

# Annual Report 2015



**Priorbank**  
Member of RZB Group

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*Member of RZB Group*





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# Foreword

# Foreword



The year 2015 has become a record year for Priorbank JSC in terms of the business efficiency and profitability as a consequence of the focused improvement of the existing banking technologies, introduction of new innovative products and services, strict operational cost cutting policy.

Within the Strategy “Comprehensive Business Solutions. Corpo” the Bank continued to develop and improve the innovative and unique service for the Belarusian financial market – “Service Packages”. This intellectually saturated product, combining information services, the customer’s business financial analysis, International Desk managers’ consulting on the bank servicing issues in the countries of RBI presence and traditional banking technologies, triggered increased demand from the business community. More than 380 Clients subscribed to service packages “Comprehensive Business Solutions. Corpo” or 20% of the Corporate Clients.

Priorbank remained the factoring competence center in the Republic of Belarus. The total factoring transactions portfolio increased by 20%. The Bank financed working capital, competitive investment projects of large clients, foreign trade transactions. In 2015, the Corporate Business volume reached 15.5 trillion BYR having increased by 19%. The number of active Corporate Customers more than 1,900.

Priorbank successfully developed co-operation with Small- and Medium-Sized Enterprises (SME). In the challenging economic environment the priorities were focused on lending and clients’ business development by rendering of new banking services and technologies, simplification of procedures and service quality improvement.

In 2016, the Bank developed and prepared for launch a new lending product ‘Prior-Bonus’ supposing draw down of the loan agreed in advance based on the scoring model. All the stages of the product approval, preparation and signing of the respective documents are effected distantly, without the client’s visit to the Bank. This is the first distant loan for legal entities launched in Belarus. The Bank simplified medium-sized clients lending procedure having launched the product Business-Line Light. This product’s share in the total working capital financing loan portfolio of the medium-sized clients accounted for 30%. The Bank started active promotion of the banking products via electronic distribution channels (Client-Bank, Internet-Bank). The Bank conducted first CRM-campaigns targeted at banking products sales (FOREX transactions, salary payroll projects, corporate cards).

All this resulted in Loans to SME increase by 187 billion BYR or 8%; the Bank attracted 7,488 clients. Active client base increased by 4.3%.

Business with Private Individuals (PIs) dynamically developed. In 2015, the loans to PIs increased by 11%. In 2015, PIs loan portfolio grew by 11%. The Bank occupies the 2<sup>nd</sup> place among the Belarusian banks in terms of lending to PIs. Population deposits grew by 3.3 trillion BYR or 54%.

Further CRM system development enabled to expand the PIs client base and increase the existing clients loyalty. The clients’ active contacts with the Bank increased by 30% having reached 1.5 million. The number of salary payroll and pension accounts reached 461,000. The number of clients utilizing the packaged services amounted to 400,000.

Owing to the salary payroll and pension programs development the share of card account balance constituted 70% from the funds owed to PIs in local currency. The product range was added with irrevocable deposits, credit cards with grace period. Cashless turnover of the merchants utilizing Priorbank’s bank cards acquiring service increased.

The Bank was the first in Belarus to launch the program on premium clients distant servicing Premium Direct: the clients can enjoy the comprehensive banking services without visiting the Bank's office. The number of premium clients increased by more than 41%.

Control over the loans quality was one of the most important Bank's tasks in 2015. The Bank continued to pursue strict credit risk approach focusing on lending of the most stable clients, to improve Early Warning Signs (EWS) System for timely detection of potentially problem loans and credit risk level stress-testing system, which enabled the Bank to maintain acceptable loan portfolio quality.

Priorbank occupies the leading positions on Pls distant services market. The share of unique clients subscribed to various e-systems (Internet, SMS, USSD) reached 20.4%. The share of the Mobile Bank users accounted for 15.9%. In 2015, 'Internet-Bank Prior Online' functionalities were expanded. The share of loans and credit cards applied for by Pls via the e-channels and Contact Center increased from 2% to 12%, the share of debit cards – from 3% to 5%. The share of deposits opened via the e-channels accounts for 40%.

The Bank launched 3-D Secure technology ensuring the internet payments security for Visa and Mastercard holders. In 2015, Priorbank launched a new mobile application Prior ClickPay compatible with the smart watch - Apple Watch.

In 2015, Priorbank expanded functionalities of the Electronic Payment System (EPS) Client-Bank and Internet-Bank for legal entities. The share of electronic documents transmitted to the Bank exceeded 98%. Priorbank was the first on the Belarusian market to launch the Cash-In device for the merchants' revenues acceptance.

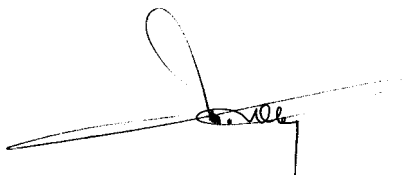
The Bank was optimizing its business processes in order to increase its business efficiency. The Bank launched the voice biometrics for the clients identification calling to the Bank. Legal Entities Credit Administration function was centralized. Electronic tablet was launched to authorize Pls cash desk transactions by electronic signature. The Bank increased its competitiveness and expanded its presence on the bank cards acquiring services market by launch of mobile acquiring. The Bank continued to optimize and standardize the existing BSCs (Banking Services Centers) and remote points of sale (POS).

In 2015, Visa International decorated Priorbank with the awards in three nominations of the premium «Service Quality Performance Award Program» for the Highest Service Quality and handed over the Honorary Diploma for issue of the first in Belarus premium product for legal entities – Visa Business Gold card. The European Bank for Reconstruction and Development decorated the Bank with «The most Active Foreign Trade Financing Bank in the Republic of Belarus» award. Commerzbank AG (Germany) decorated the Bank with the «Trade Award» for efficient co-operation in the area of documentary transactions and international trade, and «STP Excellent Quality Award» for the international payments high quality.

In 2016, Priorbank faces new challenging tasks. However, we confidently look to the future. Many years' experience on the financial market accumulated by the Bank, efficient management system, our dedication to the innovations will enable us to successfully perform the set objectives and provide the Bank's efficient development in 2016.

In conclusion, we would like to express our sincere gratitude to the Bank's customers, partners and all Priorbank employees for their contribution to the Bank's development in 2015.

Chairman of the Board  
Sergey Kostyuchenko



Chairman of the Supervisory Board  
Sergey Sosnovski





Ladies and Gentlemen,

At the beginning of 2015, Raiffeisen Bank International announced a review of the corporate strategy which the market received very positively. An emphasis on markets in which RBI can generate sustainable returns due to a strong position is also being welcomed, as is the action taken so far to achieve these goals. The plan to become a more focused universal bank with strong customer relationships by reducing complexity and risk as well as through bolstering the capital buffer is well on track and valued by market participants.

More than ever before, a bank today needs a focus – and RBI's is on CEE and Austria. RBI, therefore, needed to look at all operations unrelated to that focus, even when, in some cases, they have been highly successful in the past. The footprint in CEE was also reviewed at this time. All of this took place against the backdrop of higher regulatory capital ratio requirements, which were taken into account while determining the target CET1 and total capital ratios.

In 2015, RBI significantly strengthened its capital base, with the fully loaded CET1 ratio standing at 11.5 per cent at year-end, and also achieved a consolidated profit of € 379 million. The primary reason for the result being so positive was lower net provisioning for impairment losses. Furthermore, general administrative expenses were reduced by 4 per cent compared to 2014, in line with RBI's cost cutting initiative.

I would like to take this opportunity to thank all employees of "Priorbank JSC" for their hard work and constant efforts to serve our customers and bring benefits to the entire Raiffeisen Group.

On behalf of the Supervisory Board,

Karl Sevelda

Chief Executive Officer,  
Raiffeisen Bank International AG





Highlights of Priorbank

# Highlights of Priorbank

## Establishment and start of activity:

January 1989

## The licence of National Bank of the Republic of Belarus:

Licence No. 12 dated May 6, 2013.

## The major shareholders as of 01.01.2016:

Shareholder	Share in the Authorized Capital CIS
Raiffeisen Region Holding GmbH, Austria	87.74%
State sector, enterprises	5.02%
Private individuals	4,756%
Other legal entities	2.484%

## Correspondent banks as of 01.01.2016:

in the Republic of Belarus – 18  
abroad – 50

## Employees as of 01.01.2016:

2,420

## Customers as of 01.01.2016:

Corporate Clients – 1,900  
Active SMEs – 32,961  
Private Individuals – 709,629

## Membership in interbank unions, exchanges, associations:

Association of Belarusian Banks;  
Belarusian Currency-Stock Exchange;  
Visa International;  
MasterCard/Europay International;  
BelCard.  
Business Union Of Entrepreneurs and Employers n.a.  
Professor M. Kuniyavsky

## Information and telecommunication systems:

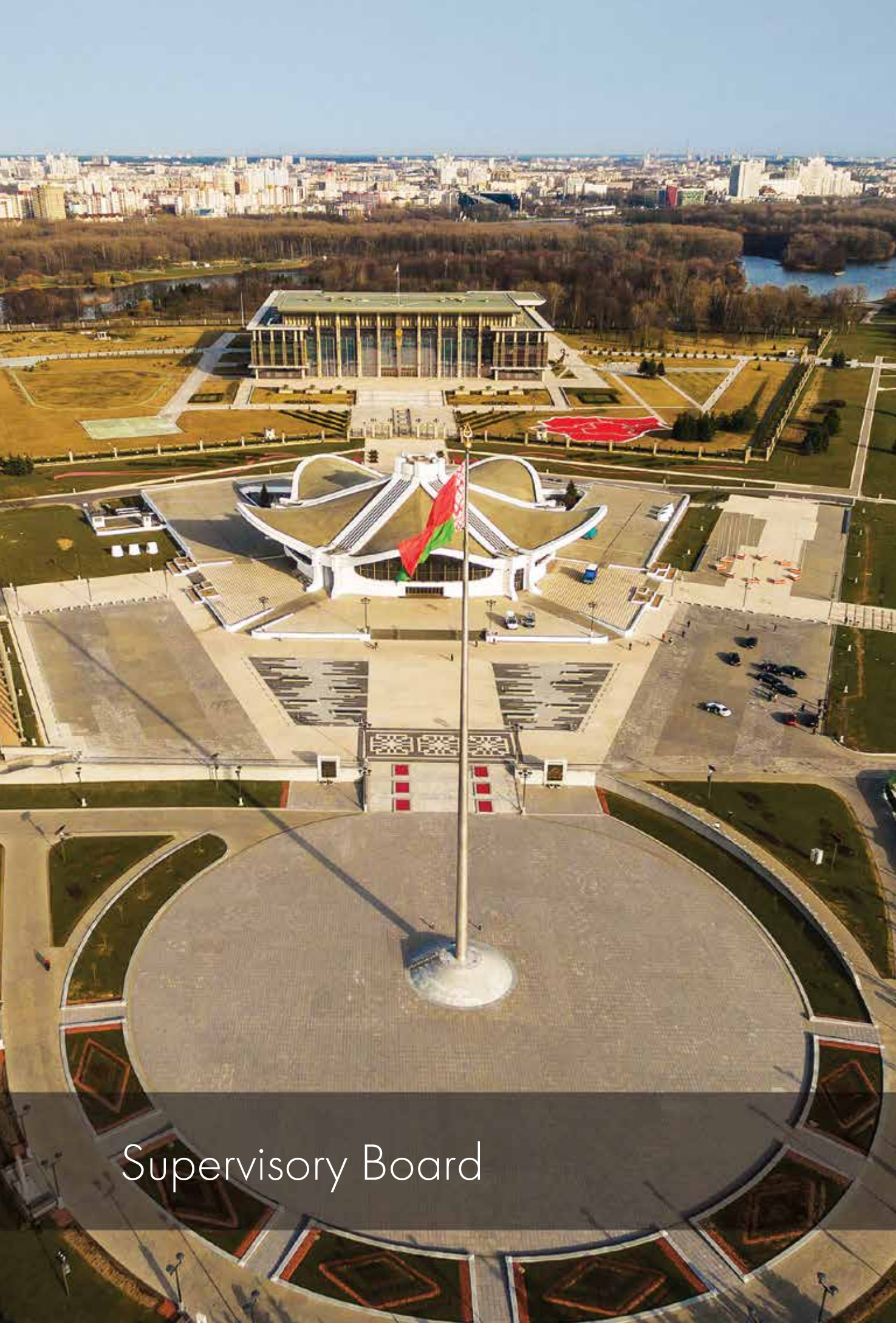
Internet;  
REUTERS;  
SWIFT;  
Bloomberg;  
VisaNET via VSAT;  
EPS NET via X.25.

## External auditor:

“Ernst and Young (CIS) Limited”

## Awards

- Trade Award for excellent partnership in documentary operations and international trade in the year 2014, Commerzbank AG (Germany)
- “STP Excellent Quality Award” for high quality of international payments, Commerzbank AG (Germany)
- Honorary diploma for launching the first in Belarus premium product for legal entities — Visa Business Gold, Visa Inc.
- The most active issuing bank in Belarus in 2015 under the Trade Facilitation Programme, European Bank for Reconstruction and Development
- Cbonds Awards CIS 2015 «Best analytics of financial markets in Belarus», News agency Cbonds
- “Best analytics of financial markets” 2014, International forum “Capital market of the Republic of Belarus”
- “Service Quality Performance Award Program” (awards in three nominations), Visa Inc.
- Best bank in export factoring promotion in 2014, Annual Meeting of global factoring association IFG.



Supervisory Board

# Supervisory Board

1. Peter Bazil                      Executive Director, Raiffeisen Bank International AG
2. Kurt Bruckner                 Executive Director, Raiffeisen Bank International AG
3. Nikolay Kadushko            Independent Director
4. Alexander Lyakhov          Director General, State Production Association Belorusneft – Republican Unitary Enterprise Production Association Belorusneft
5. Anatoly Savenok              Director General, OJSC BSW – management company of BMC holding
6. Karl Sevelda                  Chief Executive Officer, Raiffeisen Bank International AG
7. Sergey Sosnovski             Director General, JSC Gomeltransneft Druzhiba
8. Herbert Stepic
9. Heinz Hödl                     Independent Director

## Management Board

- Sergey Kostyuchenko            Chairman of the Board
- Vladimir Dedioul
- Igor Likhogrud
- Vadim Matyushkin
- Bernd Rosenberg
- Sergey Shishov



Macroeconomic Environment

# Macroeconomic Environment

## Monetary and Credit Policy and Exchange Rate

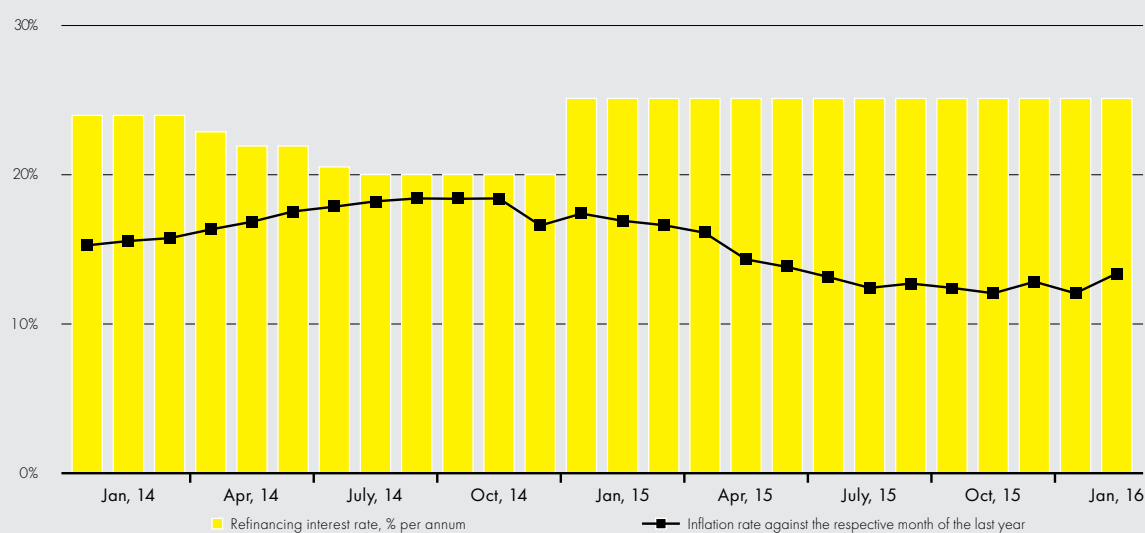
The major direction of the Monetary and Credit Policy in 2015 was regulation of money supply in order to decrease the inflation and to smooth BYR exchange rate fluctuations.

Money supply regulation enabled the National Bank not to apply funds pricing regulation instruments –

throughout the last year the refinancing rate remained unchanged at the level of 25% per annum (in 2014, the refinancing rate was changed four times: from 23.5% to 20%).

Constant refinancing rate figure contributed to minimum fluctuations of funds pricing on the inter-bank market – in January-December 2015 the average overnight interest rate was 24.89% per annum vs. 21.51% in January-December 2014.

