. In the event of the Bank's liquidation, preferred shareholders are entitled to a fixed value of property remaining after settling with creditors at an amount not less than par value of shares.

At the shareholders' meeting in March 2015, the Bank declared dividends in respect of the year ended 31 December 2014 as follows: BYR 3,080 (2014: BYR 2,261) per ordinary share and BYR 1,675 (2014: BYR 1,948) per preferred share.

As a result, dividends on ordinary shares amounted to BYR 379,020 million (2014: BYR 278,192 million) and dividends on preferred shares amounted to BYR 16 million (2014: BYR 20 million).

According to the Belarusian legislation, only accumulated retained earnings and unreserved profit can be distributed as dividends to the Bank's shareholders based on the Bank's financial statements prepared in accordance with Belarusian accounting and reporting legislation. As at 31 December 2015, the Bank's non-distributable reserves totaled BYR 2,054,439 million (2014: BYR 1,660,378 million). As at 31 December 2015, the Bank's share in the non-distributable reserves of its subsidiaries totaled BYR 23,160 million (2014: BYR 24,054 million).

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### 20. Equity (continued)

#### Movements in other capital items

Movements in other capital items were as follows:

	<i>Foreign currency translation reserve</i>	<i>Unrealized gains on available-for- sale investment securities</i>	<i>Actuarial loss on defined pension plans</i>	<i>Total</i>
<b>At 1 January 2014</b>	–	24,151	(52,699)	(28,548)
Realized gains on available-for-sale investment securities	–	(29,452)	–	(29,452)
Revaluation of defined pension plans	–	–	17,109	17,109
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	5,301	222	5,523
<b>At 31 December 2014</b>	–	–	(35,368)	(35,368)
Exchange differences on translation of the financial statements of a foreign subsidiary	17,580	–	–	17,580
Revaluation of defined pension plans	–	–	(43,255)	(43,255)
Tax effect of net gains on available-for-sale investment securities and revaluation of defined pension plans	–	–	10,814	10,814
<b>At 31 December 2015</b>	<b>17,580</b>	<b>–</b>	<b>(67,809)</b>	<b>(50,229)</b>

#### *Foreign currency translation reserve*

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

#### *Unrealized gains on available-for-sale investment securities*

This reserve reflects changes in the fair value of available-for-sale investments.

#### *Actuarial loss on defined pension plans*

This reserve reflects changes in actuarial calculations for the reporting period.

### 21. Commitments and contingencies

#### Operating environment

In 2015, the NBRB continued to follow a policy of stabilizing the financial market. On 9 January 2015, it canceled the exchange fee for the purchase of foreign currency by legal entities and individuals and devalued the Belarusian ruble against major foreign currencies (by 16.1%, 12.9% and 3.0% against the US dollar, the euro and the Russian ruble, respectively, as compared with the exchange rates as at 31 December 2014). On 9 January 2015, the NBRB also increased the refinancing rate from 20% to 25%. To increase the effectiveness of the refinancing rate as an instrument of the monetary policy, starting from January 2015, the NBRB was gradually decreasing rates for liquidity management instruments from 50% to 30%.

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## 21. Commitments and contingencies (continued)

### Operating environment (continued)

In February 2015, the Management Board of the NBRB decided to reduce the rate for the mandatory sale of foreign currency proceeds to 40%. In April 2015, the rate was decreased to 30%.

On 1 June 2015, the NBRB changed the mechanism of foreign currency trading at the Belarusian Currency and Stock Exchange (BCSE). As a result, trades on the exchange are now performed in continuous double auctions. Foreign currency may be purchased only by banks and non-banking credit and financial organizations which then sell foreign currency directly to clients. The NBRB also changed the exchange rate policy, making it more flexible and sensitive to market conditions.

A further devaluation of the Belarusian ruble in August 2015 (by 15%, 18.7% and 4% against the US dollar, the euro and the Russian ruble, respectively) was mainly caused by deteriorating external macroeconomic environment, i.e. a drop in oil prices, devaluation of the Russian ruble (currency of the major partner) and significant demand for foreign currency from households due to rising devaluation expectations.

Internal and external negative factors continued to influence the economic situation in the country until the end of 2015. At year-end 2015, the national currency was devalued by 56.7%, 41.2% and 19% against the US dollar, the euro and the Russian ruble, respectively. GDP fell by 3.9% in 2015 as compared with a growth of 1.7% in 2014. There was a significant decline in such industries as construction, manufacturing and machine building. In 2015, to fund the national debt, the country raised additional finance from the Russian Federation.

Russia continued to provide financial support in 2015 by extending government loans. In April 2015, the Government of the Russian Federation granted a RUB-denominated 10-year loan to Belarus in the amount equivalent to USD 110 million. The funds were used for the payment of interest on another Russian loan issued in 2010. In July 2015, the Republic of Belarus received a long-term loan from the Government of the Russian Federation in the amount equivalent to USD 760 million, maturing in 10 years and having a 4-year grace period. The loan was issued in Russian rubles at the exchange rate of the Central Bank effective at the date of the agreement and the liabilities will be accounted for in US dollars. Interest on the loan will be accrued based on LIBOR for 6-month USD-denominated deposits increased by a margin calculated as the difference between the return on Russian Eurobonds maturing in 7 years and the rate of a USD-denominated 7-year swap. The funds will be used for the servicing and repayment of loans previously received by the Government of the Republic of Belarus from Russia and the Eurasian Fund for Stabilization and Development.

On 31 March 2015, the Government of the Republic of Belarus fully repaid the loan in the amount of USD 3.5 billion received from the International Monetary Fund and launched negotiations on the new program for technical aid in the amount of USD 3 billion.

Inflation processes were managed by the NBRB and inflation in 2015 was 12% (2014: 16.2%). Due to a fall in inflation in the last three years, IAS 29 ceased to be applied from 1 January 2015.