### Refinancing Interest Rate and Inflation Dynamics

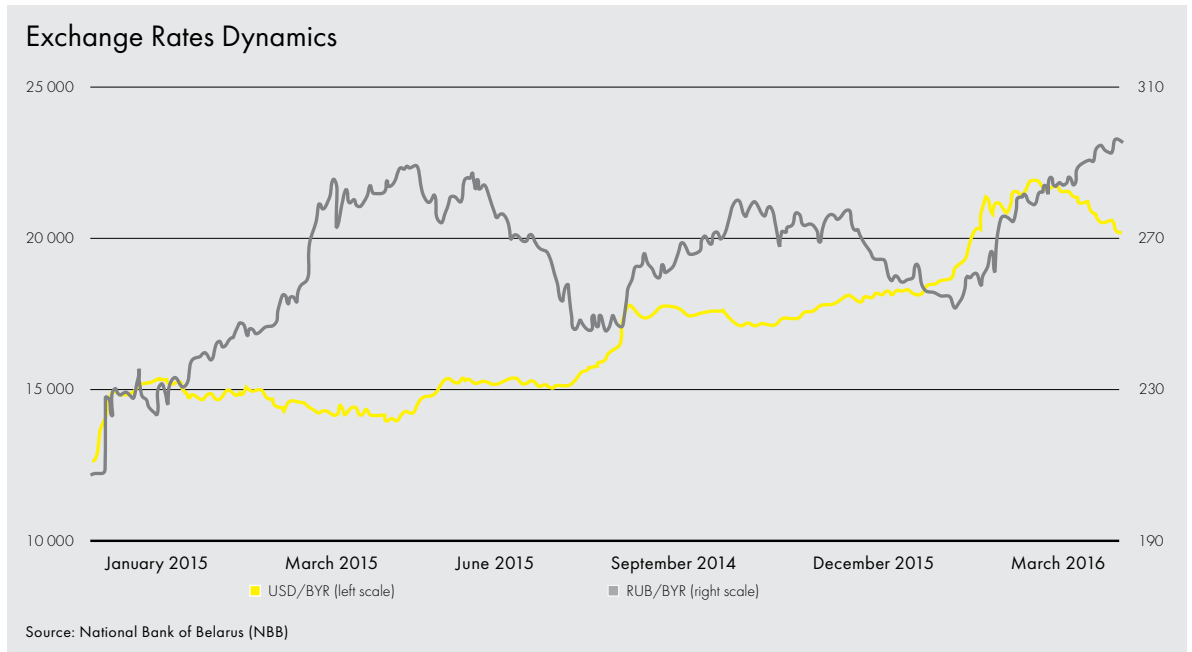


Source: National Statistics Committee of Belarus (NSC), National Bank of Belarus (NBB)

In 2015 consumer prices grew by 12% vs. 16.2% in 2014. Meanwhile, consumer services prices (15.7%) were growing slightly faster than food products prices (11.0%) and non-food products prices (11.5%).

In January-December 2015, the BYR/EUR exchange rate fell by 40.4% (to EUR/BYR 20,300 as at 01.01.2016), BYR/USD exchange rate fell by 56% (to USD/BYR 18,569), BYR/RUB exchange rate fell by 23.3% (to RUB/BYR 255.3).

In the first half of 2015, the National Bank of the Republic of Belarus (NBB) adopted a number of administrative regulatory measures on the FOREX market aiming at faster devaluation of BYR vs. RUB in comparison to devaluation of BYR vs. USD in order to mitigate the disproportions and create favorable export conditions to Russian market. Later in 2015, the NBB launched continuous order matching at Belarusian FX and Stock Exchange in order to increase the role of the free market instruments on the FOREX market.

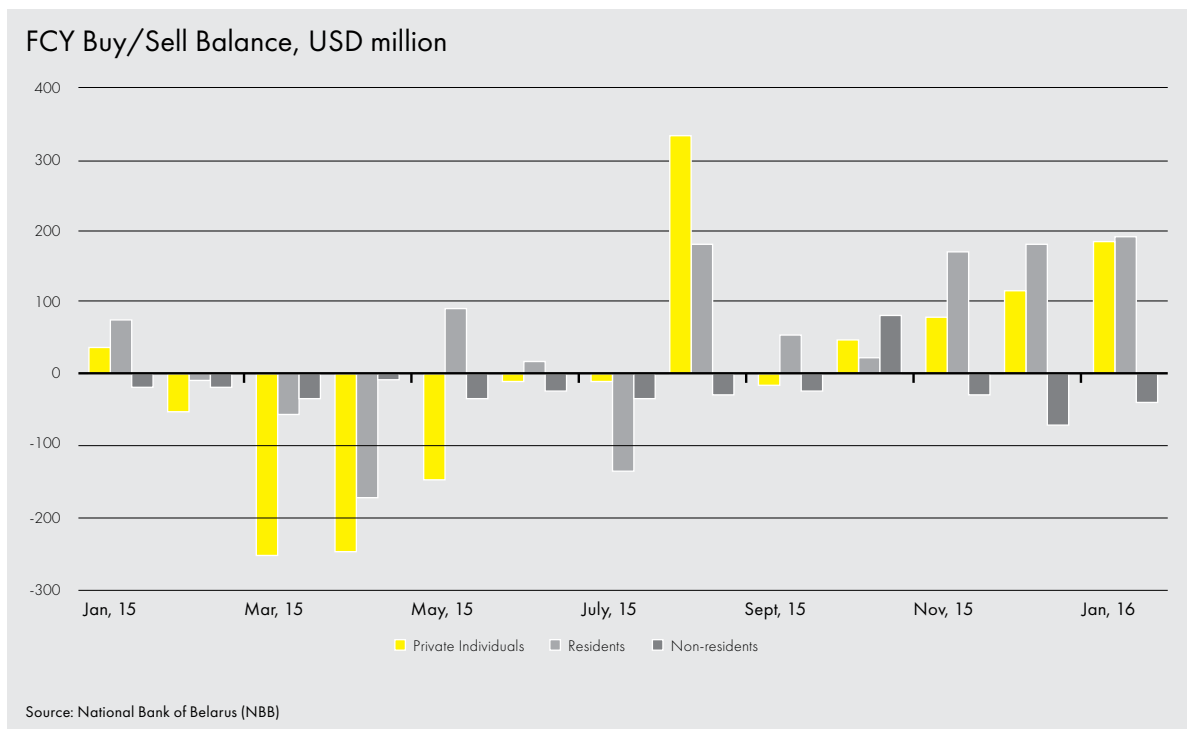


In 2015, on the local FOREX market FCY net supply to the amount of USD 47 million was reported, as compared to the net demand to the amount of USD 1,618 million in 2014.

Foreign Currency (FCY) net supply on the local market had become possible given significant drop of Pls demand for FCY caused by Pls income reduction. In 2015, the net FCY selling by Pls amounted to USD 129.6 mil-

lion, as compared to the net FCY buying to the amount of USD 1,385 in 2014.

In 2015, legal entities – residents bought USD 404 million on net basis (in 2014, USD 495 million). FCY net selling by legal entities – non-residents in 2015 amounted to USD 227 million vs. net selling to the amount of USD 262 in 2014.

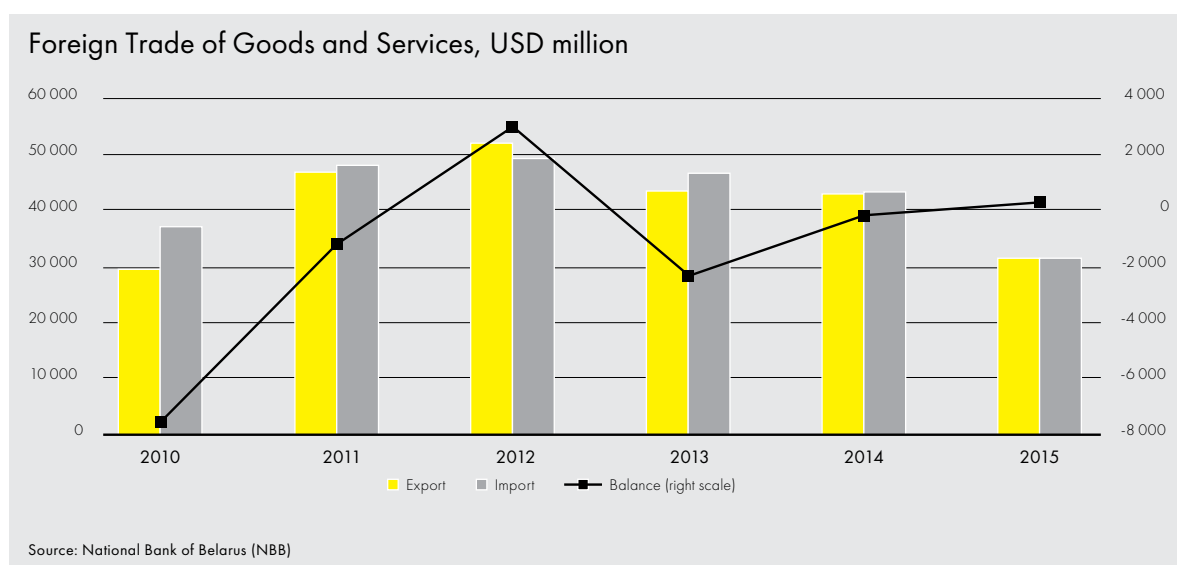


## Foreign Trade

In 2015, goods and services foreign trade balance was positive and amounted to USD 0.17 billion (0.3% of GDP). Goods foreign trade deficit amounted to USD 2.1 billion, services foreign trade surplus amounted to USD 2.3 billion respectively.

Drop of actual demand on the Russian market caused by decrease of income from crude petroleum export

accompanied by RUB devaluation, collapse in commodities prices (first of all crude petroleum and petroleum products) on the global market affected decrease of goods and services export by 24.2% vs. 2014 (to USD 32.8 billion). At the same time, reduction of investment (by 24.2%) and consumer (by 11.6%) import led to the aggregate goods and services import decrease to USD 32.7 billion or by 25.4%.

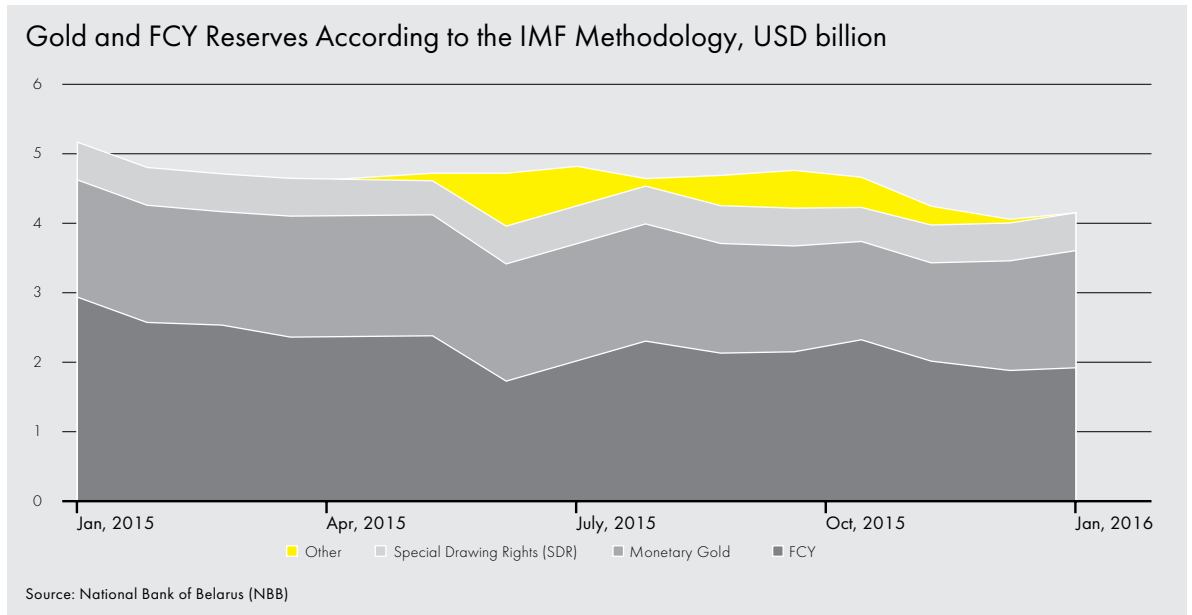


In 2015, the Russian Federation remained the major foreign trade partner, with a share of 39% in the total export volume and 57% in the total import volume. In 2015, Belarusian goods deliveries to Russia dropped by 32% against 2014 (to USD 10.39 billion). The most substantial export reduction (in terms of value) was reported in the following industries: meat products – by 66%, petroleum products – by 65%, cement products – by 61%, agricultural machinery – by 58%, tractors – by 52%. In 2015, goods export growth was reported in the following industries: chemical products to foreign markets (outside CIS) – nitrogen fertilizers export grew by 52%, mixed fertilizers – by 14%, potash fertilizers – by 2%.

## Gold and Foreign Currency (FCY) Reserves

Improvement of foreign trade indicators in 2015 did not compensate gold and FCY reserves reduction, which were utilized for foreign debt payment. Consequently in January-December 2015 gold and FCY reserves under the IMF methodology decreased by USD 883 million or by 17.5% vs. decrease by USD 1,592 million or by 23.9% in 2014.

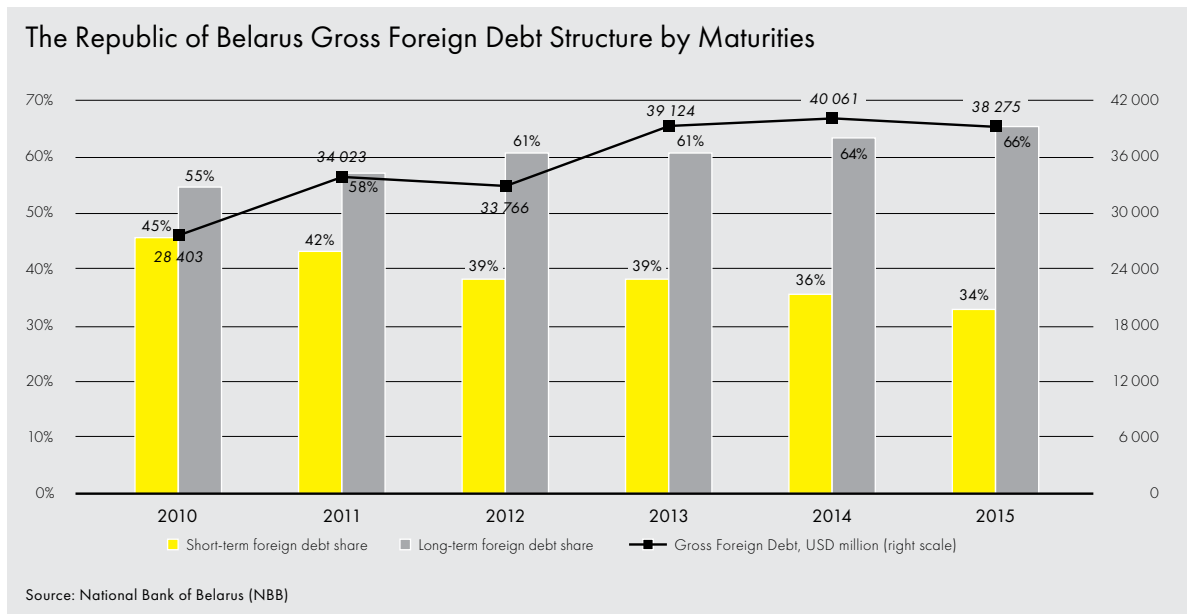




## Foreign Debt

Gross Foreign Debt as at 1 January 2016 amounted to USD 38.28 billion (70% of the annual GDP), having decreased by 4.4% vs. 1 January 2015; USD 4,029 per capita.

Gross Foreign Debt structure: in 2015, in the total volume of the Gross Foreign Debt the share of long term obligations increased to 66%, the share of short term obligations decreased to 34%.



By late 2015, the long term obligations amounted to USD 25.1 billion, having decreased by USD 0.38 billion BYR or by 1.5% vs. 2014. The short term obligations also decreased vs. 2014 by USD 1.4 billion or by 9.4% to USD 13.2 billion.

In 2015, the Government spent USD 7.8 billion (14% of GDP or 24% of the goods and services export) for the foreign debt payments, thereof USD 6.3 billion – for the principal repayment; USD 1.4 billion – for the interest payment.

Belarusian Government's sovereign foreign debt increased by 1.1% and as at 1 January 2016 amounted to USD 12.4 billion. In 2015, the Government raised sovereign borrowings to the amount of USD 2.17 billion (vs. USD 5.2 billion in 2014). The major funding sources were loans of the Russian Government and banks – USD 1.57 billion (USD 4.53 billion in 2014), and loans of the Chinese banks – USD 0.53 billion, USD 0.63 billion in 2014.

In 2015, the Government spent USD 2.6 billion for the foreign sovereign debt payment vs. USD 5.1 billion in 2014. Belarus paid the last amount to IMF of USD 73

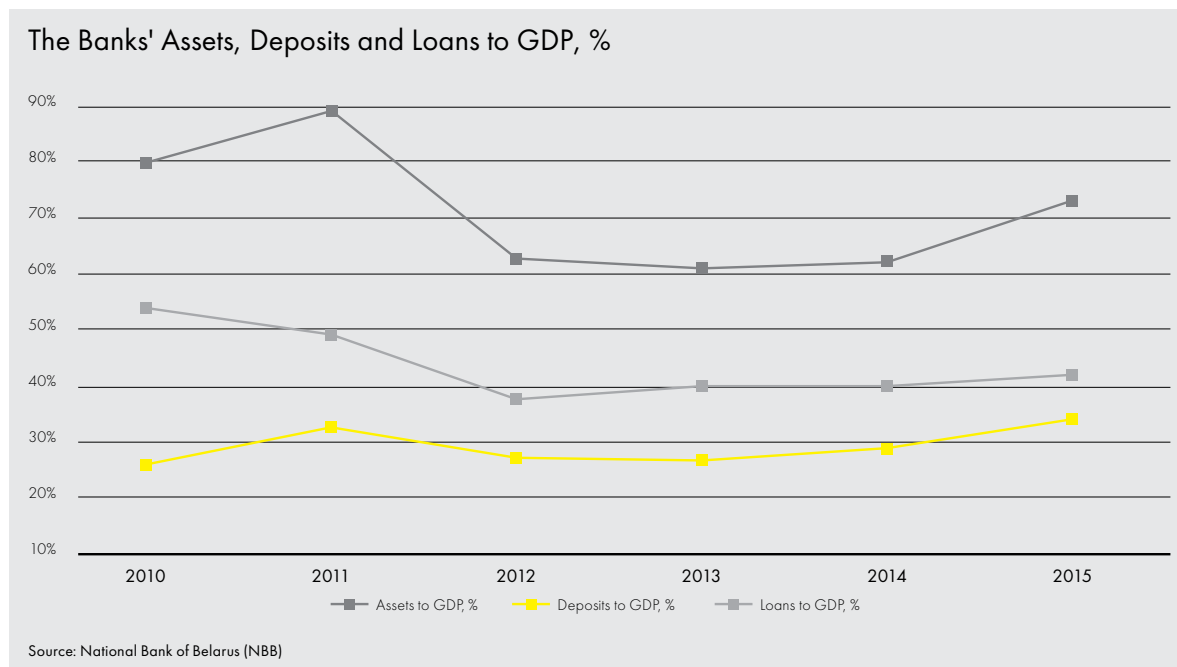
million and repaid the sovereign eurobonds of the first issue to the amount of USD 1 billion.

## Banking Sector

The banks' assets as at 1 January 2016 amounted to 630.46 trillion BYR, having increased by 31% for the past year. In 2015, BYR assets increased by 4% to 238.67 trillion BYR, in foreign currency – decreased by 1% to USD 21.1 billion. In BYR equivalent FCY assets amounted to 391.8 trillion BYR. The share of FCY assets increased to 62% as at 1 January 2016 from 53% as at 1 January 2015.

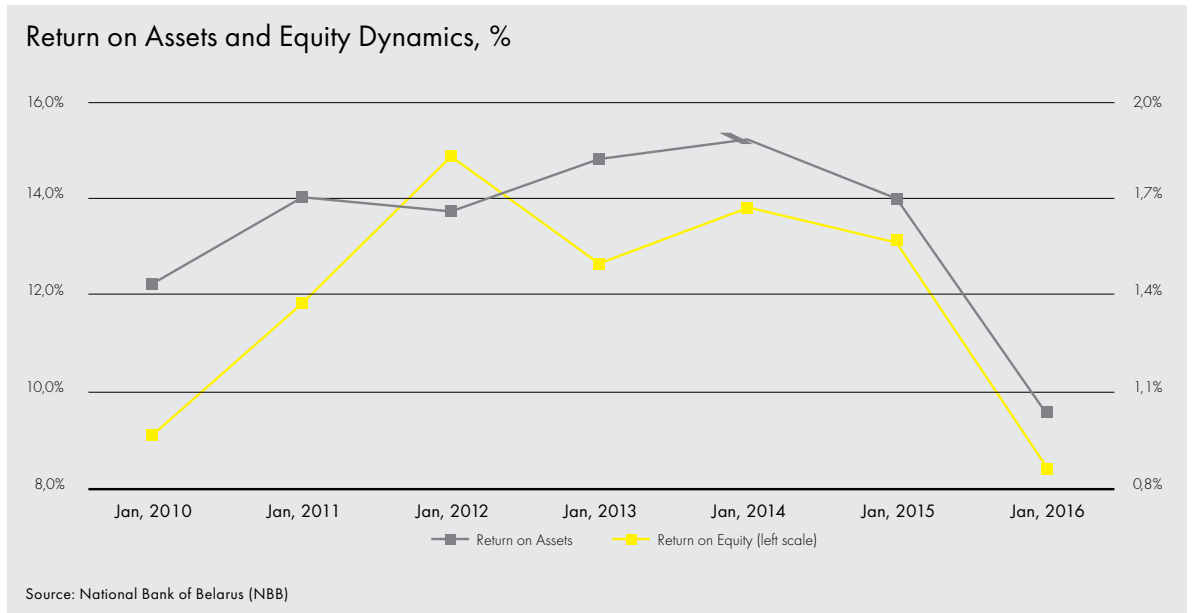
The banks' claims to the economy in 2015 increased by 20%, having reached 416.3 trillion BYR. The banks' claims to the enterprises in 2015 amounted to 346.1 trillion BYR, having increased by 22%. The banks' claims to private individuals increased by 10% (17% in 2014) to 70.2 trillion BYR.

Decrease of Pls loans growth rate in 2015 reflected Pls solvency deterioration caused by income drop.



NBB Monetary Policy in 2015 resulted in decrease of deposits average interest rates – January-December 2015 average interest rate (up to 1 year) on BYR deposits of private individuals decreased from 43% to 24% per annum. Decrease of liabilities pricing enabled the banks to decrease loan interest rates for legal entities – in January-December 2015 the average BYR loans interest rates (up to 1 year) decreased from 40% to 33%.

In 2015, the banks decreased their profit by 23% against the previous year to 5.86 trillion BYR. Return on Equity decreased to 8% from 13% in 2014, Return on Assets decreased to 1% from 1.7% in 2014.



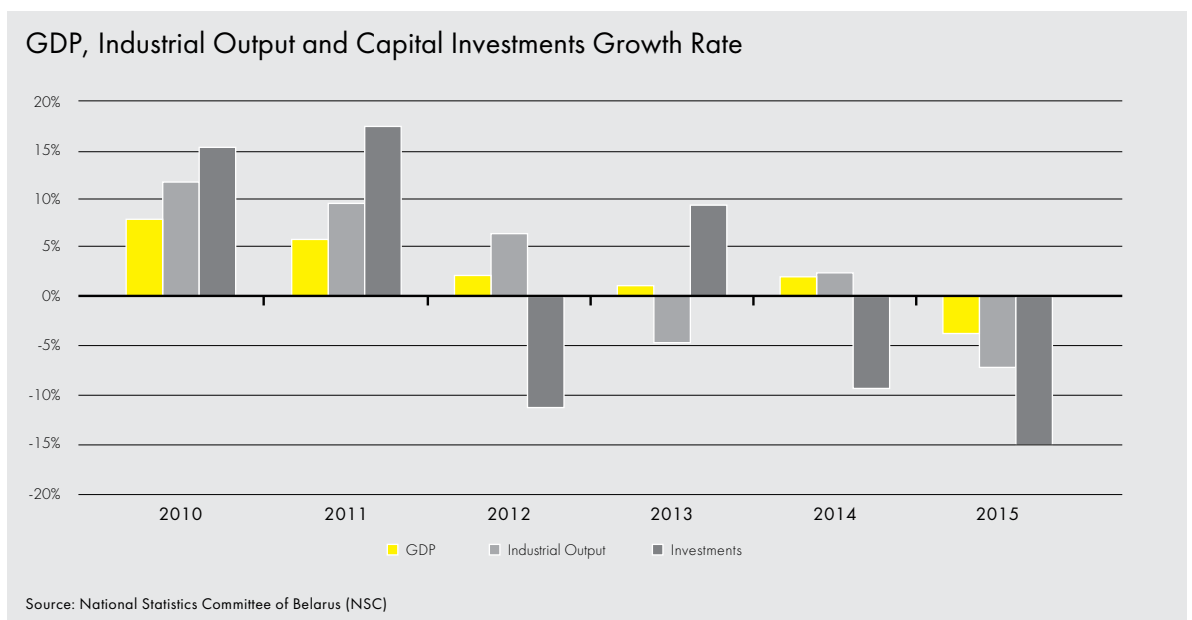
## GDP

In 2015, GDP in real terms decreased by 3.9% (against 1.7% growth in 2014).

In 2015, industrial output in comparable prices decreased by 6.6% vs. 2014 to 729.01 trillion BYR (in 2014, 2% growth). The growth was reported in chemical industry (6%) and petroleum products production (0.3%). The largest output growth was reported in engineering industry (28%) and in construction materials industry (18%).

Capital Investments in 2015 amounted to BYR 206.3 trillion having decreased by 15% in comparable prices against 2014 (in 2014 the fall of 6% was reported). The share of Capital Investments in GDP dropped to 24% against 29% in 2014.

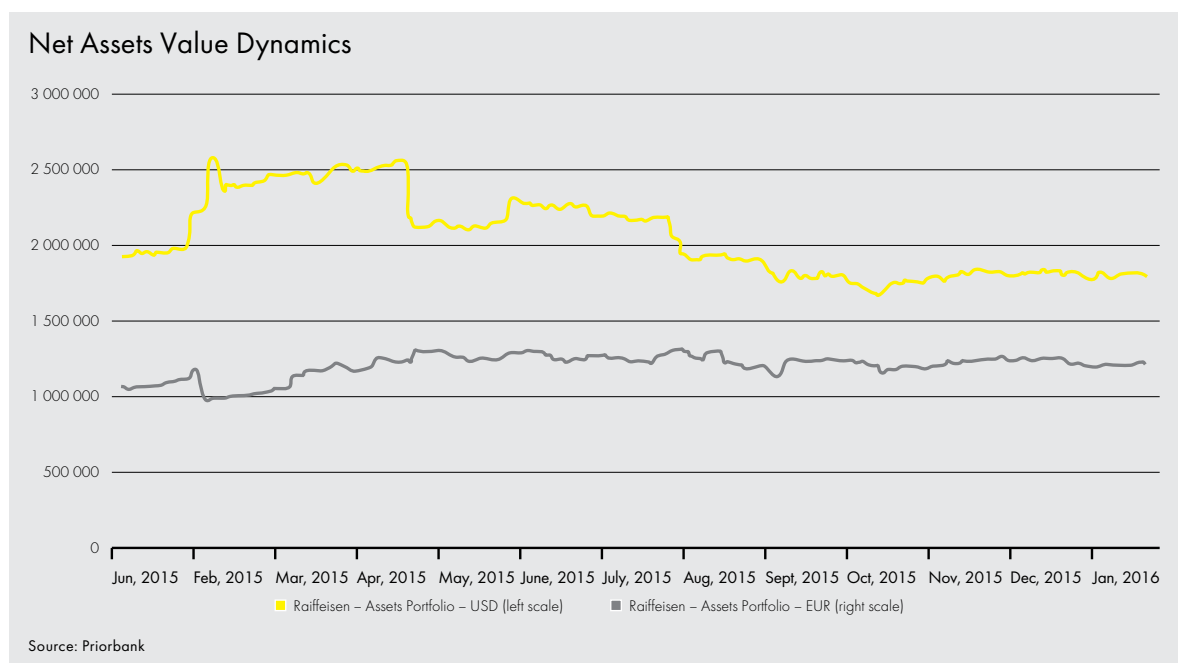
In 2015, real household income dropped by 6% vs. the previous year (in 2014, the income grew by 0.9% y-o-y). Affected by the decreased household income, the retail turnover growth rate in 2015 dropped to 0.2% y-o-y vs. 6% in 2014 respectively.



# Bank Managed Funds

In 2015, Priorbank continued to operate three Bank Managed Funds (BMF). As at 1 January 2016, the net

assets value of the Fund Raiffeisen – Assets Portfolio – EUR reached 1.2 million EUR, of the Fund Raiffeisen – Assets Portfolio – USD reached USD 1.8 million.



An aerial photograph of a modern, multi-story building with a glass facade and a central tower, surrounded by a cityscape and a river at sunset. The building has a distinctive octagonal shape with a glass roof. The sky is filled with orange and yellow clouds, and the city below is visible in the background.

Corporate Banking. Business  
with Small- and Medium-Sized  
Enterprises

# Corporate Banking. Business with Small- and Medium-Sized Enterprises

In 2015, within the Comprehensive Business Solutions strategy development, the Bank continued to improve its partner relationships with corporate clients offering efficient comprehensive financial solutions applying an individual approach depending on the customer's business peculiarities.

A well-balanced tariff policy on the background of high quality services based on the most up-to-date banking business technologies enabled to increase the customers loyalty and retain the existing clients. Among the Bank's clients are the enterprises of the following industries: petrochemical, energy, telecommunications, medicine, retail trade, metal trade, etc.

Priorbank supported its pioneer status actively promoting a dynamically developing product, unique on the Belarusian financial market, 'Service Packages. Corpo'.

Applying Raiffeisen Group many years' experience, up-to-date business and risk technologies, the Bank is providing a highly qualified expert opinion, as well as wide information and advisory support, enabling our corporate customers to make weighted managerial decisions for sustainable and efficient business development.

From the very beginning of the Service Packages promotion, Corporate Clients showed great interest in this service. Last year the Bank switched more than 380 clients to the Service Packages (more than 20% of the Corporate Clients).

In 2015, Priorbank remained the factoring competence center in the Republic of Belarus. The assigned claims under factoring transactions increased by 28%; the volume of the financing paid to the clients increased by 24.9%. The export factoring share reached 56% in the total factoring portfolio.

The Bank traditionally financed the working capital, investment and export oriented projects of large customers, executed documentary operations. All this enabled to retain the corporate business volume in 2015.

## Business with Small- and Medium Sized Enterprises

In 2015, the co-operation strategy with SME was focused on the product range development, client base increase, customer service quality improvement, technologies and processes optimization.

In order to increase SMEs loan support, Priorbank concluded the agreement with the Development Bank of the Republic of Belarus on investment financing for SMEs to the amount of 100 billion BYR. This loan facility enabled the Bank's clients to receive financing in BYR for the investment projects development at the interest rate lower than the market one.

In 2016, the Bank developed and prepared for launch a new lending product 'Prior-Bonus' supposing draw down of the loan agreed in advance based on the scoring model. All the stages of the product approval, preparation and signing of the respective documents are effected distantly, without the client's visit to the Bank. This is the first distant loan for legal entities launched in Belarus.

Priorbank simplified medium-sized clients lending procedure having launched the product Business-Line Light. The product allows to sign the working capital financing loan agreement for the period of 5 years thereby reducing the bank's and client's labor cost spent for the annual loan facility extension procedure.

The Bank's Information Technologies inventions of the previous year yielded excellent results in 2015:

- The share of new micro-loans with the automatic extension possibility accounted for 80% in 2015, which significantly simplifies the lending procedure and reduces the Bank's labor cost.
- The share of micro-loans applications received via the electronic workflow system accounted for 70%.

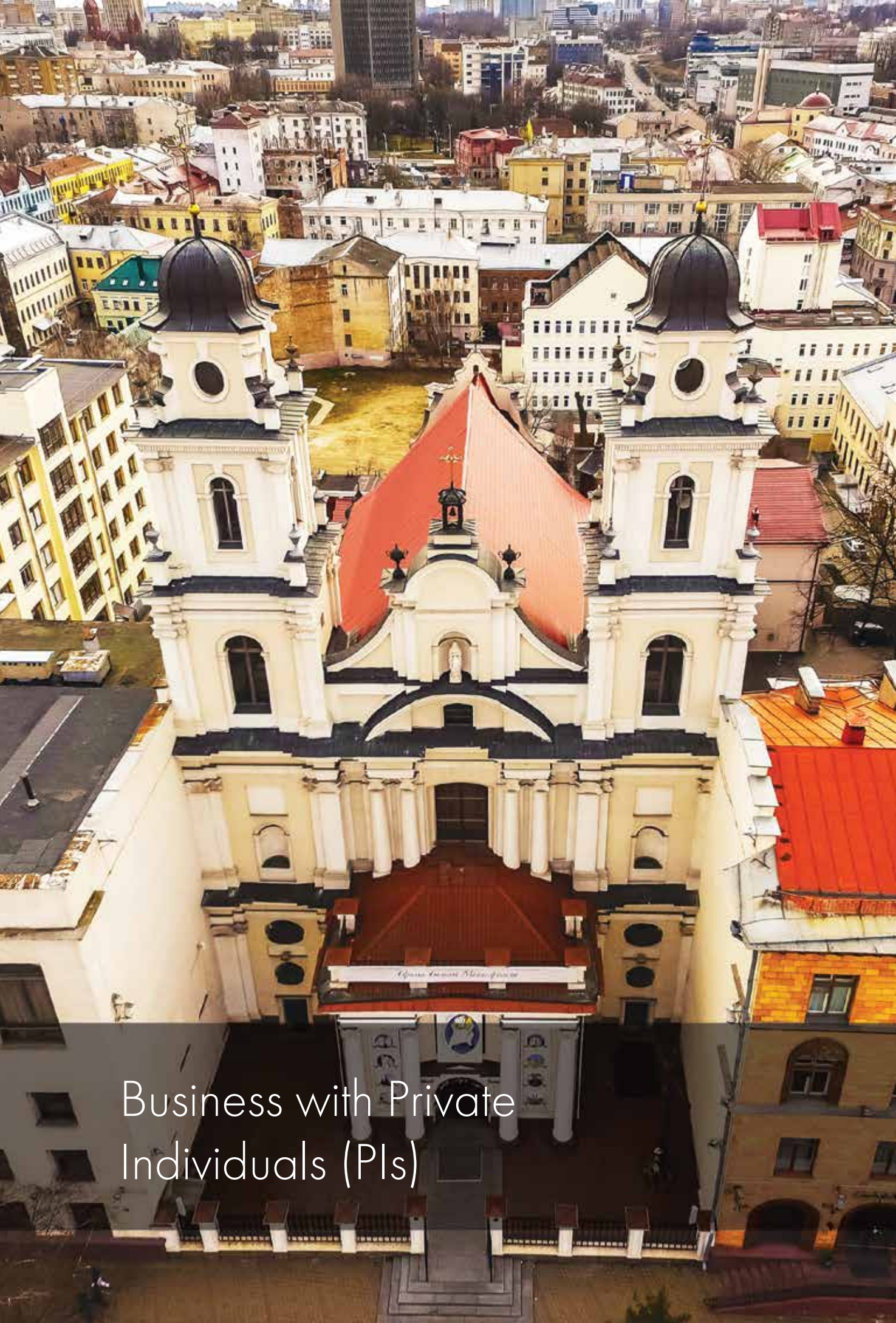
Priorbank conducted first CRM-campaigns in SME business targeted at banking products sales (FOREX transactions, salary payroll projects, corporate cards). The Bank started active promotion of the banking products via electronic distribution channels. In 2015, the conducted campaigns resulted in conclusion of 826 agreements with the Bank's clients.

The Bank introduced document electronic-digital signature via the Electronic Payment System (EPS). This project enabled legal entities to sign the agreements with the Bank without visiting the Bank's office, which significantly reduces time for the agreements signature and increases the clients' loyalty.

In 2015, high clients' base growth rate was maintained: the Bank attracted 7,488 clients. Active client base increased by 4.3%.

In order to increase the clients' loyalty and attract new legal entities, the Bank arranged the following campaigns:

- Partnership Program: bring a new client to the Bank and get a discount for bank services. Within the promotional event for the Bank's clients, the Bank provides a discount for the services package, if the client recommends its business partners to service their accounts in Priorbank.
- 99,900. Taste the Austrian Banking Service. New Bank's clients were offered to utilize the Bank's cash management services only for 99,900 BYR per month throughout three months.