In April 2015, Moody's downgraded the sovereign rating of the Republic of Belarus from B3 to Caa1 (negative) because of the increased debt burden and uncertainty about external support for the Republic of Belarus.

While management of the Group believes it is taking appropriate measures to support the sustainability of its business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the results and financial position of the Group and its borrowers. The degree of such impact on the Group's consolidated financial statements is not currently determinable.

### Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

### Taxation

Belarusian tax legislation and regulations as well as other operational matters, including currency and customs regulations, continue to evolve.

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### 21. Commitments and contingencies (continued)

#### Operating environment (continued)

Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other Governmental bodies. Instances of inconsistent interpretations are not unusual. At the same time, there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future. In addition, since management's interpretation of this legislation may differ from possible official interpretations, and the compliance with this legislation may be challenged by regulatory authorities, additional taxes and penalties may be assessed and other preventive measures may be taken. Fiscal periods remain open to review by the authorities in respect of taxes for an indefinite period. These facts create tax risks in Belarus substantially more significant than typically found in countries with more developed tax systems, although this risk diminishes with the passage of time. It is not practical to determine the amount of unasserted claims, if any, that may arise or the likelihood of any unfavorable outcome.

As at 31 December 2015, management of the Group believes that its interpretation of the relevant legislation is appropriate and that the Group's tax, currency and customs positions will be sustained.

#### Financial commitments and contingencies

As at 31 December 2015, the Group's financial commitments and contingencies comprised the following:

	<u>2015</u>	<u>2014</u>
<b>Credit-related commitments</b>		
Undrawn loan commitments	1,292,276	860,599
Letters of credit	946,579	957,419
Guarantees	2,454,664	1,257,238
	<u>4,693,519</u>	<u>3,075,256</u>
<b>Lease commitments</b>		
Not later than 1 year	26,204	16,383
From 1 to 5 years	14,188	2,988
Later than 5 years	-	3
	<u>40,392</u>	<u>19,374</u>
Less: provisions	(4,797)	(2,886)
<b>Financial commitments and contingencies (before deducting collateral)</b>	<u>4,729,114</u>	<u>3,091,744</u>
Less: cash held as collateral against letters of credit and guarantees	(122,123)	(85,723)
<b>Financial commitments and contingencies</b>	<u>4,606,991</u>	<u>3,006,021</u>

### 22. Net fee and commission income

Net fee and commission income comprises:

	<u>2015</u>	<u>2014</u>
Settlement transactions	1,008,459	867,473
Currency conversion operations	95,475	178,741
Guarantees and letters of credit	79,793	57,897
Agency services	12,664	17,090
Other	7,505	5,753
<b>Fee and commission income</b>	<u>1,203,896</u>	<u>1,126,954</u>
Settlement transactions	(378,085)	(274,107)
Guarantees	(47,075)	(29,954)
Currency conversion operations	(10,768)	(11,133)
Securities operations	-	(65)
Other	(5,852)	(4,011)
<b>Fee and commission expense</b>	<u>(441,780)</u>	<u>(319,270)</u>
<b>Net fee and commission income</b>	<u>762,116</u>	<u>807,684</u>

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### 23. Other income

Other income comprises:

	2015	2014
Income from agriculture services	19,772	26,850
Income from sale of constructed housing	12,335	–
Income from early buyout and sale of leased assets	11,106	6,611
Income from operating lease	8,567	7,056
Income from sale of subsidiary	7,801	–
Income on debt previously written off	7,788	7,011
Income from sale of property and equipment	3,578	2,602
Income from additional services for finance lease agreements	305	30
Income from services for office buildings maintenance	–	1,493
Other	12,217	8,458
<b>Total other income</b>	<b>83,469</b>	<b>60,111</b>

### 24. Personnel and other operating expenses

Personnel and other operating expenses comprise:

	2015	2014
Salaries and bonuses	457,760	413,633
Social security costs	159,102	121,274
Retirement benefits (Note 25)	47,416	25,405
Other employment taxes	10,795	3,623
<b>Personnel expenses</b>	<b>675,073</b>	<b>563,935</b>

	2015	2014
Occupancy and rent	113,965	87,189
Data processing	90,727	76,300
Deposit insurance fees	73,336	72,469
Marketing and advertising	36,809	34,698
Plastic cards operations	32,045	40,457
Legal and consultancy	31,563	27,468
Transportation expenses	21,302	18,673
Office supplies	19,521	25,640
Communications	12,917	13,694
Repair and maintenance of equipment	10,720	12,283
Loss on disposal of property and equipment and intangible assets	8,916	17,870
Personnel training	7,034	5,741
Business travel and related expenses	6,101	6,569
Representative expenses	5,066	5,326
Security	2,956	2,450
Expenses from additional leasing services	1,243	409
Other	23,449	24,647
<b>Other operating expenses</b>	<b>497,670</b>	<b>471,883</b>

### 25. Post-employment benefits

#### Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee is entitled to receive on retirement, dependent on one or more factors such as age, years of service and salary.

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### 25. Post-employment benefits (continued)

#### Defined benefit plan (continued)

Liability according to a defined benefit plan is assessed on actuarial basis using projected unit credit method. The defined benefit obligation is discounted using rates equivalent to the market yields at the statement of financial position date of high-quality government bonds.