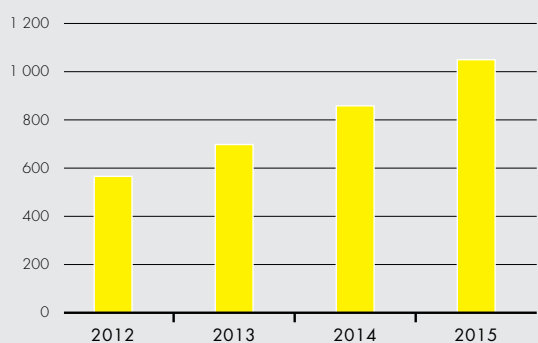
Business with Private  
Individuals (PIs)

# Business with Private Individuals (PIs)

The key PIs business priority in 2015 was further increase of the active PIs client base by promotion of the payroll and pension programs. Simultaneously, utmost attention was focused on distant PIs service channels by launch of new digital services

In 2015, the key sources of the earned income were lending and deposit operations (interest income) and services rendered within the payroll programs (commission income). In 2015, the total number of Priorbank clients-PIs regularly receiving salary or pension reached 461,000 having increased by 10.4 ths. or 2.3%. The Gross Income earned in 2015 exceeded the level of 2014 by 21.2%; the Net Profit before tax increased by 41.2%.

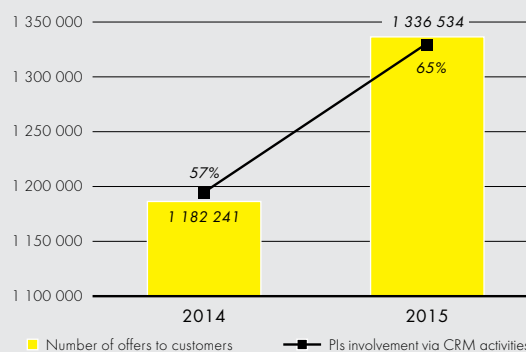
## Gross Income, BYR billion



## Customer Relationship Management (CRM) – Cooperation with the Existing Clients

In 2015, Priorbank maintained the focus on CRM. The Bank conducted a number of marketing campaigns offering its products and services under individual terms and conditions, increased the number of contacts with its clients in order to improve the service quality. About 1.3 million messages were created in 2015, thereof about 70% were service and information contacts. 65% of the clients were contacted within CRM campaigns, meanwhile more than 80% of the clients were contacted in Premium and Primary Segments. Consequently, 12% of the personal loans and 40% of new credit cards were sold via CRM campaigns.

## CRM Activities



In the period under report the Bank also made important qualitative modifications of the existing CRM functionality in order to increase Priorbank competitiveness on PIs servicing market:

- prospects segment creation (collection, data storage and sales pipeline architecture);
- development of new approach to customer marketing – individual automated Event Triggered campaigns;
- “orchestration” of traditional and distant communication channels – a step to omni-channel servicing;
- increase of the Internet-Bank and Contact Center share in the products and services sales structure.

A new contact channel was successfully launched in 2015. Personal messages to Priorbank and other banks clients became available in ATMs and Cash-Ins.

In order to increase attractiveness of the salary payroll services, Priorbank launched the pilot project within the Customer Attraction and Retention Program, which demonstrated positive results and was distributed to all the Bank’s branch network.

The important achievement of the last year was also launch of Analytical CRM Project (customers and products database deep analysis). Within this initiative the following tasks had already been implemented:

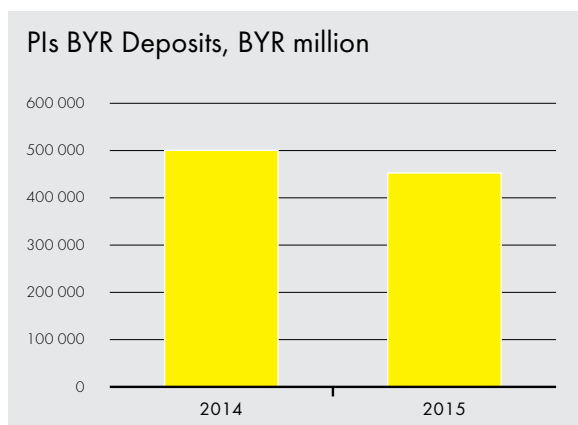
- marketing campaigns efficiency increase, their targeting;
- customer rating by probability of response on the marketing offers, selection of target groups for campaigns;



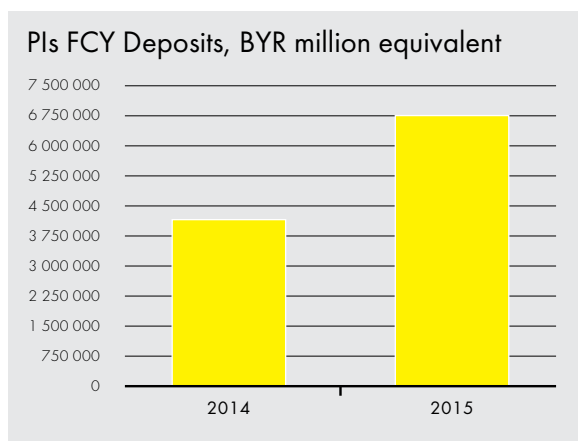
- detection of the customer groups with maximum risk of the product rejection;
- segmentation of the customer base for detection of the most probable users of a product and service, inclusion of such prospects into marketing campaigns.

## PIs Deposits and Accounts

In 2015, local currency (LCY) deposits remained stable exceeding 450 billion BYR.

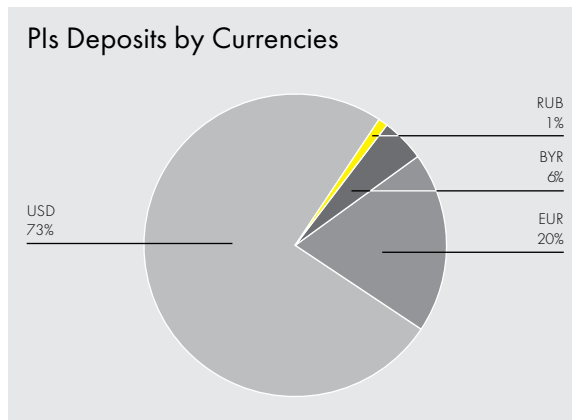


In 2015, foreign currency (FCY) term portfolio remained stable having increased by an equivalent of more than USD 21 million. FCY deposits in BYR equivalent grew by about 60%.



The positive trend is characterized with the deposits attractive conditions, wide deposits range, optimal interest rates level, funds safety guarantee, and the clients trust in Priorbank.

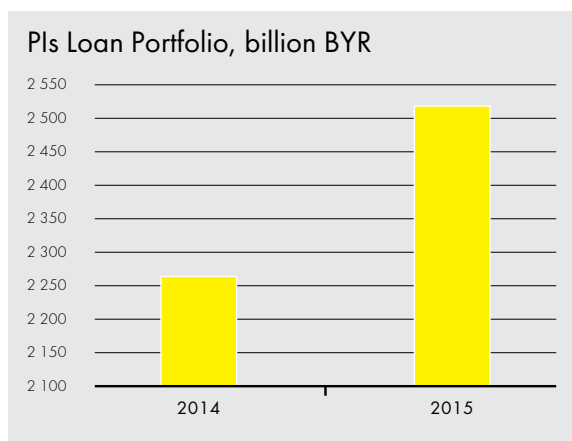
In November 2015, given changes in the legislation, the Bank expanded the BYR and FCY deposits range. The



deposits became revocable (with the right of acceleration) and irrevocable (without the right of acceleration). In order to retain the customer loyalty Priorbank offers fixed interest rate on irrevocable deposits throughout all deposit validity period.

## Loans

In 2015, Priorbank confirmed its status of one of the leading players on PIs lending market having occupied the 2<sup>nd</sup> place among the banks of the Republic of Belarus in terms of lending to PIs. In the year under report Priorbank increased the PIs loan portfolio by 10.8%. A wide product range including credit cards, consumer loans, personal loans, overdrafts to salary and pension cards, mortgage loans, car loans contributed to strengthening of the Bank's market position.



Priorbank continues to develop and promote distant service channels, up-to-date payment and internet technologies enabling to improve the customer service quality and speed. Thus, in 2015, 18.6% of loans were disbursed under the applications accepted via either the Internet or telephone; the share of credit cards accounts for 55.1% of the total loans.

## Tariff Policy

In 2015, Priorbank continued to render comprehensive bank servicing to PIs within the existing Tariff Policy. The Bank focused on offering of new services via the distant banking service system, as well as expanded the range of the services available for service packages users.

In 2015, Priorbank paid utmost attention to cashless settlements via plastic bank cards, thereof via distant banking service channels. Additionally, within the pursued Tariff Policy, the Bank offered more favorable conditions of payment cards issue via distant banking service channels (the Internet-Bank).

Further, the Tariff Policy will be focused on stimulation of more active utilization by PIs of the Internet-Bank and service packages.

## Plastic Bank Cards

By late 2015, Priorbank issued a total of more than 850,000 plastic bank cards for the payment systems: Visa International, MasterCard Worldwide and BELKART, with a market share of 6.6% in the Republic of Belarus, being one of the leaders in terms of the cards issue and cashless settlements programs development. In 2015, Priorbank, supported by the International Payment Systems Visa International, MasterCard Worldwide, arranged and launched a number of advertising campaigns on promotion of Priorbank's payment cards, as well as actively participated in local campaigns arranged by the payment systems on the Belarusian market:

- The promotional game 'To Become a History's Eyewitness is Invaluable' held from 15 October 2014 to 3 February 2015 (with the purpose to promote cashless payments by MasterCard and Maestro cards);
- The promotional game 'Dreams Come True with Visa' held from 25 December 2014 to 25 March 2015 (with the purpose to promote cashless payments by Visa cards);
- The promotional game 'The Score is for You' held from 15 May to 15 August 2015 (with the purpose to promote cashless payments by MasterCard);
- The promotional game 'Unlimited Opportunities with Visa' held from 1 June to 31 August 2015 (with the purpose to promote cashless payments abroad by Visa cards);
- The promotional event 'Bring a Friend' held from 8 June to 31 August 2015 (with the purpose to promote issue of new cards Visa Classic, MasterCard Standard, Visa Gold and Visa Platinum);
- The promotional game 'Hello, Dream' held from 1 July to 10 September 2015 (with the purpose to pro-

mote cashless payments by premium cards Visa Gold and Visa Platinum);

- The promotional game MasterCard 'Turn Everyday Shopping into Trip to Europe' held from 1 October to 30 November 2015 (with the purpose to promote cashless payments)
- The promotional game 'Visa – Small Victories and Big Awards' held from 14 December 2015 to 29 February 2016 (with the purpose to promote cashless payments).

The Bank's product line combined with marketing activities, in 2015, enabled to significantly increase the total number of transactions with payment cards to 88 million (77 million in 2014), thereof 70 million (58 million in 2014) transactions of cashless payments for goods and services. Meanwhile, the share of cashless payments by Priorbank cards increased to 36% against 26% in 2014. Priorbank occupies the leading positions in terms of plastic cards gross turnover: in 2015, Priorbank is ranked the third with a turnover of 2.36 billion EUR, thereof 849 million EUR – cashless payments for goods and services, and 1.51 billion EUR – cash withdrawal transactions.

In late 2015, Priorbank jointly with the Payment System MasterCard announced the first on the market of the Republic of Belarus innovative solution for contactless mobile payments with utilization of the Host Card Emulation (HCE) technology. In order to use this service, a client should install a special mobile application on the smartphone and create a mobile version of the payment card with several clicks. With a contactless card MasterCard in the smartphone it is much easier and more convenient to pay with one touch of the smartphone to the payment terminal.

## Contact Center

In 2015, Priorbank Contact Center being multi-channel, serviced its clients both via telephone channels and electronic communication channels.

The total number of the processed inquiries via all the channels increased by 2% vs. 2014 having reached 875,000.

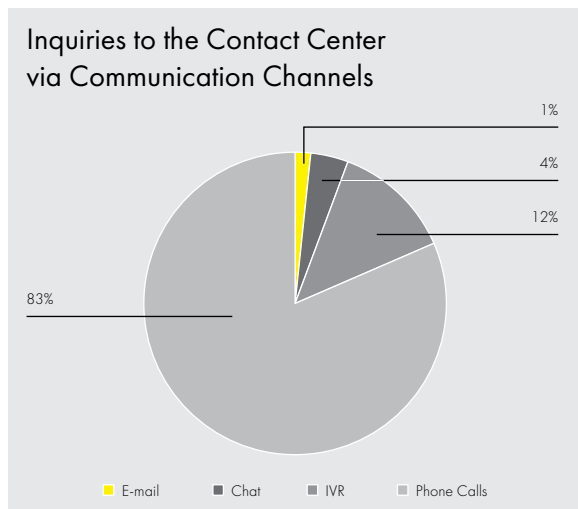
The number of inquiries via the voice channels increased by 8% vs. 2014 having reached 831,000 of the answered incoming calls. Thereof, the Contact Center operators processed 727,000 telephone calls; the remaining telephone calls were processed via the Interactive Voice Response (IVR) System.

The share of electronic channels increased to 5%, meanwhile the customers' inquiries via electronic channels increased by 72% vs. 2014.

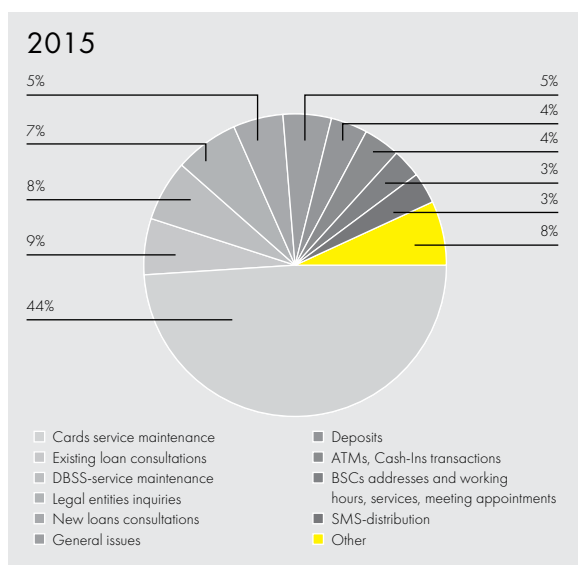
More than 9,000 clients' inquiries were processed via the web-site feedback form, which is by 16% more than in 2014.

In 2015, chat was the most popular electronic channel: 33,000 chat sessions were processed, which is by 44% more than in 2014.

In December 2015 the Bank launched web co-browsing service in order to provide the customers assistance in navigation and filling in of the applications on the Internet banking.



The main share of the inquiries to the Contact Center belongs to PIs – about 93%, having decreased by 2% vs. 2014. Meanwhile, the legal entities’ inquiries share significantly increased to 7% and amounted to 48,000, constituting a more than twofold increase vs. 2014.



The highest share belongs to the clients’ inquiries regarding opening and service maintenance of the credit and debit cards – 44%, remained unchanged vs. 2014, as well as the share of clients’ inquiries regarding the use of Distant Bank Servicing System (DBSS) – 8%.

The share of client’s inquiries regarding loans decreased from 14% in 2014 to 8% in 2015.

In 2015, the Bank’s clients continued to enjoy a convenient service – appointment of meetings via the Contact Center in order to avoid long lines. More than 2,000 meetings were appointed, thereof 950 meetings actually took place.

In 2015, the Contact Center sales team informed more than 140,000 Bank’s clients – PIs about special offers regarding the Bank’s products, which is by 43% more than in 2014.

More than 38,000 clients utilized the Bank’s offers, thereof more than 5,000 clients received the loans, more than 5,000 clients opened pension accounts with the Bank, more than 28,000 clients re-issued their pension cards for a new period within the Customer Retention Program.

The Contact Center sales efficiency of the Bank’s products was 9% and remained at the level of 2014, customer retention efforts efficiency was 96%.

Throughout the first four months of 2015, the Contact Center operators processed loan applications via the phone in the form of the callback from the corporate web-site. The Bank processed more than 1,000 such requests, 37 clients received the loan applied for via the phone.

The Contact Center sales share accounted for 10% in the total Bank sales volume to PIs, having increased by 3%.

In 2015, the Contact Center achieved the customer telephone service level ratio of 83/60, which means that 83% of the incoming calls were answered by the operators within 60 seconds. The customer chat service level also reached 83%/60, which means that the operators joined 83% of the incoming chats within 60 seconds.

The customers inquiries resolved by the Contact Center operators on the first try accounted for 85%, having increased by 2% vs. 2014.

The average customer satisfaction level in 2015 accounted for 70%, meanwhile 95% of the customers will recommend their colleagues and friends to apply to the Contact Center for consultations.

Since November 2015 Contact Centre has launched the innovative project of callers' authentication with voice biometrics technology. Each client expressed consent on creation, storage and processing of his/her voiceprint, during the inquiry to the Contact Center will be identified without submission of passport details, agreements and cards number. This is secure, convenient and reduces service time. The project was acknowledged the best in 2015.

In 2016, the Bank will offer a new service level via the social networks Facebook, Twitter and VKontakte, as well as new services in mobile application Prior Mobile: chat, callback, electronic message to the Bank.

## Premium Banking for Pls

Priorbank has always been endeavoring to offer the most convenient services to its premium clients, as well as making the client's communication with the Bank the most convenient and efficient. Therefore, Priorbank offers various premium servicing models: Premium Banking – a traditional premium service in the Bank's office, and Premium Direct – a distant premium service.

In 2015, a new Premium Banking office was opened in Mogilev; thus, Premium Banking offices operate in all regions of the country.

Development of Premium Direct service and launch of bank correspondence delivery service, as well as new technologies such as voice biometry and joint web-site navigation contributed to customer service improvement. In 2015, the Bank launched a financial diagnostics instrument for Premium Direct clients enabling to get individual recommendations on personal funds disposal, as well as to define financial priorities and plans.

Owing to launch of new technologies and services, in 2015, the number of premium clients increased by more than 40%.

## Development of Distant Services for Pls

Priorbank is one of the leaders on the distant bank servicing market and continues to develop the most up-to-date service technologies.

The Bank constantly takes care of its services quality and strives to make them more convenient for customers. In

2015, the Bank was actively developing and improving its electronic distant bank servicing channels.

In 2015, the Internet-Bank Prior Online functionalities were expanded:

- transfer of funds to other banks' cards;
- limits setting;
- contacts with the Bank setting;
- self-subscription web-form interface optimization.

Priorbank occupies the leading positions on Pls' distant servicing market: by late 2015 the number of subscribers of various distant systems (Internet, SMS, USSD) reached 326,000. The number of active Internet-Bank users increased by 45%, mobile bank – by 60% vs. 2014. More than 15,000 our clients install mobile applications Prior Online each month.

One of the most important projects of 2015 is development and launch of the new mobile application for fast payments: Prior ClickPay. The application is designed for payment for mobile operators services: velcom, MTS, life:) and transfer among the client's cards.





Prior ClickPay can be used by the clients registered in the Internet-Bank Prior Online. The Internet-Bank login and password are used. The application is available for smartphones and tablets with either Android or iOS. Besides, PriorClick Pay is compatible with smart watch – Apple Watch.

Launch of the unique for the Belarusian market service continues Priorbank’s innovative strategy. Thus, the Bank

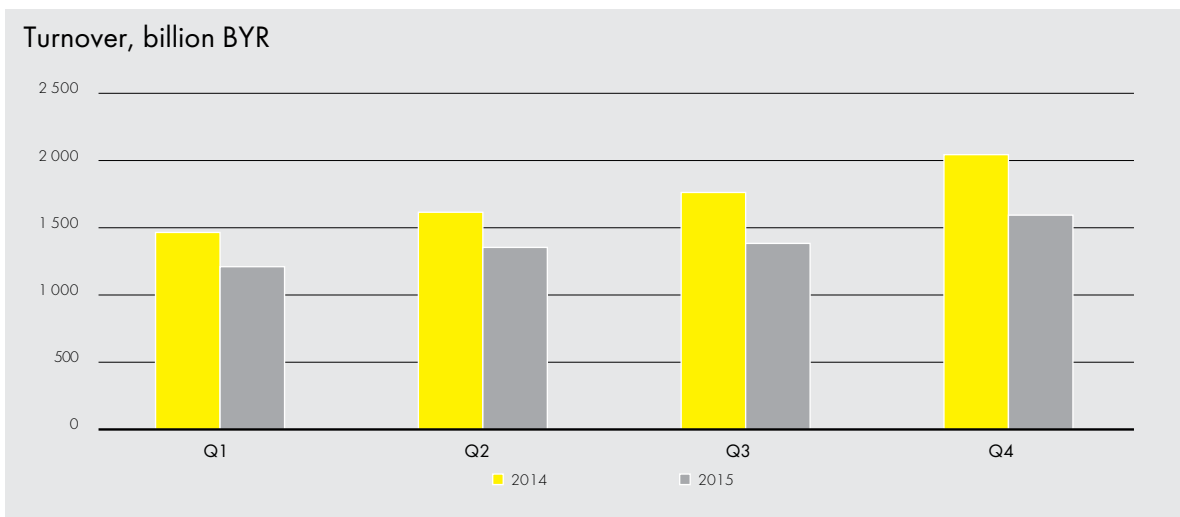
not only confirms the leading status in modern banking technologies promotion in Belarus, but also follows the most up-to-date global trends.

Being constantly on the move, Priorbank will further develop distant bank services functionalities. In the short-term outlook Priorbank will launch a new version of the Internet-Bank and mobile applications updates with a new design and convenient interface.

## Bank Cards Acquiring

In 2015, Priorbank implemented the project on merchants’ cashless payments processing via mobile bank cards acquiring PriorSmartPos. Since May 2015, 4,555 readers had been switched and 3,002 agreements had been concluded.

In the year under review, Priorbank installed 2,651 POS-terminals at merchants and concluded 1,071 new acquiring agreements. More than 30 million transactions to an equivalent of 6.85 trillion BYR were executed at POS throughout the year.



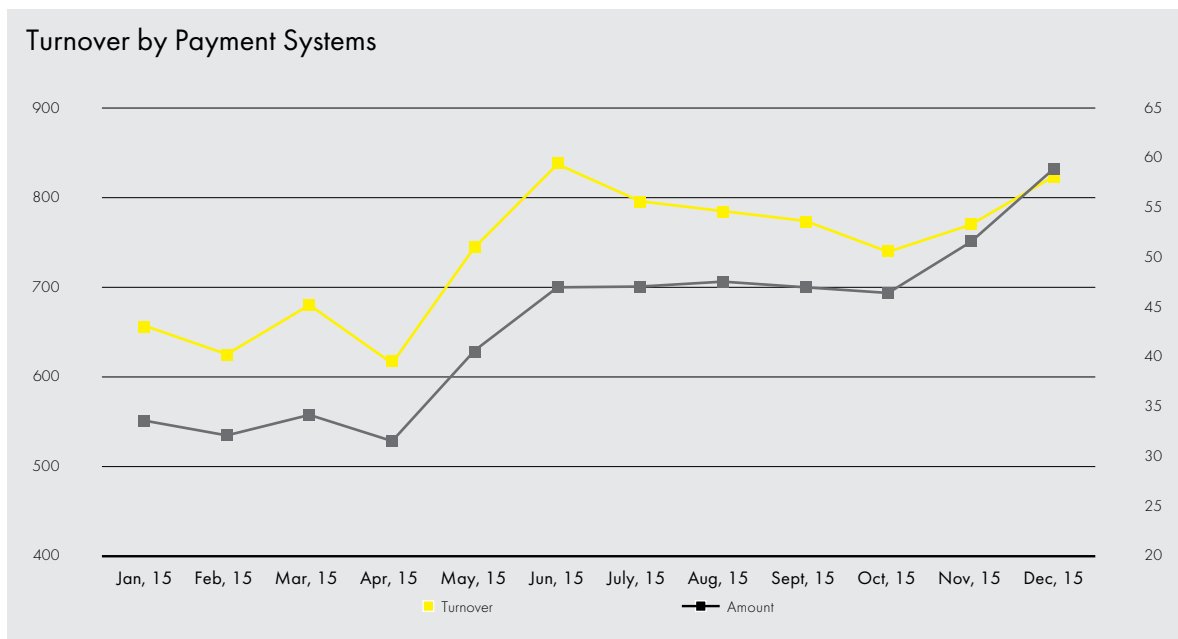
# Electronic Money

In 2015, Priorbank continued own electronic money payment systems development. Thus, vs. 2014:

- these transactions turnover increased by 20%;
- these transactions number increased by 10%.

MTS and Velcom were attracted as electronic money distributors, negotiations with BeST are being held.

In 2015, 8.8 million transactions were executed via electronic money payment systems with a turnover of an equivalent of 25.45 million EUR.





Treasury Operations.  
Securities Dealings

# Treasury Operations. Securities Dealings

## Local Money Market Transactions in BYR with banks-residents

In the first quarter of 2015, the banking system experienced local currency (LCY) liquidity deficit, consequently the inter-bank market funds cost exceeded 45% per annum. The National Bank of the Republic of Belarus (NBB) actively supported the banking system current liquidity applying refinancing instruments. Furthermore, in the first quarter NBB several times decreased deductions to Mandatory Provisions Fund in foreign currency (FCY) from 12.5 to 9%.

Starting from the second quarter of 2015, the liquidity situation significantly improved, due to Pls placing of BYR deposits given positive deposit market interest rates. In this period NBB started to withdraw excessive liquidity having increased deductions to Mandatory Provisions Fund in BYR from 0 to 7%.

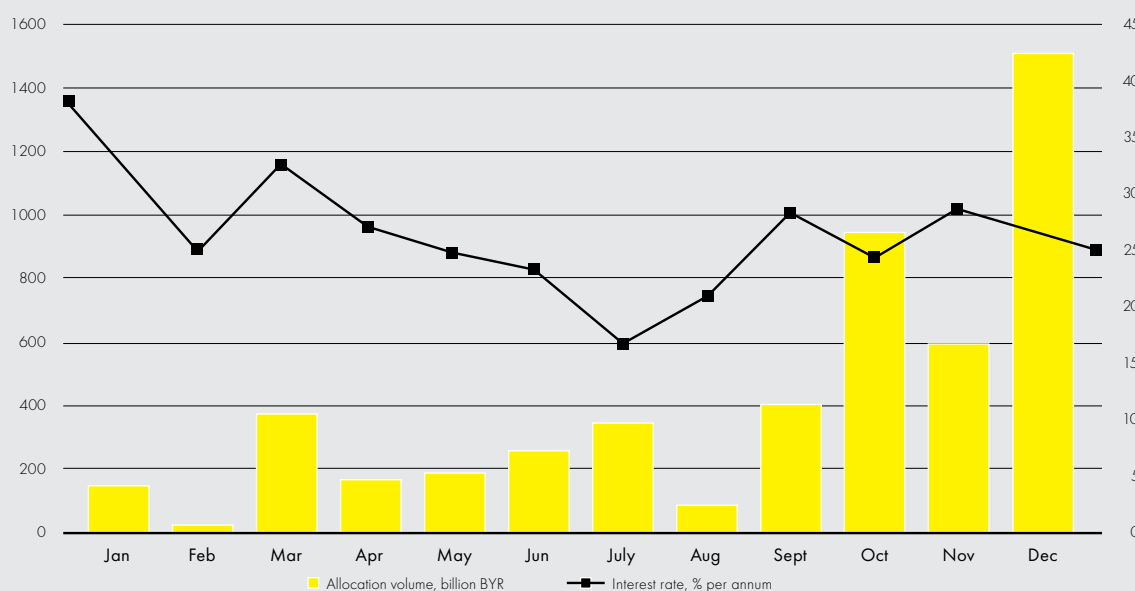
By late third quarter of 2015, Pls started to actively change LCY to FCY. In this period NBB recommenced the banking system support, simultaneously introducing

limitations on inter-bank market rates at the maximum level of 30%.

As in the previous years, Priorbank paid special attention to the liquidity management processes efficiency improvement. The Bank was constantly improving the existing management models, which enabled the Bank to quickly and efficiently adjust to the dynamically changing market environment and to remain one of the major funds supplier on the inter-bank loans market.

In 2015, income from BYR inter-bank loans amounted to 106.1 billion BYR at the average lending rate of 25.91% per annum. At the same time, the Bank paid the interest to the amount of 20.8 billion BYR on the raised inter-bank loans (IBL) and deposits at the average borrowing rate of 38.4% per annum. Against the previous year, IBL income increased by 47.1 billion BYR, and cost increased by 18.94 billion BYR.

Priorbank's Funds Allocation on the Money Market

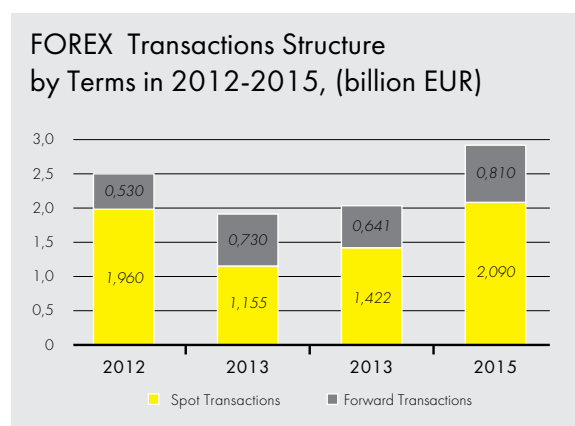
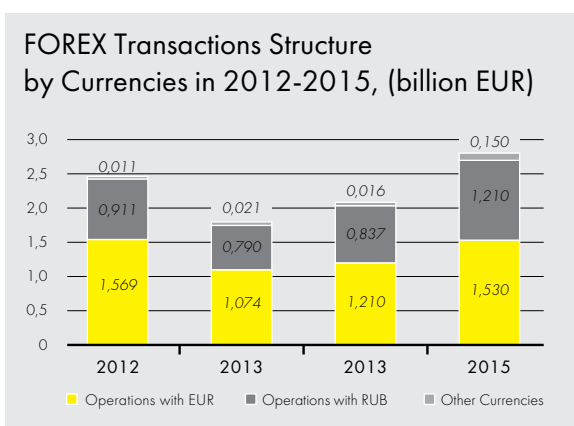




## FOREX Transactions

The volume of FOREX transactions in 2015 increased against 2014 to 2.9 billion EUR or by about 33%. The transactions structure by currencies remained almost unchanged – the major transactions (about 53%) were EUR/USD FX transactions; about 42% of the transactions – RUB/USD or RUB/EUR FX operations; the share of other less popular currencies increased having reached 5% due to growth of transactions with BYR on the local over-the-counter FCY market.

Forward transactions volume increased against 2014 from 0.641 billion EUR to 0.81 billion EUR, but their share in the total FOREX transactions volume slightly decreased from 31% to 28%. It is worth mentioning that in 2015 forward transactions with Russian Rouble were popular – consequently their share in the total forward transactions volume increased from 2 to 5%. In the conditions of high RUB exchange rate volatility in 2015 forward contracts proved their efficiency as FOREX risks hedging instrument, and increasingly greater number of clients use the opportunities provided by forward transactions.



As in previous years, the Bank allocated excessive FCY liquidity on the external inter-bank money market. FCY fund raising was episodic. In 2015, given the outpacing growth of the Bank's liabilities over its assets, the average overnight allocation volume increased from USD 60 million to USD 74 million against 2014.

In 2015, the Bank's loan portfolio in RUB continued to grow. The required RUB volume was partially raised by SWAP transactions. In 2015, the average overnight SWAP transactions volume amounted to 3.3 billion RUB.

## Liquidity Management

Priorbank liquidity in 2015 remained at sufficient level. The Bank performed all the Prudential Standards of the National Bank and international liquidity standards.

Priorbank pursued the liquidity balanced management strategy through simultaneous assets and liabilities management.

## Legal Entities' Deposits

In 2015, Priorbank was among the 10 largest banks in terms of Legal Entities' deposits. The average monthly le-

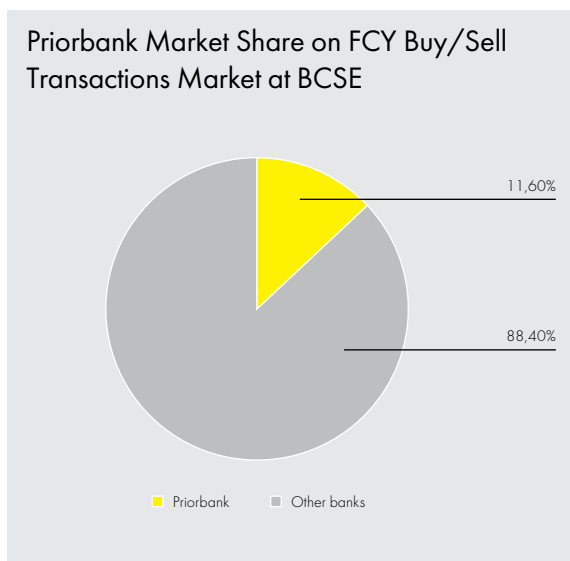
gal entities' deposit portfolio in 2015 reached 2.5 trillion BYR having increased by 4.8% against 2014.

# FCY Buy/Sell Transactions

In 2015, FCY Buy/Sell transactions with legal entities increased by 23.1% having reached 131.4 trillion BYR. Change of the legislation regulating servicing of legal entities on the over-the-counter FOREX market in 2015 contributed to growth of the transactions in this FX market segment by 179.6% or to 83.2 trillion BYR.

In 2015, Priorbank transactions volume at the Belarusian Currency Stock Exchange (BCSE) amounted to 62.4 trillion BYR. In 2015, Priorbank occupied the second position among Belarusian banks in terms of FCY Buy/Sell transactions volume at the Belarusian Currency Stock Exchange with the market share of 11.6%.

High FX rates volatility on the international FOREX markets, stimulates Priorbank clients to maintain stable demand for such FX risk hedging instrument as "Forward FOREX Operations". In 2015, the volume of the concluded forward contracts amounted to 14.7 trillion BYR having increased by 78.4%.



## Securities

In 2015, the Bank continued to raise funding by selling of own bonds issues. The preferences granted to the investors raise the Bank's clients demand for this financial instrument. Increase of the Bank's liabilities by selling the

bonds contributed to reduction of interest expenses. In 2015, the Bank sold its bonds to the clients to the total amount of 1.3 trillion BYR: the sales volume increased by 12 times vs. 2014.

## Custody services

In 2015, Priorbank's Custody Division offered the services of forming and keeping registers of shareholders, safekeeping and settlement of securities, payment of dividends, informed about corporate actions of the issuers and rendered other custody services.

The Banks shareholders comprise of 498 legal entities owning 95.244% of shares and 15,209 private individuals owning 4.756% of shares. The majority share in the authorised capital of the Bank belongs to Raiffeisen CIS

Region Holding GmbH (associated company of Raiffeisen Bank International AG). Priorbank's subsidiaries do not own the Bank's shares.

The number of Priorbank's ordinary shares is 123,058,441, and privileged shares are 10,000. The nominal value of a share is 3,350 BYR. As a result of 2015 the dividends size on the privileged shares made up 50% from the nominal value (1,675 BYR), on the ordinary shares – 3,900 BYR.



International Activities

# International Activities

## Correspondent Banking

Priorbank has highly efficient processing system along with the outstanding expertise in cash management. The personal support and experienced staff makes the difference between a standard product and individual approach in clearing service enabling transactions in a quick and cost-effective way.

Having an access to the main clearing systems of Commonwealth of Independent States, Europe, North America and Asia, Priorbank effectively maintains correspondent accounts in its books. The proper approach to Know Your Customer procedures and FATCA implementation being considered as a rule for Priorbank that allows its correspondent banks to be confidence in routing transactions all over the world.

## Trade Finance

Letter of credit has always been an effective tool of trade risk minimization and fund raising, while bank guarantee offers broad opportunities in terms of securing a variety of obligations.

Priorbank effectively combines professional expertise and service in line with international standards thus developing trade solutions to the mutual benefit of all parties involved. Our main goal is to perceive customers' needs by the means of individual approach in commenting and drafting instruments conditions to the best extent.

The Bank keeps on playing a key role in promoting cooperation between the regional trade and international producers, also providing co-financing with international

Last year the main flows of transactions were sent in favor of customers in Germany, Austria, Poland, Russian Federation, Latvia, Lithuania, Ukraine, People`s Republic of China, Great Britain, USA. Most of the payments were nominated in EUR – 40%; while in RUB – 37% and in USD – 18%.