*Net benefit expense (recognized within personnel expenses)*

	<b>2015</b>	<b>2014</b>
Current service cost	8,521	7,951
Interest cost on benefit obligation	22,019	17,454
Past service cost	16,876	–
<b>Net benefit expense (Note 24)</b>	<b>47,416</b>	<b>25,405</b>

*Retirement benefit liability*

	<b>2015</b>	<b>2014</b>
Retirement benefit liability (Note 15)	(193,167)	(106,214)

*Changes in value of the defined benefit obligation*

	<b>2015</b>	<b>2014</b>
<b>Opening defined benefit plan obligation</b>	<b>106,214</b>	<b>118,000</b>
Current service cost	8,521	7,951
Interest expense	22,019	17,454
Increase in obligations due to changes in pension plan terms	16,876	–
Actuarial gains/losses arising from changes in demographic assumptions	1,257	801
Actuarial losses arising from changes in finance assumptions	57,625	(28,525)
Current regulating amendments	(15,627)	10,615
Benefits paid	(3,718)	(3,544)
Gain on monetary position	–	(16,538)
<b>Closing defined benefit obligation</b>	<b>193,167</b>	<b>106,214</b>

*Changes in plan obligations*

	<b>2015</b>	<b>2014</b>
<b>Opening plan obligation</b>	<b>(106,214)</b>	<b>(118,000)</b>
Net benefit expense	(47,416)	(25,405)
Revaluation of defined benefit plans recognized in other comprehensive income	(43,255)	17,109
Benefits paid	3,718	3,544
Gain on monetary position	–	16,538
<b>Closing plan obligation</b>	<b>(193,167)</b>	<b>(106,214)</b>

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

	<b>2015</b>	<b>2014</b>
Discount rate	6.01%	21.10%
Future inflation rate	10.98%	11.03%

As at 31 December 2015, all settlements (excluding settlements on periodic lifelong benefits to retired personnel) were made in euro using the basic amounts denominated in euro and the respective parameters (discount rate, salary growth rate, yield on accounts) related to the amounts denominated in euro. As at 31 December 2014, settlements on all benefits were made in Belarusian rubles.

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## 25. Post-employment benefits (continued)

### Defined benefit plan (continued)

The average term of defined benefit plan obligations at the end of the reporting period was 13.2 years (2014: 11.0 years).

The best estimate of the amounts of the employer's contributions to be paid in the annual period, after the estimation date amounted to BYR 6,250 million (2014: BYR 3,666 million).

#### Sensitivity analysis

	<i>Changes in assumptions</i>	<i>Effect on the benefit obligation</i>
Discount rate	+ / -1 pp	24,075
Future inflation rate	+ / -1 pp	6,595
Decrements (withdrawal) possibility: dismissal, retirement, mortality	+ / -0.5 pp	1,800

## 26. Risk management

### Introduction

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

#### Risk management structure

The Supervisory Board and the Executive Committee are ultimately responsible for identifying and controlling risks and are responsible for the overall risk management approach and for approving the risk strategies and principles.

#### Supervisory Board

The Supervisory Board is required under the Belarusian legislation and is comprised of representatives of the Government, major shareholder and major counterparties.

#### Executive Committee

The Executive Committee is comprised of 5 members of the Supervisory Board.

#### Management Board

The Management Board is responsible for monitoring the overall risk process within the Group.

#### Risk Committee, Credit Committee, Financial Committee, Problem Loans Committee and Audit Committee

The committees have the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. They are responsible for the fundamental risk issues and manage and monitor relevant risk decisions.

#### Risk management

The risk management units are responsible for implementing and maintaining risk related procedures to ensure an independent control process of the positions exposed to risk as compared to the established limits as well as evaluating risks of new products and deals. They are also responsible for the collection of ultimate information in the risk assessment system and risk reporting.



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## 26. Risk management (continued)

### Introduction (continued)

#### *Bank's Treasury*

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

#### *Audit Committee*

Audit Committee is responsible for overall management and effective functioning of internal control system and internal audit function of the Group.

#### *Internal Audit*

The risk management processes throughout the Group are audited annually by the Audit Function that examines both the adequacy of the procedures and the Group's compliance with the procedures. The Audit Function discusses the results of all assessments with management, and reports its findings and recommendations to the Management Board.

#### *Risk measurement and reporting systems*

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from past experience, adjusted to reflect the economic environment. The Group also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and early identify risks. This information is presented and explained to the Supervisory Board and Executive committee. The report includes aggregate outstanding loans, credit metric forecasts, hold limit deviations, liquidity ratios and risk profile changes. The Problem Loan Committee assesses the appropriateness of the allowance for credit losses on a monthly basis. The Risk Committee and the Executive Committee receive a comprehensive risk report which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As requested by all relevant subdivision throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Regular meetings are held with Risk Committee, Credit Committee, Financial Committee and Problem Loans Committee concerning the conformity to the established limits, investments, liquidity, plus any other risk developments.

#### *Risk mitigation*

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

The Group actively uses collateral to reduce its credit risks (see below for more details).

#### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

(millions of Belarusian rubles)

## 26. Risk management (continued)

### Introduction (continued)

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

### Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to meet their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits through regular analysis of the borrowers' financial standing and ability to meet repayment obligations. Limits on the level of credit risk by borrower are approved by the Credit Committee, authorized organizations/entities within the scope of assigned responsibilities.

Where appropriate and in the case of most loans, the Group obtains collateral. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

#### *Credit-related commitments risks*

The Group makes available to its customers letters of credit/ guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit/ guarantee. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

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

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

More details on the maximum exposure to credit risk for each class of financial instrument are disclosed in the respective notes. The effect of collateral and other risk mitigation techniques is described in Note 9.

#### *Credit quality per class of financial assets*

The credit quality of financial assets is managed by the Group internal credit ratings.

High grade: customers with credit rating 1C-4C (corporate customers and average customers with the limit over EUR 1.5 million) and 4B-6A (medium customers) - good profitability; has sufficient equity, the probability that the repayment of debt - is very high in the long run.

Standard grade: customers with credit rating 5A-5C (corporate customers and average customers with the limit over EUR 1.5 million) and 6B-7A (average customers) - stable profitability, satisfactory equity, rational structure of assets financing, problems with repayment of debt are not expected in medium term.

Sub-standard grade: customers with credit rating 6A-9C (corporate customers and average customers with the limit over EUR 1.5 million) and 7B-9B (average customers) - low profitability, limited financial flexibility, inadequate structure of assets financing, worsening of economic conditions may interfere financial obligations.

Individually impaired loans: customers with credit rating 10A-10C (default. Financial obligations cannot be promptly and fully fulfilled).

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### 26. Risk management (continued)

#### Credit risk (continued)

The table below shows the credit quality by class of asset for respective lines of the consolidated statement of financial position based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

	Notes	<i>Neither past due nor individually impaired</i>			<i>Past due but not individually impaired</i>		Total 2015
		<i>High grade 2015</i>	<i>Standard grade 2015</i>	<i>Sub-standard grade 2015</i>	<i>Not rated</i>	<i>Individually impaired 2015</i>	
Cash and cash equivalents (net of cash on hand)	6	3,781,573	2,686,362	–	–	–	6,467,935
Amounts due from credit institutions	7	114,315	125,032	–	–	–	239,347
Derivative financial assets	8	–	7,513	–	–	–	7,513
Held-to-maturity investment securities	11	–	2,140,931	–	–	–	2,140,931
Loans to customers:	9						
Corporate lending		811,629	2,306,490	9,178,636	–	167,143	13,423,634
Small business lending		762,962	592,551	400,011	462,195	112,335	2,491,276
Consumer lending		–	–	–	2,115,544	143,485	2,336,067
Residential mortgages		–	–	–	275,849	13,210	312,991
		<u>1,574,591</u>	<u>2,899,041</u>	<u>9,578,647</u>	<u>2,853,588</u>	<u>436,173</u>	<u>18,563,968</u>
Other financial assets	15	–	103,036	–	–	–	103,036
<b>Total</b>		<u><b>5,470,479</b></u>	<u><b>7,961,915</b></u>	<u><b>9,578,647</b></u>	<u><b>2,853,588</b></u>	<u><b>436,173</b></u>	<u><b>27,522,730</b></u>

  

	Notes	<i>Neither past due nor individually impaired</i>			<i>Past due but not individually impaired</i>		Total 2014
		<i>High grade 2014</i>	<i>Standard grade 2014</i>	<i>Sub-standard grade 2014</i>	<i>Not rated</i>	<i>Individually impaired 2014</i>	
Cash and cash equivalents	6	317,268	1,025,428	–	–	–	1,342,696
Amounts due from credit institutions	7	109,083	68,792	–	–	–	177,875
Derivative financial assets	8	–	953,897	–	–	–	953,897
Available-for-sale investment securities	11	–	–	–	–	–	–
Held-to-maturity investment securities	11	–	1,366,148	–	–	–	1,366,148
Loans to customers:	9						
Corporate lending		1,087,068	2,124,824	7,060,863	–	216,957	10,829,940
Small business lending		605,771	576,578	677,235	389,741	87,457	2,383,915
Consumer lending		–	–	–	2,013,249	105,098	2,148,515
Residential mortgages		–	–	–	191,782	12,257	219,955
		<u>1,692,839</u>	<u>2,701,402</u>	<u>7,738,098</u>	<u>2,594,772</u>	<u>421,769</u>	<u>15,582,325</u>
Other financial assets	15	–	215,948	–	–	–	215,948
<b>Total</b>		<u><b>2,119,190</b></u>	<u><b>6,331,615</b></u>	<u><b>7,738,098</b></u>	<u><b>2,594,772</b></u>	<u><b>421,769</b></u>	<u><b>19,638,889</b></u>

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### 26. Risk management (continued)

#### Credit risk (continued)

It is the Group's internal policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed statistics information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

An analysis of past due loans, by age, is provided below.

*Aging analysis of past due but not individually impaired loans per class of financial assets*

	<i>Less than 30 days 2015</i>	<i>31 to 90 days 2015</i>	<i>More than 90 days 2015</i>	<i>Total 2015</i>
<b>Loans to customers</b>				
Corporate lending	21,356	145,787	–	167,143
Small business lending	65,825	44,363	2,147	112,335
Consumer lending	65,163	43,339	34,983	143,485
Residential mortgages	5,918	5,529	1,763	13,210
<b>Total</b>	<b>158,262</b>	<b>239,018</b>	<b>38,893</b>	<b>436,173</b>
	<i>Less than 30 days 2014</i>	<i>31 to 90 days 2014</i>	<i>More than 90 days 2014</i>	<i>Total 2014</i>
<b>Loans to customers</b>				
Corporate lending	198,015	956	17,986	216,957
Small business lending	59,000	20,795	7,662	87,457
Consumer lending	65,114	24,025	15,959	105,098
Residential mortgages	7,836	2,478	1,943	12,257
<b>Total</b>	<b>329,965</b>	<b>48,254</b>	<b>43,550</b>	<b>421,769</b>

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

#### *Impairment assessment*

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of borrower, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

#### *Individually assessed allowances*

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered while determining allowance amounts include the sustainability of the counterparty's business plan; its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date unless unforeseen circumstances require more careful attention.

#### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review by customer.