Priorbank is focused on delivering a high quality standard in transactions processing that is always confirmed by numerous STP Excellent Quality Awards of recognized clearing institutions such as Deutsche Bank AG and Commerzbank AG.

development banks which are always careful in selecting of partners.

In 2015 Priorbank renewed its title as the Most Active Issuing Bank in Belarus under European Bank for Reconstruction and Development (EBRD) Trade Facilitation Programme for the 8<sup>th</sup> time confirming its experience and extensive knowledge in Guarantee and Documentary business.

Our Bank is going in tune with the times in order to offer a remarkable service to its customers. Priorbank automated the process of L/C issuance in 2015, thereby reduced operating costs and lifted up the quality of the product to a new level.

## Funding

Being a member of Raiffeisen, the largest Austrian Banking Group in the Central and Eastern Europe, we still are the only Western universal bank in Belarus and making the foreign funding available for the real sector of economy is one of our priorities.

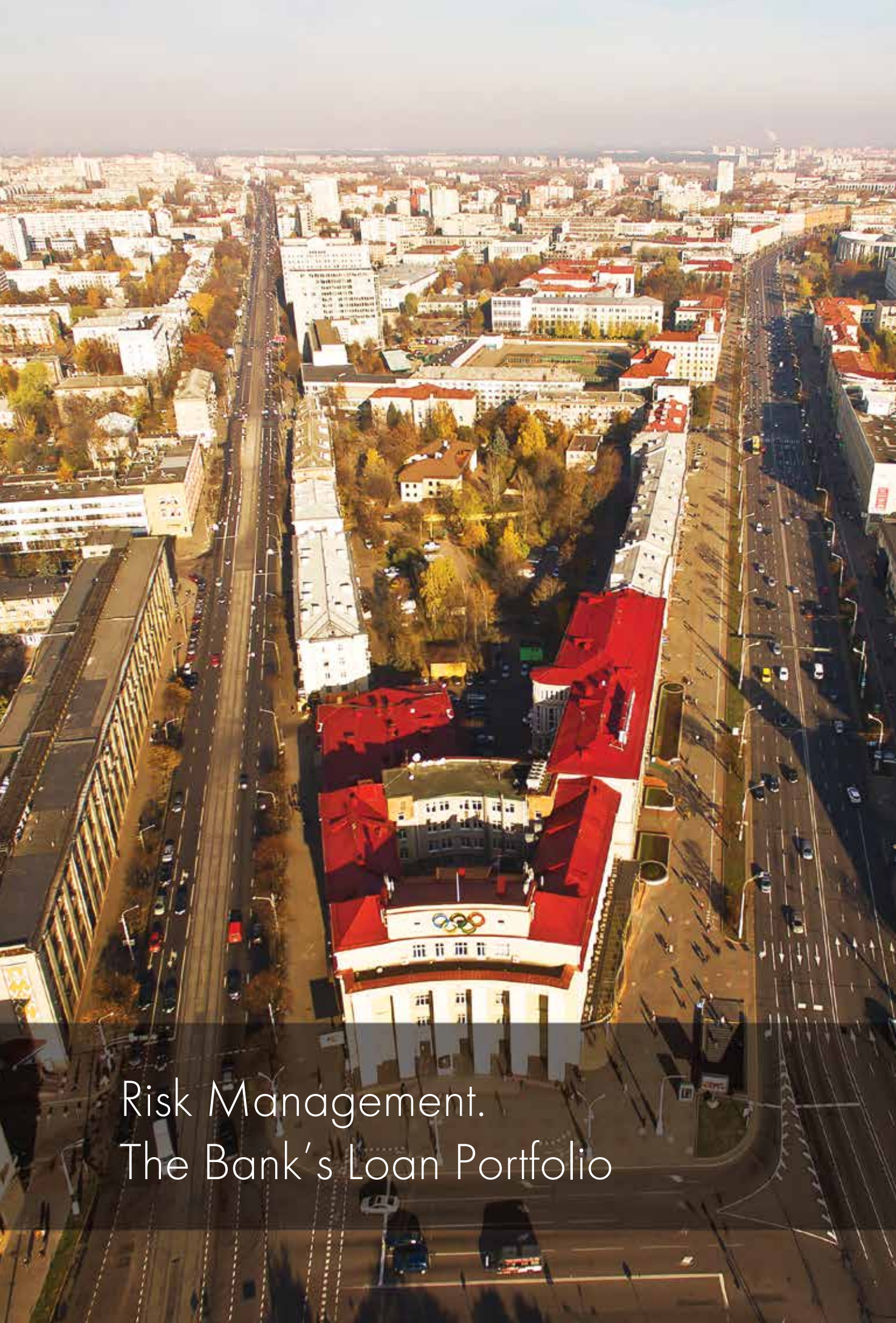
Priorbank is always keen to know more about the customers' intentions to structure its funding properly. Perfect utilization of advanced solutions in terms of wholesale funding allow us to win the customer in most cases.

Our Bank became the first financial institution among RBI network banks that joined risk-sharing program under the

co-financing framework with EBRD last year. Risk-sharing facility agreement allows Priorbank to expand in lending to a greater number of companies across the country covering all kinds of legal entities.

Having solid and long lasting relations with development institutions in Asia we have acquired insight into local markets and business models there, managing to satisfy our customers with different funding conditions and tailoring financing to their expectations.

List of main correspondent banks					
Currency	Account	Correspondent	City	Country	SWIFT Code
CHF	02300000069025050000K	UBS Switzerland AG	Zurich	Switzerland	UBSW CH ZH
CNY	0101000111902569094	INDUSTRIAL AND COMMERCIAL BANK OF CHINA LTD.	Beijing	China	ICBK CN BJ
DKK	500 000 6760	NORDEA BANK DANMARK AS	Copenhagen	Denmark	NDEA DK KK
EUR	55.045.512	RAIFFEISEN BANK INTERNATIONAL AG	Vienna	Austria	RZBA AT WW
EUR	400886630301EUR	COMMERZBANK	Frankfurt	Germany	COBA DE FF
GBP	63999084	BARCLAYS BANK PLC	London	United Kingdom	BARC GB 22
JPY	653-0428213	THE BANK OF TOKYO-MITSUBISHI	Tokyo	Japan	BOTK JP JT
KZT	KZ586010011000268568	JSC HALYK BANK	Almaty	Kazakhstan	HSBK KZ KX
PLN	PL1517500009000000002886448	RAIFFEISEN BANK POLSKA SA	Warsaw	Poland	RCBW PL PW
RUB	30111810700000110023	AO RAIFFEISENBANK	Moscow	Russia	RZBM RU MM
RUB	30111810855550000010	JSC VTB BANK	Moscow	Russia	VTBR RU MM
RUB	30111810600013168183	AO UNICREDIT BANK	Moscow	Russia	IMBK RU MM
RUB	30111810200000000136	SBERBANK OF RUSSIA	Moscow	Russia	SABR RU MM
SEK	99-40 945 049	SVENSKA HANDELSBANKEN	Stockholm	Sweden	HAND SE SS
UAH	1600564	RAIFFEISEN BANK AVAL	Kiev	Ukraine	AVAL UA UK
USD	36089449	CITIBANK NA	New York	USA	CITI US 33
USD	04-094-577	DEUTSCHE BANK TRUST COMPANY AMERICAS	New York	USA	BKTR US 33



Risk Management.  
The Bank's Loan Portfolio

# Risk Management. The Bank's Loan Portfolio

## Risk Management Organization in the Bank

The task of Priorbank Risk Management Team is implementation of efficient bank risk management system including strategic, credit, market, operational, reputational and liquidity risk management, and its constant improvement in compliance with the international requirements and standards.

In order to ensure the Bank's financial stability and mitigate risks, Priorbank annually develops the Risk Management Strategy. The Strategy is the Bank's important development instrument, as it links business and risks. This link is expressed via setting of the Risk Management objectives arising from the business mid-term objectives, and, consequently, form future business solutions connected with risk. Pursuant to this Strategy, the Bank defines measures to achieve the targeted risk and profitability balance, the Bank's tolerance to key risk types.

Strategic Risk assessment forms the basis of general risk management system of any commercial bank. In order to assess the Strategic Risk, the Risk Management Team develops a Multifactor Model enabling to assess the Bank's capital ability to compensate loss caused by various shocks.

The most important within the Bank risks structure and simultaneously the most comprehensive within the Bank's management is the Credit Risk. Given this fact, the Credit Risk Management plays an important role determining the Bank's assets quality, making decisions aimed at stable Bank functioning, as well as directly influencing the Bank's financial result in the period under review.

### Within the credit risk management process:

- in order to determine clear loan portfolio development directions given the current macroeconomic situation, to ensure the loan portfolio quality pursuant to Priorbank's Risk Management Strategy, the Risk Management Division jointly with the Business Divisions develops and approves the Lending Policies for the current year for the respective business lines, which determine, including, but not limited to, key loan portfolio target parameters for each business

line, portfolio limits, portfolio concentration limits, portfolio quality targets/indicators, financing criteria, etc.;

- in the process of independent risk assessment on each individual client's limit, the Risk Management Division adopts measures on the credit risk mitigation, on compliance with the Lending Policies;
- at the individual and portfolio levels, the Risk Management Division controls over the limits utilization, prepare the respective credit risk reports.

The Credit Risk Management Division applies various approaches to assess the risks for corporate, medium- and small-sized clients, private individuals and other counter agents, therefore the financing criteria are defined individually for each client segment.

The market risk is managed and controlled by the limits system setting and regular stress testing.

The Bank manages assets taking into account the liquidity, daily monitors future cash flows and liquidity. In order to assess actual Bank's need in liquid funds, the Bank's specialists monitor the liquidity with the help of the gap analysis, liquidity indicators method, liquid funds reserve and stress testing. Within the risk management system development, the Bank implemented the process of monitoring and management of new liquidity ratios offered by Basel III.

In order to minimize operational losses, as well as improve operational risk management system, the Bank monitors operational incidents, as well as other events negatively affecting the Bank's business activities, collects and analyses key risk indicators, assesses the Bank's exposure to operational risk based on the stress testing. The Bank constantly improves corporate culture of understanding of the operational risk and methods on operational losses prevention.

As the business reputation in the current market environment is one of the key competitive advantages of any commercial bank, Priorbank implements a complex of measures in order to support a high quality assessment of the Bank's business activities by its clients, counter-agents, shareholders, financial market participants, Governmental bodies, banking unions (associations) and other organizations.



## Credit Risk Management Development in 2015

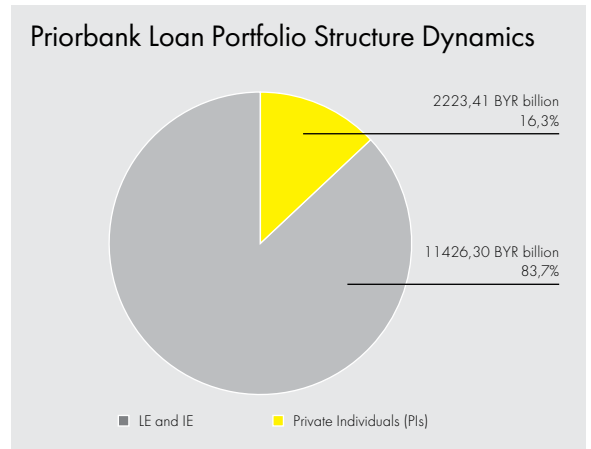
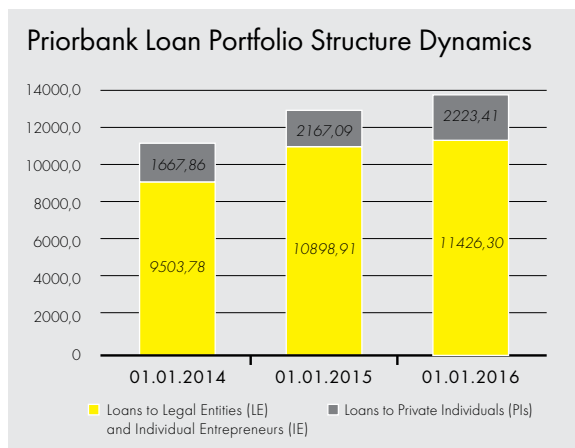
The year 2015 was characterized by the increased macroeconomic risks and deterioration of the situation on the key markets for Belarusian enterprises, entailing considerable impairment of the Bank’s clients’ financial situation, and, as a consequence negatively affected the Bank’s loan portfolio quality dynamics.

Given the aforementioned factors, Priorbank was constantly monitoring the macroeconomic situation producing immediate assessment of the possible influence on the assets quality, and efficiently adjusting approaches to the clients financing and workout/collection processes.

In 2015, Priorbank continued to improve its credit risk management systems in the following directions:

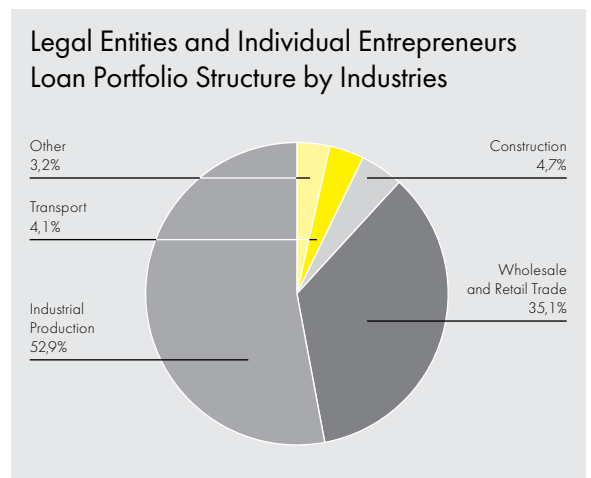
- constant loan portfolio quality analysis and quick reaction on its deterioration alongside with the improvement of the Early Warning Signs (EWS) system, targeted at detecting of potentially problem clients in the legal entities segment;
- further improvement of the Anti-Fraud System on lending transactions for legal entities focusing on fraud prevention and detection;
- more active and effective work with problem debts at early workout stage to define the appropriate workout direction and strategy, thereof restructuring;
- rating models improvement measures according to RZB Group requirements;
- Risk Management IT support development.

## The Bank’s Loan Portfolio by Customer Categories



Given the macroeconomic situation in 2015, the loan portfolio growth rate significantly decreased vs. the previous year. Thus, the LE and IE loan portfolio increased by 4.8%, PIs loan portfolio increased by 2.6% (in 2014 the growth rate was 14.7 and 30% respectively).

Priobank loan portfolio structure did not significantly change. The share of loans to LE and IE in the loan portfolio structure as at 01.01.2016 accounted for 83.7% having increased by 0.7% vs. early 2015.



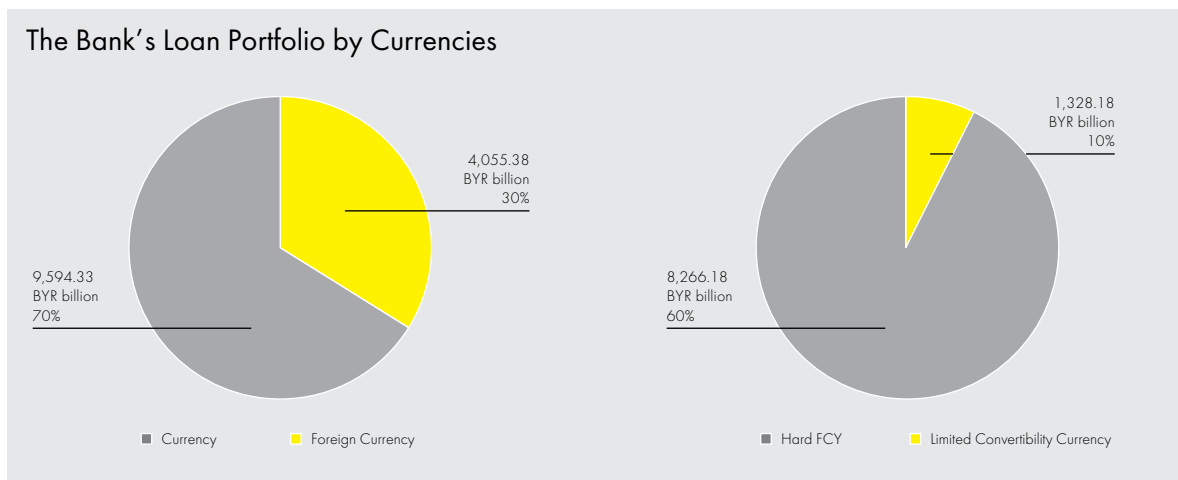
## Construction

The loan portfolio structure by industries remained unchanged. In the loan portfolio of legal entities and individual entrepreneurs structure in early 2016 the dominating shares belong to processing production (52.9% of the loan portfolio) and wholesale and retail trade (35.1%).

The share of FCY financing is stably high – about 70%, therefore special attention was paid to FOREX risk level assessment. As a rule, upon financing the preference

was given to export oriented clients (given the situation on the respective export markets) and import substituting productions.

Improvement of risk management criteria, procedures and systems, operative and efficient adjusting of risk approaches in compliance with the changing economic environment enabled to secure an acceptable NPL level. One of the key factor of this success is high efficiency of Priorbank’s credit risk management system. Its further development is the most important priority of the Bank’s activities.





Personnel

# Personnel

Key HR priorities in 2015 were:

- Clients service quality improvement by means of common competence background creation of the employees and their managers as well as efficiency increase of internal communication within departments;
- Development of key employees' leadership skills through organization of rotations and experience exchange programs with RBI networking banks;
- Support of innovation culture within the bank;
- Further improvement of Performance Management system as a good tool for personnel motivation: implementation of quality KPIs and increase of the performance indicators quality level;
- Commitment to optimization and increase of business-process' effectiveness (further promotion of Lean methodology);
- Implementation of employee assessment tools for the purpose of individual development plans provision for the candidates in the talent pool;
- Development and strengthening of the social package as the tool of employees' social support and retention of qualified staff loyal to the bank.

As at 01.01.2016 the headcount of the bank employees was 2,420 that thereof 19% of male and 81% of female employees. Number of employees with higher education was 83.5%. 37 years was the average age of the employees of the Priorbank JSC.