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### 26. Risk management (continued)

#### Credit risk (continued)

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

#### Geographical risk concentration

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

	2015				2014			
	Belarus	OECD	CIS and other foreign banks	Total	Belarus	OECD	CIS and other foreign banks	Total
<b>Assets</b>								
Cash and cash equivalents	3,564,699	3,270,930	864,310	7,699,939	2,542,706	262,036	90,625	2,895,367
Amounts due from credit institutions	239,347	–	–	239,347	177,875	–	–	177,875
Derivative financial assets	3,976	3,537	–	7,513	938,311	15,586	–	953,897
Loans to customers	17,567,434	–	–	17,567,434	15,175,224	–	–	15,175,224
Held-to-maturity investment securities	2,140,931	–	–	2,140,931	1,366,148	–	–	1,366,148
Other assets	103,036	–	–	103,036	215,948	–	–	215,948
	<b>23,619,423</b>	<b>3,274,467</b>	<b>864,310</b>	<b>27,758,200</b>	<b>20,416,212</b>	<b>277,622</b>	<b>90,625</b>	<b>20,784,459</b>
<b>Liabilities</b>								
Amounts due to credit institutions	162,066	4,920,227	48,316	5,130,609	167,589	4,455,029	98,513	4,721,131
Derivative financial liabilities	2,738	3,029	10	5,777	12,282	73	3,767	16,122
Amounts due to customers	15,130,089	589,395	750,641	16,470,125	11,171,506	437,066	482,563	12,091,135
Amounts due to international credit institutions	–	174,659	–	174,659	–	176,202	–	176,202
Debt securities issued	68,892	–	–	68,892	177,225	–	–	177,225
Other liabilities	446,711	–	–	446,711	252,986	–	–	252,986
	<b>15,810,496</b>	<b>5,687,310</b>	<b>798,967</b>	<b>22,296,773</b>	<b>11,781,588</b>	<b>5,068,370</b>	<b>584,843</b>	<b>17,434,801</b>
<b>Net assets and liabilities</b>	<b>7,808,927</b>	<b>(2,412,843)</b>	<b>65,343</b>	<b>5,461,427</b>	<b>8,634,624</b>	<b>(4,790,748)</b>	<b>(494,218)</b>	<b>3,349,658</b>

#### Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its existing core deposit base. It also manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a cash deposit (obligatory reserve) with the NBRB, the amount of which depends on the level of customer funds attracted.

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### 26. Risk management (continued)

#### Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the Group primarily on a standalone basis, based on net liquidity assets and liabilities established by the NBRB. As at 31 December, these ratios were as follows:

	<i>NBRB required minimum ratio value</i>	<b>2015</b>	<b>2014</b>
"Current Liquidity Ratio" (assets receivable or realizable within 30 days/ liabilities repayable within 30 days)	70.0%	119.3%	125.9%
"Short-Term Liquidity Ratio" (assets receivable within one year/ equity and liabilities repayable within one year)	1.0	2.4	1.7
"Quick Liquidity Ratio" (assets receivable or realizable on demand/ liabilities repayable on demand)	20.0%	144.4%	310.3%
The Bank's liquidity and total assets ratio	20.0%	36.8%	31.0%

#### *Analysis of financial liabilities by remaining contractual maturities*

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

<i>Financial liabilities As at 31 December 2015</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to credit institutions	154,244	1,125,918	543,222	3,929,938	570	5,753,892
Derivative financial instruments:						
- Contractual amounts payable	-	2,391,752	-	-	-	2,391,752
- Contractual amounts receivable	-	(2,394,975)	-	-	-	(2,394,975)
Amounts due to customers	7,515,019	4,675,377	2,612,873	1,918,365	222	16,721,856
Amounts due to international financial institutions	391	29,640	29,534	117,067	-	176,632
Debt securities issued	-	2,553	42,326	32,567	-	77,446
Other liabilities	3,175	-	200,782	242,754	-	446,711
<b>Total undiscounted financial liabilities</b>	<b>7,672,829</b>	<b>5,830,265</b>	<b>3,428,737</b>	<b>6,240,691</b>	<b>792</b>	<b>23,173,314</b>

<i>Financial liabilities As at 31 December 2014</i>	<i>On demand</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
Amounts due to credit institutions	224,642	364,498	1,502,960	2,858,289	573	4,950,962
Derivative financial instruments:						
- Contractual amounts payable	-	2,803,119	420,060	-	-	3,223,179
- Contractual amounts receivable	-	(2,803,039)	(1,438,000)	-	-	(4,241,039)
Amounts due to customers	5,175,615	3,972,181	1,143,817	2,035,485	-	12,327,098
Amounts due to international financial institutions	189	59,868	34,038	83,786	-	177,881
Debt securities issued	-	8,019	24,502	226,355	-	258,876
Other liabilities	1,306	-	136,795	114,885	-	252,986
<b>Total undiscounted financial liabilities</b>	<b>5,401,752</b>	<b>4,404,646</b>	<b>1,824,172</b>	<b>5,318,800</b>	<b>573</b>	<b>16,949,943</b>

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### 26. Risk management (continued)

#### Liquidity risk and funding management (continued)

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

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
2015	4,700,622	19,101	14,188	–	4,733,911
2014	3,080,196	11,443	2,988	3	3,094,630

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

#### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The exposures to market risk are managed and monitored using different sensitivity analysis techniques. Except for foreign currency positions, the Group has no significant concentration of market risk.

##### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

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

<i>Currency</i>	<i>Increase in basis points 2015</i>	<i>Sensitivity of net interest income 2015</i>
BYR	+50 b.p.	7,261
EUR	+50 b.p.	14,200
USD	+50 b.p.	8,610
<i>Currency</i>	<i>Decrease in basis points 2015</i>	<i>Sensitivity of net interest income 2015</i>
BYR	-50 b.p.	(7,261)
EUR	-50 b.p.	(14,200)
USD	-50 b.p.	(8,610)
<i>Currency</i>	<i>Increase in basis points 2014</i>	<i>Sensitivity of net interest income 2014</i>
BYR	+50 b.p.	5,222
EUR	+50 b.p.	13,583
USD	+50 b.p.	11,300

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### 26. Risk management (continued)

#### Market risk (continued)

<i>Currency</i>	<i>Decrease in basis points 2014</i>	<i>Sensitivity of net interest income 2014</i>
BYR	-50 b.p.	(5,222)
EUR	-50 b.p.	(13,583)
USD	-50 b.p.	(11,300)

#### *Currency risk*

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

The table below indicates the currencies to which the Group had significant exposure at 31 December 2015 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rates against the Belarusian ruble, with all other variables held constant, on the income statement (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the consolidated income statement. All other variables are held constant. The negative amounts in the table reflect the potentially possible decrease of the net interest income or equity; meanwhile the positive amounts reflect the potentially possible increase.