In 2015, Priorbank hired 145 employees, thereof 76 employees aged 18-24 years from the special reserve of the most talented university graduates, who were on traineeships in the Bank, having work experience in the Bank, as well as trained at Prior School.

In 2015, Priorbank started to form the external pool of the candidates to substitute vacant positions not only from university graduates, but also from colleges. In the framework of a pilot project students from Minsk college of entrepreneurship were enrolled into Prior School. Traineeships were organized for the representative of 9 Belarusian colleges. School of Prior – is a special student pool. The development of students continues when they are employed with the bank. Managers and HR pay special attention at these students, providing them with priority right to participate in further development programs.

School of Prior graduates amount to 226 students, 80 of them are still employed with the bank, 11 employees occupy managerial positions.

For the purpose of healthy living propaganda in the bank as well as team spirit formation the following events were held in 2015: swimming, bowling, volley-ball, tennis and billiards competition, the 19<sup>th</sup> tourist rally among bank's employees and their families. Moreover, bank employees took part in Minsk halfmarathon, military-patriotic sporting game "Confrontation" and intellectual game "Mind capital".

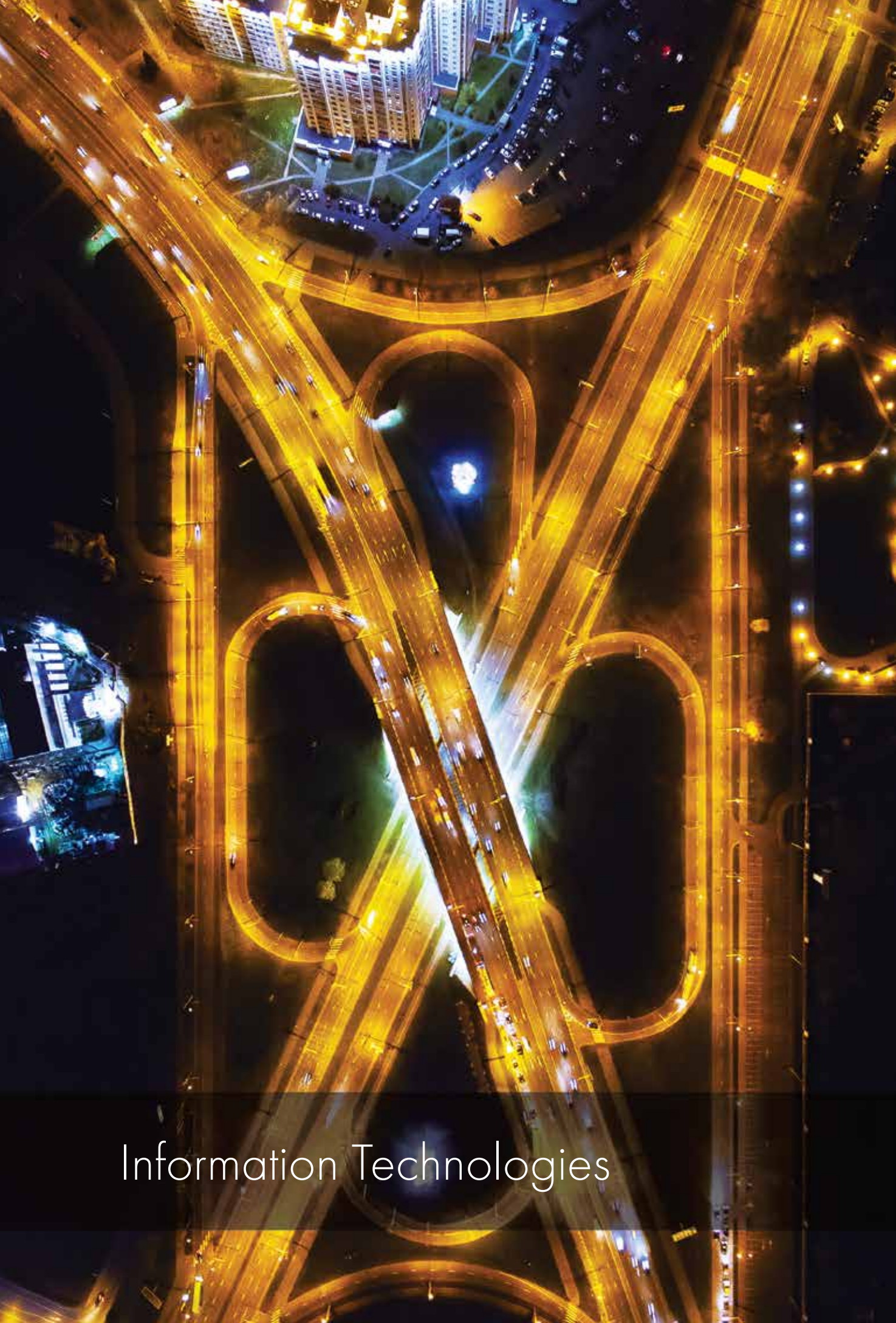
During 2015 the social package was developed in the following ways: further implementation of insurance tools, introduction of medical services program, other fringe benefits opportunities provision for the qualified employees loyal to the bank.

In 2015, the HR Training and Development team organized in the Republic of Belarus and overseas 322 training events (in class trainings, seminars, tests, courses, contests, on the job trainings, business games). The number of employees participating in the training events amounted to 1089. Throughout the year 11 new e-learning courses were created, 66 webinars organized. All employees passed trainings on-line.

The new training tool implemented in 2015 was business game. It is a modern way of acquiring new skills in a fast, easy and entertaining way. Priorbank was one of the first companies implementing the new and effective technology in corporate university in Belarus.

In the framework of RBI initiative Internal Customer Service Quality Service Survey was organized. Employees working in the Branch rated the level of service and support received from the Head Office. The data was used to design action plans and foster interaction between divisions.

In the beginning of 2015 an internal magazine "Our priorities" started to get issued. It is about the values, achievements and future success of Priorbank employees. The key tasks of the periodical is to communicate company's policy, support business and employees' motivation, employee engagement increase, HR brand enhancement. 3 on-line magazines were issued in 2015.



Information Technologies

# Information Technologies

In 2015, the Bank continued to implement its strategic IT initiatives: upgrade of the automated systems focusing on a client, services and products range expansion, business processes optimization, distant services development, innovation technologies introduction. Much efforts were spent at Priorbank image support as a highly technological and reliable bank.

## Services for Pls Development

Priorbank has always been endeavoring to offer the most convenient services to its clients, to expand its product line, and to improve its customer service quality.

The Bank launched 3-D Secure technology ensuring the internet payments security, issued new types of premium cards (MasterCard Gold, MasterCard World Black Edition and Visa Infinite) and contactless cards Master Card Pay-Pass and Visa payWave.

A new credit product was developed 'Prosche.net' ('a piece of cake') – draw down of personal loan to the debit card.

The Bank launched the voice biometrics for the identification of the clients calling to the Bank.

Currently, the Internet is increasingly penetrating the banks' business replacing customer face-to-face retail servicing. Priorbank occupies one of the leading positions on the distant banking servicing market and continues to apply the most up-to-date customer servicing technologies.

In 2015, the Bank was actively introducing new opportunities for the clients and improving electronic distant servicing channels.

One of the most important projects in 2015 is development and launch of on-line cash transfers from Priorbank card to other banks' cards via the Internet-Bank and mobile applications, which was highly appreciated by the clients.

In 2015, the Bank launched the functionality Geolocation enabling our clients to get the on-line information on ATMs and Cash-Ins addresses and working hours.

Change of the card limits functionality implemented in the Internet-Bank enabled to significantly decrease the load on the Bank's retail divisions, as previously the card limits were changed only during the client's visit to the Bank's office.

In 2015, the Bank launched the services of the callback from the corporate web-site, and joint navigation with the Call Center operator of the web-site pages.

In 2015, Priorbank expanded the Internet-Bank System functionalities:

- Personal Cabinet for the client's settings enabling to manage the communication channels with the Bank, i.e. the client can choose the communication channel with the Bank, for example, reject to receive the Bank's advertising via SMS.

- Expanded the range of the applications filled in by the client without visiting the Bank's office:
  - SMS-informing;
  - issue and reissue of bank cards.

Being constantly on the move, in the short-term outlook Priorbank will offer its clients the following opportunities of the Internet-Bank:

- Expansion of opportunities of cash transfers among bank cards: launch of cash transfers among corporate cards via the Internet-Bank for legal entities;
- Opportunity to add other banks' products for transfers and payments;
- Further development of Personal Cabinet for the client's settings;
- Development of the On-line Geolocation for the Bank's mobile applications and the web-site;
- Launch of new Internet-Bank of the Version 2.0;
- Adjustment of the distant service channels in connection with BYR denomination.

## Services for Legal Entities and Individual Entrepreneurs Development

In 2015, the Bank implemented the following functionalities in the Internet-Bank and Electronic Payment System (EPS) for legal entities and individual entrepreneurs:

- Automatic processing of payment instructions and salary payrolls;
- Trading site upgrade;
- Launch of the new bank cards acquiring type via the mobile terminals M-POS;
- Acquiring electronic documents development;
- Development of the functionality "Custody" (opportunity of the distant submission of depot instructions on the securities transfer, as well as creation of the client's request on forming and issue of the securities owners register);
- Credit documents electronic workflow;
- Clients' accounts statements in the format SWIFT MT940, new types of requests (acquiring, documentary transactions);
- Launch of new product "Nano-Overdraft" with high automation level at all stages: from offer to the Bank's clients to the agreement conclusion.



Translation from the original in Russian



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# Audit report of the independent audit firm Ernst & Young LLC on the annual individual financial statements of Priorbank JSC for 2015

To Mr. Sergey Kostyuchenko  
 Chairman of the Management Board of Priorbank JSC

To the shareholders, Supervisory Board and Management Board of Priorbank JSC

To the National Bank of the Republic of Belarus

We have audited the accompanying annual individual financial statements (hereinafter referred to as the “annual financial statements”) of Priorbank Joint-Stock Company (hereinafter referred to as “Priorbank JSC” or the “Bank”), which consist of:

- The Bank’s Balance Sheet as of 1 January 2016 (Form 1)
- The Bank’s Profit and Loss Statement for 2015 (Form 2)
- The Bank’s Statement of Changes in Equity for 2015 (Form 3)
- The Bank’s Statement of Cash Flows for 2015 (Form 4)
- Notes to the annual financial statements

The annual financial statements were prepared by the Bank’s management in accordance with Law No. 57-Z of the Republic of Belarus ‘On Accounting and Reporting’ dated 12 July 2013; Resolution No. 728 of the Board of the National Bank of the Republic of Belarus ‘On the Approval of the Instructions on Organizing Accounting and Reporting in the National Bank of the Republic of Belarus, in Banks and Non-bank Credit and Financial Institutions of the Republic of Belarus’ dated 12 December 2013; Resolution No. 507 of the Board of the National Bank of the Republic of Belarus ‘On the Approval of the Instructions on Preparation of Annual Financial Statements by Banks and Non-bank Credit and Financial Institutions of the Republic of Belarus’ dated 9 November 2011, and other regulations of the National Bank of the Republic of Belarus, effective in the reporting period, which set forth accounting and financial reporting requirements for Belarusian banks (hereinafter referred to as “accounting and reporting legislation of the Republic of Belarus”).



## Responsibility of the management of the audited entity for the preparation of the annual financial statements

Audited entity's management is responsible for the preparation and fair presentation of these annual financial statements, attached on 68 pages, in accordance with the accounting and reporting legislation of the Republic of Belarus, and for such internal control as is necessary to enable the preparation of the annual financial statements that are free from material misstatements, whether due to fraud or error.

## Responsibility of the audit firm

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

We conducted our audit in compliance with Law No. 56-Z of the Republic of Belarus 'On Auditing Activity' dated 12 July 2013 and the National Rules of Auditing Activity approved by the Ministry of Finance of the Republic of Belarus. Those rules require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatements.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Bank's annual financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of risk of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considered the internal control system relevant to the Bank's preparation of the annual financial statements that are free from material misstatements in order to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control system. The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the Bank's annual financial statements.

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

## Audit opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Bank as of 1 January 2016, its financial performance and the changes in its financial position (cash flows) for the year then ended in accordance with Law No. 57-Z of the Republic of Belarus 'On Accounting and Reporting' dated 12 July 2013; Resolution No. 728 of the Board of the National Bank of the Republic of Belarus 'On the Approval of the Instructions on Organizing Accounting and Reporting in the National Bank of the Republic of Belarus, in Banks and Non-bank Credit and Financial Institutions of the Republic of Belarus' dated 12 December 2013; Resolution No. 507 of the Board of the National Bank of the Republic of Belarus 'On the Approval of the Instructions on Preparation of the Annual Financial Statements by Banks and Non-bank Credit and Financial Institutions of the Republic of Belarus' dated 9 November 2011, and other regulations of the National Bank of the Republic of Belarus, effective in the reporting period, which set forth accounting and financial reporting requirements for Belarusian banks.

## Other matters

The accompanying annual financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries other than the Republic of Belarus. Accordingly, the annual financial statements are not designed for those who are not informed about accounting and reporting principles, procedures and practices in the Republic of Belarus.

We audited the compliance of the Bank's annual financial statements with the requirements of the National Financial Reporting Standards only in relation to the provisions which regulate the provision and disclosure of information in the annual financial statements.

Pavel A Laschenko  
Director

Auditor's qualification certificate No. 0000738 of 14 May 2003 issued by the Ministry of Finance of the Republic of Belarus for an indefinite period of time.

Certificate of compliance with the qualification and goodwill requirements for auditors of banks, banking groups and banking holding companies No. 8 of 27 October 2004, issued for an indefinite period of time (last tested on 21 October 2014).

Ivan V Stankevich  
Deputy Director for Audit, Auditor

Auditor's qualification certificate No. 0002137 of 2 October 2013 issued by the Ministry of Finance of the Republic of Belarus for an indefinite period of time.

Certificate of compliance with the qualification and goodwill requirements for auditors of banks, banking groups and banking holdings No. 74 of 15 January 2014, issued for an indefinite period of time (last tested on 11 January 2014).

Date of the audit report: 15 February 2016.

Place of issue of the audit report: Minsk, Republic of Belarus

Date of the audited entity's receipt of the audit report: 15 February 2016.

Acting Chairman of the Board

V. Matyushkin

Director of Ernst & Young LLC

P. Laschenko

# Balance Sheet

as at 01 January 2016

Priorbank Joint Stock Company

(million BYR)

Item	Index	Note	2016	2015	
1	2	3	4	5	
1	2	3	4	5	
<b>1</b>	<b>ASSETS</b>				
2	Cash	1101	4.1	1,199,182	1,523,324
3	Precious metals and stones	1102	4.2	4,439	6,043
4	Assets with the National Bank	1103	4.3	2,157,364	1,105,711
5	Loans and advances to banks	1104	4.4	3,836,023	391,691
6	Securities	1105	4.5	2,145,911	1,371,053
7	Loans to customers	1106	4.6	13,649,714	13,066,000
8	Derivative financial assets	1107	4.11	7,772	1,023,565
9	Long-term investments	1108	4.7	42,364	35,992
10	Fixed and intangible assets	1109	4.8	1,509,907	1,368,656
11	Assets for sale	1110	4.9	29,953	2,393
12	Deferred Tax Assets	1111		-	-
13	Other assets	1112	4.10	249,555	187,413
<b>14</b>	<b>TOTAL ASSETS</b>	<b>11</b>		<b>24,832,184</b>	<b>20,081,841</b>
<b>15</b>	<b>LIABILITIES</b>				
16	Amounts due to the National Bank	1201	4.12	1,861	-
17	Loans and other amounts due to banks	1202	4.13	2,964,779	3,338,609
18	Amounts due to customers	1203	4.14	16,729,935	12,484,857
19	Securities issued by the bank	1204	4.15	79,485	184,250
20	Derivative financial liabilities	1205	4.11	5,804	16,122
21	Deferred Tax Liabilities	1206		-	-
22	Other liabilities	1207	4.10	557,020	401,848
<b>23</b>	<b>TOTAL LIABILITIES</b>	<b>120</b>		<b>20,338,884</b>	<b>16,425,686</b>
<b>24</b>	<b>CAPITAL</b>				
25	Authorized capital	1211	4.17	412,279	412,279
26	Paid in capital	1212		-	-
27	Reserve fund	1213	4.17	1,267,379	948,898
28	Balance sheet items revaluation fund	1214	4.17	787,060	711,480
29	Accrued profit	1215	4.17	2,026,582	1,583,498
30	Total capital	121	4.17	4,493,300	3,656,155
<b>31</b>	<b>TOTAL LIABILITIES AND CAPITAL</b>	<b>12</b>		<b>24,832,184</b>	<b>20,081,841</b>

Acting Chairman of the Board



V. Matyushkin

Chief Accountant



V. Mantsivoda

Signing Date 15 February 2016

# Profit and Loss Statement for 2015

## Priorbank Joint Stock Company

(million BYR)

Item	Index	Note	2015	2014
1	2	3	4	5
1	Interest income	2011	3,199,978	2,240,949
2	Interest expenses	2012	1,252,321	955,795
3	Net interest income	201	5.1	1,947,657
4	Fee and commission income	2021	1,404,268	1,269,274
5	Fee and commission expenses	2022	274,515	205,809
6	Net Fee and commission income	202	5.2	1,129,753
7	Net precious metals and stones income	203	5.3	2,262
8	Net securities income	204	5.4	(17,455)
9	Net FOREX income	205	5.5	604,726
10	Net financial derivatives income	206	5.6	504,166
11	Net reserve assignments	207	5.7	1,762,435
12	Other income	208	5.8	555,292
13	Operational expenses	209	5.9	1,355,159
14	Other expenses	210	109,040	101,361
15	Profit before tax	211	1,499,767	1,153,043
16	Income tax	212	365,411	205,525
<b>17</b>	<b>PROFIT</b>	<b>2</b>	<b>1,134,356</b>	<b>947,518</b>
<b>18</b>	<b>Information on a profit per share in BYR</b>			
<b>19</b>	<b>Basic profit on an ordinary share</b>	<b>22</b>	<b>4.17</b>	<b>9,218</b>
<b>20</b>	<b>Watered profit on an ordinary share</b>	<b>23</b>	<b>4.17</b>	<b>9,218</b>