<i>Currency</i>	<i>Change in currency rate in %, 2015</i>	<i>Effect on profit before tax 2015</i>	<i>Change in currency rate in %, 2014</i>	<i>Effect on profit before tax 2014</i>
USD	60.00	507,404	49.31	527,338
USD	-15.00	(126,851)	-49.31	(527,338)
EUR	60.00	246,431	36.08	349,867
EUR	-15.00	(61,608)	-36.08	(349,867)

#### Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss resulting from its clients and counterparties repay or demand repayment of obligations earlier or later than expected, such as fixed rate mortgage loans when interest rates fall.

Due to the fact that the Group does not use fixed interest rates for the most of its financial instruments, except debt securities issued, the management of the Group believes that the Group is not exposed to the prepayment risk.

#### Operational risk

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



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### 27. Fair value of financial instruments

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

	<i>Carrying value</i> 2015	<i>Fair value</i> 2015	<i>Unrecognized gain/ (loss)</i> 2015	<i>Carrying value</i> 2014	<i>Fair value</i> 2014	<i>Unrecognized gain/ (loss)</i> 2014
<b>Financial assets</b>						
Cash and cash equivalents	7,699,939	7,699,939	–	2,895,367	2,895,367	–
Amounts due from credit institutions	239,347	239,347	–	177,875	177,875	–
Loans to customers	17,567,434	17,457,659	(109,775)	15,175,224	15,175,224	–
Held-to-maturity investment securities	2,140,931	2,140,931	–	1,366,148	1,366,148	–
Other financial assets	103,036	103,036	–	215,948	215,948	–
<b>Financial liabilities</b>						
Amounts due to credit institutions	5,130,609	5,130,609	–	4,721,131	4,721,131	–
Amounts due to customers	16,470,125	16,423,071	47,054	12,091,135	12,091,135	–
Amounts due to international financial institutions	174,659	174,659	–	176,202	176,202	–
Debt securities issued	68,892	68,297	595	177,225	175,245	1,980
Other financial liabilities	446,711	446,711	–	252,986	252,986	–
<b>Total unrecognized change in unrealized fair value</b>			<b>(62,126)</b>			<b>1,980</b>

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

#### Assets for which fair value approximates carrying value

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

#### Fixed rate financial instruments

The fair value of fixed-rate financial instruments carried at amortized cost is estimated by comparing market rates at recognition with current market interest rates for similar financial instruments. The estimated fair value of these financial instruments is determined as a present value of cash flows using prevalent market rates for financial instruments with similar characteristics.

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### 27. Fair value of financial instruments (continued)

#### Financial instruments recorded at fair value

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

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	–	7,202	311	7,513
	–	7,202	311	7,513
<b>Financial liabilities</b>				
Derivative financial liabilities	–	5,756	21	5,777
	–	5,756	21	5,777
<b>31 December 2014</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Derivative financial assets	–	17,278	936,619	953,897
	–	17,278	936,619	953,897
<b>Financial liabilities</b>				
Derivative financial liabilities	–	16,122	–	16,122
	–	16,122	–	16,122

The following table shows an analysis of financial assets and liabilities for which fair values are disclosed by level of the fair value hierarchy:

<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	1,232,004	6,467,935	–	7,699,939
Amounts due from credit institutions	–	239,347	–	239,347
Loans to customers	–	–	17,457,659	17,457,659
Held-to-maturity investment securities	–	2,140,931	–	2,140,931
Other financial assets	–	–	103,036	103,036
	1,232,004	8,848,213	17,560,695	27,640,912
<b>Financial liabilities for which fair values are disclosed</b>				
Amounts due to credit institutions	–	–	5,130,609	5,130,609
Amounts due to customers	–	–	16,423,071	16,423,071
Amounts due to international financial institutions	–	–	174,659	174,659
Debt securities issued	–	68,297	–	68,297
Other financial liabilities	–	–	446,711	446,711
	–	68,297	22,175,050	22,243,347

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### 27. Fair value of financial instruments (continued)

#### Financial instruments recorded at fair value (continued)

<i>31 December 2014</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	1,552,671	1,342,696	–	2,895,367
Amounts due from credit institutions	–	177,875	–	177,875
Loans to customers	–	–	15,175,224	15,175,224
Held-to-maturity investment securities	–	1,366,148	–	1,366,148
Other financial assets	–	–	215,948	215,948
	<u>1,552,671</u>	<u>2,886,719</u>	<u>15,391,172</u>	<u>19,830,562</u>
<b>Financial liabilities for which fair values are disclosed</b>				
Amounts due to the National Bank of the Republic of Belarus	–	–	–	–
Amounts due to credit institutions	–	–	4,721,131	4,721,131
Amounts due to customers	–	–	12,091,135	12,091,135
Amounts due to international financial institutions	–	–	176,202	176,202
Debt securities issued	–	175,245	–	175,245
Other financial liabilities	–	–	252,986	252,986
	<u>–</u>	<u>175,245</u>	<u>17,241,454</u>	<u>17,416,699</u>

#### Financial instruments recorded at fair value

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

#### Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap pricing models, using present value calculations. Methods used by the Group to estimate the fair value include models for forwards and swaps that incorporate the present value technique. The models incorporate various inputs including the credit quality of counterparties, forward and spot rates, as well as interest rate curves.

#### Available-for-sale securities

Securities designated at fair value through profit or loss are valued using the model that incorporates present value. Inputs to the model are market interest rates.

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### 27. Fair value of financial instruments (continued)

#### Movements in Level 3 financial instruments measured at fair value

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

	<i>At 1 January 2015</i>	<i>Gain/ (loss) recorded in profit or loss on 'Translation differences' position</i>	<i>Settlements</i>	<i>At 31 December 2015</i>
<b>Financial assets</b>				
Derivative financial instruments	936,619	661,977	(1,598,285)	311
<b>Total Level 3 financial assets</b>	<b>936,619</b>	<b>661,977</b>	<b>(1,598,285)</b>	<b>311</b>
<b>Financial liabilities</b>				
Derivative financial instruments	–	(719)	698	(21)
<b>Total Level 3 financial liabilities</b>	<b>–</b>	<b>(719)</b>	<b>698</b>	<b>(21)</b>

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

	<i>2015</i>			<i>2014</i>		
	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>	<i>Realized gains</i>	<i>Unrealized gains</i>	<i>Total</i>
Gains recorded in the income statement	660,967	291	661,258	31,020	48,085	79,105

#### Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

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

	<i>31 December 2015</i>		<i>31 December 2014</i>	
	<i>Carrying value</i>	<i>Effect of reasonably possible alternative assumptions</i>	<i>Carrying value</i>	<i>Effect of reasonably possible alternative assumptions</i>
<b>Financial assets</b>				
Derivative financial instruments	311	44	936,619	(1,949)
<b>Financial liabilities</b>				
Derivative financial instruments	(21)	(2)	–	–

In order to determine reasonably possible alternative assumptions, the Group adjusted key unobservable model inputs as follows: the Group adjusted the interest rate used to measure discounted cash flows in Belarusian rubles. The adjustment made was to decrease the interest rate used by 100 b.p. (2014: 100 b.p.).

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### 27. Fair value of financial instruments (continued)

#### Impact on the fair value of Level 3 financial instruments measured at fair value of changes to key assumptions (continued)

When calculating the fair values of derivative financial instruments as at 31 December 2014 the Group used the following rates:

- ▶ For foreign currency component – the yield on Eurobonds of the Ministry of Finance of the Republic of Belarus maturing in August 2015 which is adjusted for time factor and equal to 17.7%
- ▶ For ruble component – the average interest rate of 47.7% applicable at the interbank lending market in December 2014

### 28. Maturity analysis of assets and financial liabilities

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

	2015			2014		
	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>	<i>Within one year</i>	<i>More than one year</i>	<i>Total</i>
Cash and cash equivalents	7,699,939	–	7,699,939	2,895,367	–	2,895,367
Amounts due from credit institutions	237,375	1,972	239,347	177,875	–	177,875
Derivative financial assets	7,513	–	7,513	953,897	–	953,897
Loans to customers	11,623,849	5,943,585	17,567,434	9,518,698	5,656,526	15,175,224
Held-to-maturity investment securities	1,268,188	872,743	2,140,931	15,248	1,350,900	1,366,148
Property and equipment	107,124	1,153,904	1,261,028	104,979	1,113,588	1,218,567
Intangible assets	71,416	174,054	245,470	62,636	166,729	229,365
Deferred income tax assets	–	–	–	–	41	41
Current income tax assets	335	–	335	3,160	–	3,160
Other assets	568,184	13,670	581,854	744,694	22	744,716
<b>Total assets</b>	<b>21,583,923</b>	<b>8,159,928</b>	<b>29,743,851</b>	<b>14,476,554</b>	<b>8,287,806</b>	<b>22,764,360</b>
Amounts due to credit institutions	1,499,164	3,631,445	5,130,609	1,864,479	2,856,652	4,721,131
Derivative financial liabilities	5,777	–	5,777	16,122	–	16,122
Amounts due to customers	13,340,472	3,129,653	16,470,125	8,251,203	3,839,932	12,091,135
Amounts due to international financial institutions	58,659	116,000	174,659	93,911	82,291	176,202
Debt securities issued	37,455	31,437	68,892	1,561	175,664	177,225
Current income tax liabilities	56,066	–	56,066	41,423	–	41,423
Deferred income tax liabilities	–	627,489	627,489	–	329,247	329,247
Provisions	4,797	–	4,797	3,699	–	3,699
Other liabilities	429,128	242,754	671,882	342,812	114,885	457,697
<b>Total liabilities</b>	<b>15,431,518</b>	<b>7,778,778</b>	<b>23,210,296</b>	<b>10,615,210</b>	<b>7,398,671</b>	<b>18,013,881</b>
<b>Net</b>	<b>6,152,405</b>	<b>381,150</b>	<b>6,533,555</b>	<b>3,861,344</b>	<b>889,135</b>	<b>4,750,479</b>

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### 29. Related party transactions

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

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

Related parties for reporting purposes are the members of Raiffeisen Group (Raiffeisen CIS Region Holding GmbH, Raiffeisen RS Beteiligungs GmbH, Raiffeisen Bank International AG (RBI), banks under common control), shareholders with more than 5% ownership in the share capital of the Bank and the key management personnel of the Group.

Raiffeisen Bank International AG (RBI) is the ultimate parent company of the Group, owning 100% of shares of the Group's principal shareholder Raiffeisen CIS Region Holding GmbH through Raiffeisen RS Beteiligungs GmbH.

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

	2015			2014		
	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>
Cash and cash equivalents at 31 December	195,092	14,527	-	66,083	57,178	-
Loans outstanding at 1 January, gross	-	-	2,991	-	-	4,517
Loss on monetary position	-	-	-	-	-	(633)
Translation differences	-	-	-	-	-	-
Loans issued during the year	-	-	168	-	-	57
Loan repayments during the year	-	-	(1,989)	-	-	(950)
<b>Loans outstanding at 31 December, gross</b>	<b>-</b>	<b>-</b>	<b>1,170</b>	<b>-</b>	<b>-</b>	<b>2,991</b>
Less: allowance for impairment at 31 December	-	-	-	-	-	-
<b>Loans outstanding at 31 December, net</b>	<b>-</b>	<b>-</b>	<b>1,170</b>	<b>-</b>	<b>-</b>	<b>2,991</b>
<b>Deposits at 1 January</b>	<b>4,376,545</b>	<b>21,991</b>	<b>17,469</b>	<b>4,787,909</b>	<b>18,503</b>	<b>11,761</b>
Loss on monetary position	-	-	-	(713,340)	(2,593)	(1,649)
Translation differences	1,991,754	-	7,908	592,386	-	1,493
Deposits received during the year	48	-	102,886	417,088	6,081	67,367
Deposits repaid during the year	(1,511,027)	(18,930)	(98,267)	(707,498)	-	(61,503)
<b>Deposits at 31 December</b>	<b>4,857,320</b>	<b>3,061</b>	<b>29,996</b>	<b>4,376,545</b>	<b>21,991</b>	<b>17,469</b>
Settlement and current accounts at 31 December	-	-	1,011	-	-	748
Commitments and guarantees issued	89,241	-	-	57,594	-	-
Commitments and guarantees received	10,213	-	-	40,846	-	-

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### 29. Related party transactions (continued)

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

	<i>For the year ended 31 December</i>					
	<b>2015</b>			<b>2014</b>		
	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>	<i>RBI</i>	<i>Banks under common control</i>	<i>Key management personnel</i>
Interest income	–	12	292	–	3	622
Interest expense	(253,370)	–	(2,256)	(226,128)	–	(2,385)
Net gains/ (losses) from foreign currencies	6,541	(118,430)	–	937	(35,190)	–
Fee and commission income	311	38	110	188	11	102
Fee and commission expense	(4,988)	(4,178)	–	(5,122)	(2,217)	–
Personnel expenses	–	–	(11,987)	–	–	(12,126)
Other operating expenses	(34,260)	–	–	(24,117)	–	–

Compensation to key management personnel comprises the following:

	<b>2015</b>	<b>2014</b>
Salaries and other short-term benefits	9,940	10,208
Defined benefit plan	1,503	1,525
Social security costs	544	393
<b>Total key management compensation</b>	<b>11,987</b>	<b>12,126</b>

### 30. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using internal regulations and local legal acts as well as the ratios established by the Basel Capital Accord 1988 with subsequent amendments and the ratios established by the NBRB in supervising the Bank.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the level of risks taken. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue equity securities. No changes were made in the objectives, policies and processes from the previous years.

#### **NBRB capital adequacy ratio**

The NBRB requires banks to maintain a capital adequacy ratio of 10% of risk-weighted assets in 2015, computed based on the regulatory requirements of the National Bank of the Republic of Belarus. In 2015 and 2014, the Bank managed to comply with NBRB capital adequacy ratio.

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### 30. Capital adequacy (continued)

#### Capital adequacy ratio under 1988 Basel Capital Accord

The Group's capital adequacy ratio, computed in accordance with Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks, as at 31 December 2015 and 2014, comprised:

	2015	2014
Tier 1 capital	6,422,271	4,681,656
Tier 2 capital	–	–
<b>Total equity</b>	<b>6,422,271</b>	<b>4,681,656</b>
<b>Risk-weighted assets</b>	<b>24,633,412</b>	<b>21,080,662</b>
Tier 1 capital adequacy ratio	26.07%	22.21%
Total capital ratio	26.07%	22.21%

### 31. Events after the reporting period

On 25 March 2016, the Council of the Eurasian Fund for Stabilization and Development (EFSD) approved issuance of a loan of USD 2 billion to the Republic of Belarus. The funds will be transferred in seven tranches during 2016-2018. The first tranche in the amount of USD 500 million was transferred on 30 March 2016 since Belarus met all the key conditions for its provision. The remaining six tranches will be transferred as the corresponding conditions are met: two tranches in 2016, three tranches in 2017 and one tranche in 2018. In 2016, the Belarusian authorities expect to receive USD 1.1 billion of this loan.

On 26 February 2016, the international rating agency Fitch Ratings assigned the B- long-term sovereign credit rating and the B short-term credit rating with a "stable" outlook to the Republic of Belarus.

On 8 April 2016, the international rating agency Standard & Poor's confirmed the B- long-term sovereign credit rating and the B short-term credit rating with a "stable" outlook to the Republic of Belarus.

Starting from 1 July 2016, the official currency of the Republic of Belarus will be redenominated by way of replacing currently circulating banknotes at the rate of 10,000:1.

The official exchange rates as at 15 April 2016 were BYR 19,989 to 1 US dollar, BYR 22,485 to 1 euro and BYR 301.07 to 1 Russian ruble. The refinancing rate was decreased from 25% to 24% since 1 April 2016.

The bonds of the Ministry of Finance of the Republic of Belarus with the nominal value of USD 67 million included in held-to-maturity securities as at 31 December 2015 were repaid in February 2016.

On 5 February 2016, Priorbank acquired an ownership interest in the share capital of Non-Banking Credit and Financial Organization ERIP OJSC. The investments amounted to BYR 8,120 million and the ownership interest in the share capital is 4.06% (812 ordinary shares).

At the shareholders' meeting in March 2016, dividends were declared for the year ended 31 December 2015: BYR 3,900 per ordinary share and BYR 1,675 per preferred share. As a result, dividends on ordinary shares amounted to BYR 479,928 million and dividends on preferred shares amounted to BYR 17 million.

In addition, the shareholders' meeting decided to increase the share capital of "Priorbank" JSC to BYR 861,479 million through increasing the nominal value of one share to BYR 7,000 by using the equity of "Priorbank" JSC, i.e. retained earnings for 2015 in the amount of BYR 449,200 million.