Acting Chairman of the Board



V. Matyushkin

Chief Accountant



V. Mantsivoda

Signing Date 15 February 2016

# Statement of Changes in Equity for 2015

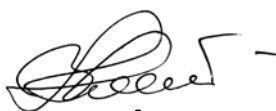
## Priorbank Joint Stock Company

(million BYR)

		Capital Items						Total Capital
Indicators	Index	Authorized Capital	Paid in Capital	Reserve Fund	Accrue Profit (Loss)	Balance Items Reval- uation Fund		
1	2	3	4	5	6	7	8	9
<b>Section I. For the year preceding the year under report</b>								
<b>1</b>	<b>Balance as of 1 January 2014</b>	<b>3011</b>	<b>412,279</b>	<b>-</b>	<b>654,306</b>	<b>1,155,911</b>	<b>662,204</b>	<b>2,884,700</b>
1.1	Thereof: the result from changes in the accounting policy and(or) correction of the material mistakes	30111	-	-	-	-	-	-
<b>2</b>	<b>Change of the equity articles</b>	<b>3012</b>	<b>-</b>	<b>-</b>	<b>294,592</b>	<b>427,587</b>	<b>49,276</b>	<b>771,455</b>
2.1	Thereof: gross income	30121	x	x	x	947,518	63,180	1,010,698
2.2	profit directed to replenishment of funds	30122	-	x	294,592	(294,592)	x	-
2.3	transactions with founders (shareholders)	30123	-	-	x	(239,243)	x	(239,243)
2.4	founders' (shareholders') contribution to authorized capital	301231	-	-	x	x	x	-
2.5	payment of share- holders' dividends	301232	x	x	x	(239,243)	x	(239,243)
2.6	transactions with own shares repurchased	301233	-	x	x	x	x	-
2.7	redistribution among equity articles	30125	-	-	-	13,904	(13,904)	-
2.8	other changes	30126	-	-	-	-	-	-
<b>3</b>	<b>Balance as of 1 January 2015</b>	<b>3013</b>	<b>412,279</b>	<b>-</b>	<b>948,898</b>	<b>1,583,498</b>	<b>711,480</b>	<b>3,656,155</b>
<b>Section II. For the year under report</b>								
<b>4</b>	<b>Balance as at 1 January 2015</b>	<b>3011</b>	<b>412,279</b>	<b>-</b>	<b>948,898</b>	<b>1,583,498</b>	<b>711,480</b>	<b>3,656,155</b>
<b>5</b>	<b>Change of the equity articles</b>	<b>3012</b>	<b>-</b>	<b>-</b>	<b>318,481</b>	<b>443,084</b>	<b>75,580</b>	<b>837,145</b>
5.1	Thereof: gross income	30121	x	x	x	1,134,356	81,826	1,216,182

Capital Items								
Indicators	Index	Authorized Capital	Paid in Capital	Reserve Fund	Accrue Profit (Loss)	Balance Items Revaluation Fund	Total Capital	
1	2	3	4	5	6	7	8	9
5.2	profit directed to replenishment of funds	30122	-	x	318,481	(318,481)	x	-
5.3	transactions with founders (shareholders)	30123	-	-	x	(379,037)	x	(379,037)
5.4	founders' (shareholders') contribution to authorized capital	301231	-	-	x	x	x	-
5.5	payment of shareholders' dividends	301232	x	x	x	(379,037)	x	(379,037)
5.6	transactions with own shares repurchased	301233	-	x	x	x	x	-
5.7	redistribution among equity articles	30125	-	-	-	6,246	(6,246)	-
5.8	other changes	30126	-	-	-	-	-	-
<b>6</b>	<b>Balance as at 1 January 2016</b>	<b>3013</b>	<b>412,279</b>	<b>-</b>	<b>1,267,379</b>	<b>2,026,582</b>	<b>787,060</b>	<b>4,493,300</b>

Acting Chairman of the Board



V. Matyushkin

Chief Accountant



V. Mantsivoda

Signing Date 15 February 2016

# Information on Total Gross Income for 2015

## Priorbank Joint Stock Company

(million BYR)

Item	Symbol	Note	2015	2014	
1	2	3	4	5	
1	Profit	301211	6	1,134,356	947,518
2	Other gross income components	301212		81,826	63,180
2.1	Thereof: fixed assets revaluation, revaluation of incomplete construction and uninstalled equipment	3012121	4.8	81,826	63,180
2.2	intangible assets revaluation	3012122	4.8	-	-
2.3	securities revaluation	3012123		-	-
2.4	hedge tools revaluation	3012124		-	-
2.5	other balance sheet items revaluation	3012125		-	-
<b>3</b>	<b>TOTAL Gross Income</b>	<b>30121</b>		<b>1,216,182</b>	<b>1,010,698</b>

Acting Chairman of the Board



V. Matyushkin

Chief Accountant



V. Mantsivoda

Signing Date 15 February 2016

# Statement of Cash Flows for 2015

## Priorbank Joint Stock Company

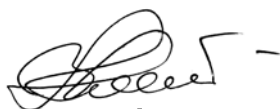
(million BYR)

Item	Index	Note	2015	2014
1 2	3	4	5	6
<b>1 OPERATIONS CASH FLOW</b>				
2 Interest income received	70100		3,156,954	2,189,683
3 Interest expenses paid	70101		(1,260,140)	(963,100)
4 Fee and commission income received	70102		1,395,421	1,261,828
5 Fee and commission income paid	70103		(274,129)	(201,498)
6 Net precious metals and stones income	70104		2,262	722
7 Net securities income	70105		(17,455)	100
8 Net FOREX income	70106		711,996	515,168
9 Net financial derivatives income	70107		504,166	191,385
10 Other income received	70108		495,107	78,084
11 Other expenses paid	70109		(1,263,044)	(1,057,064)
12 Income tax paid	70110		(353,191)	(178,770)
<b>13 Total profit (loss) before changes in assets and liabilities</b>	<b>701</b>		<b>3,097,947</b>	<b>1,836,538</b>
14 Net decrease (increase) of funds with the National Bank	70200		(5,809)	10,166
15 Net decrease (increase) of loans and other funds with banks	70201		(1,632,359)	253,134
16 Net decrease (increase) of funds in securities (except for securities retained till repayment)	70202		-	(2,999)
17 Net decrease (increase) of funds in loans disbursed to customers	70203		1,195,929	(1,590,688)
18 Net decrease (increase) of funds from derivative financial assets	70204		1,015,793	489,511
19 Net decrease (increase) of funds in other operational assets	70205		117,150	136,565
<b>20 Total cash flow from change in assets</b>	<b>702</b>		<b>690,704</b>	<b>(704,311)</b>
21 Net increase (decrease) of cash funds of the National Bank	70300		-	(173)
22 Net increase (decrease) of loans and other banks' cash	70301		(1,677,911)	(855,835)
23 Net increase (decrease) of clients' funds	70302		346,520	298,639
24 Net increase (decrease) of cash funds from securities issued by the bank	70303		(129,600)	(19,734)
25 Net decrease (increase) of cash funds from derivative financial liabilities	70304		(10,318)	13,775
26 Net increase (decrease) of funds in other operational liabilities	70305		(229,221)	157,458
<b>27 Total cash flows from change in operational liabilities</b>	<b>703</b>		<b>(1,700,530)</b>	<b>(405,870)</b>
28 Net operational cash flow	70		2,088,121	726,357



Item	Index	Note	2014	2013
<b>29 INVESTMENT CASH FLOW</b>				
30 Purchase of fixed, intangible, and other long-term assets	71100		(263,535)	(307,931)
31 Sale of fixed, intangible, and other long-term assets	71101		39,183	7,113
32 Purchase of long-term financial investments to authorized capital of other legal entities	71102		(6,372)	-
33 Sale of long-term financial investments to authorized capital of other legal entities	71103		-	43,220
34 Purchase of securities retained till repayment	71104		-	(502,900)
35 Repayment (sale) of securities retained till repayment	71105		-	-
<b>36 Net investment cash flow</b>	<b>71</b>		<b>(230,724)</b>	<b>(760,498)</b>
<b>37 FINANCIAL CASH FLOW</b>				
38 Issue of shares	72100		-	-
39 Re-purchase of own shares	72101		-	-
40 Sale of previously re-purchased own shares	72102		-	-
41 Payment of dividends	72103		(376,862)	(238,670)
<b>42 Net financial cash flow</b>	<b>72</b>		<b>(376,862)</b>	<b>(238,670)</b>
<b>43 Influence of official exchange rate fluctuations on cash and its equivalents</b>	<b>73</b>		<b>519,819</b>	<b>67,993</b>
<b>44 Net increase (decrease) of cash and its equivalents</b>	<b>74</b>		<b>2,000,354</b>	<b>(204,818)</b>
<b>45 Cash and its equivalents as of the beginning of the period under report</b>	<b>740</b>	<b>7</b>	<b>x</b>	<b>2,792,446</b>
<b>46 Cash and its equivalents as of the end of the period under report</b>	<b>741</b>	<b>7</b>	<b>4,792,800</b>	<b>x</b>

Acting Chairman of the Board



V. Matyushkin

Chief Accountant



V. Mantsivoda

Signing Date 15 February 2016

Translation from the original in Russian



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## 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

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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.

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: 51A Kлары Tsetkin Street, 15th floor, 220004 Minsk, Republic of Belarus

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## Consolidated statement of financial position As at 31 December 2015

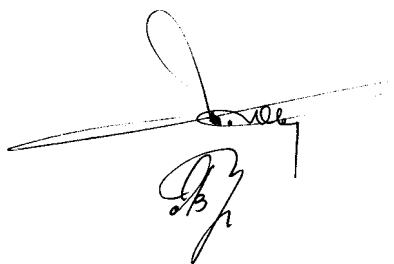
(millions of Belarusian rubles)

Item	Notes	2015	2014
<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
Deferred tax assets	14	29,743,851	22,764,360
Other assets	15	744,716	780,695
<b>Total assets</b>		<b>22,764,360</b>	<b>23,087,485</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>			
	20		
Share capital		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>
<b>Non-controlling interests</b>		<b>179,093</b>	<b>104,191</b>
<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

Sergey A. Kostyuchenko

Zoya P. Yarmosh



Chairman of the Board

Executive Director

22 April 2016

Translation from the original in Russian

## Consolidated income statement

### For the year ended 31 December 2015

(millions of Belarusian rubles)

Item	Notes	2015	2014
<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>

Translation from the original in Russian

## Consolidated statement of comprehensive income For the year ended 31 December 2015

(millions of Belarusian rubles)

Item	Notes	2015	2014
<b>Profit for the year</b>		<b>2,166,649</b>	<b>768,844</b>
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
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>
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
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>

Translation from the original in Russian

## Consolidated statement of changes in equity For the year ended 31 December 2015

(millions of Belarusian rubles)

	Attributable to shareholders of the Bank							Non-controlling interests	Total equity
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Revaluation reserve for the net pension liability	Other reserves	Total		
<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>

Translation from the original in Russian

## Consolidated statement of cash flows For the year ended 31 December 2015

(millions of Belarusian rubles)

Item	Notes	2015	2014
<b>Cash flows from operating activities</b>			
Interest received		3,616,141	2,709,153
Interest paid		(1,336,577)	(1,077,644)
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>
<b>Net (increase)/decrease in operating assets</b>			
Amounts due from credit institutions		(61,472)	(21,680)
Loans to customers		1,321,242	(2,059,795)
Other assets		185,647	(58,714)
<b>Net increase/(decrease) in operating liabilities</b>			
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)
<b>Cash and cash equivalents at 1 January</b>		<b>2,895,367</b>	<b>3,848,043</b>
<b>Cash and cash equivalents at 31 December</b>	6	<b>7,699,939</b>	<b>2,895,367</b>

Notes comprising an integral part of the annual consolidated financial statements of Priorbank JSC as banking holding are not presented in this Report



# Priorbank's Network as of January 1<sup>st</sup>, 2016



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# Raiffeisen Bank International at a glance

## A leading bank in Central and Eastern Europe, including Austria

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully integrated corporate and retail banking group with a comprehensive product offering. In CEE, at the end of 2015, around 48,000 RBI employees served some 14.9 million customers in around 2,700 business outlets.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers and major multinational clients operating in CEE. All in all, RBI employs about 51,000 employees and has total assets of approximately € 114 billion.

## Long-term success story

RZB was founded in 1927 as “Genossenschaftliche Zentralbank”. The RZB founded its first subsidiary bank in CEE already back in 1987. Since then, further own subsidiaries have been established. From 2000 onward, Raiffeisen’s expansion into CEE countries has mainly been achieved by acquiring existing banks. These were subsequently combined into a holding company that operated under the name Raiffeisen International from 2003.

In April 2005, Raiffeisen International was listed on the Vienna Stock Exchange in order to finance its future growth efficiently. Today’s RBI was established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB. At year-end 2015, RZB – which functions as the central institution of the Austrian Raiffeisen Banking Group – held approximately 60.7 per cent of RBI’s stock, with the remaining shares in free float.

# Raiffeisen Glossary

## Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse's heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria's best-known trademarks and a well-recognized brand in CEE.

## Raiffeisen Bank International

Raiffeisen Bank International AG regards Central and Eastern Europe (including Austria) as its home market. For over 25 years, RBI has been operating in Central and Eastern Europe (CEE), where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers. As a universal bank, RBI ranks among the top five banks in several countries. This role is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. RBI has positioned itself in CEE as a fully

integrated corporate and retail banking group with a comprehensive product offering. At the end of 2014, around 52,000 RBI staff served approximately 14.8 million customers in around 2,900 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international customers as well as major multinational clients operating in CEE. All in all, RBI employs about 55,000 staff/employees and has total assets of approximately € 122 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (as Raiffeisen International up until 12 October 2010). RZB, which functions as the central institution of the Austrian Raiffeisen Banking Group (RBG), remained the majority shareholder following the merger. As at year-end 2014, RZB held approximately 60.7 per cent of RBI's stock, with the remaining shares in free float.

## RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group center for the entire RZB Group, including RBI. RZB functions as the key

link between RBG and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

## RZB Group

The Group owned and steered by RZB. Raiffeisen Bank International is the Group's largest unit.

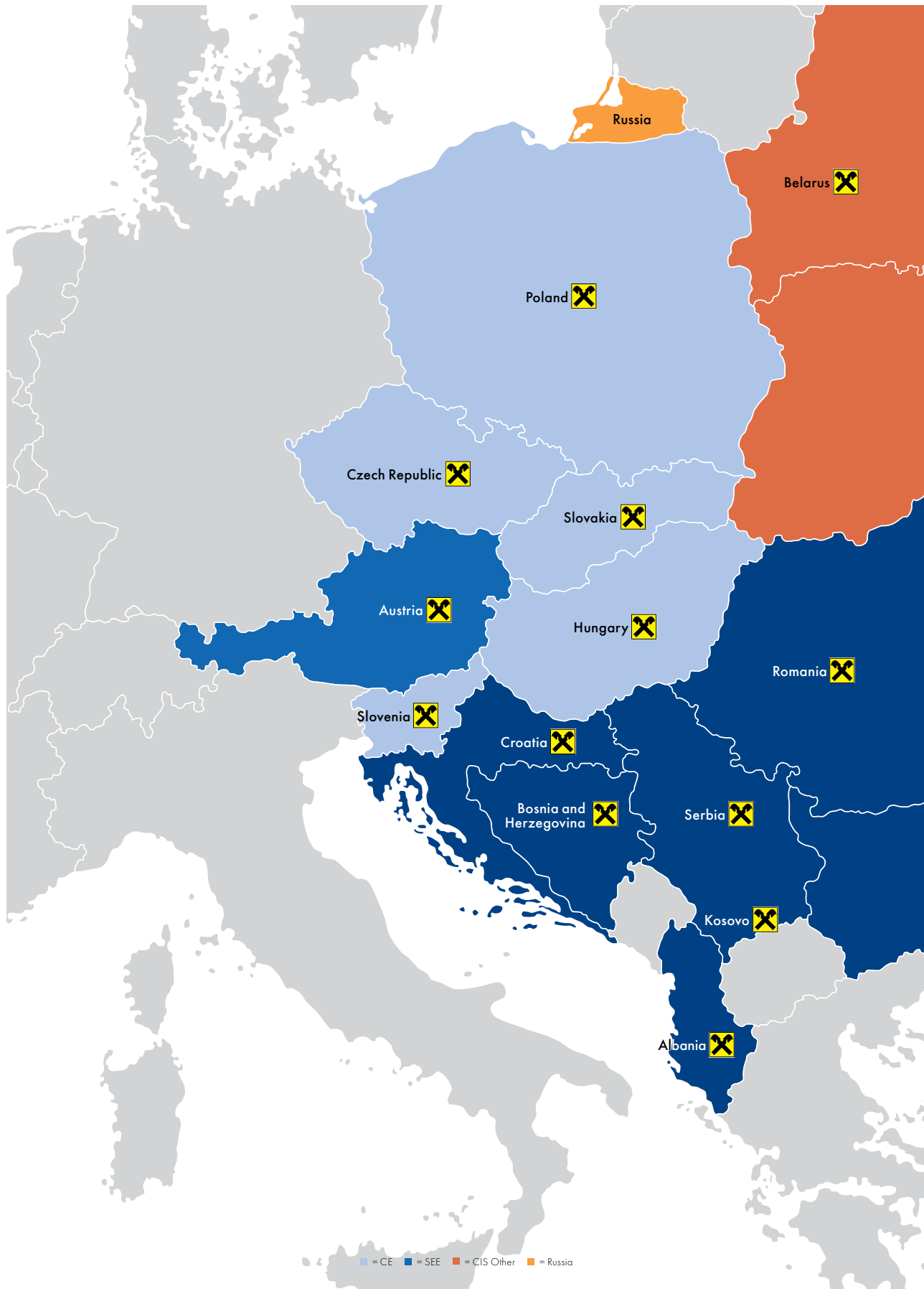
## Raiffeisen Banking Group

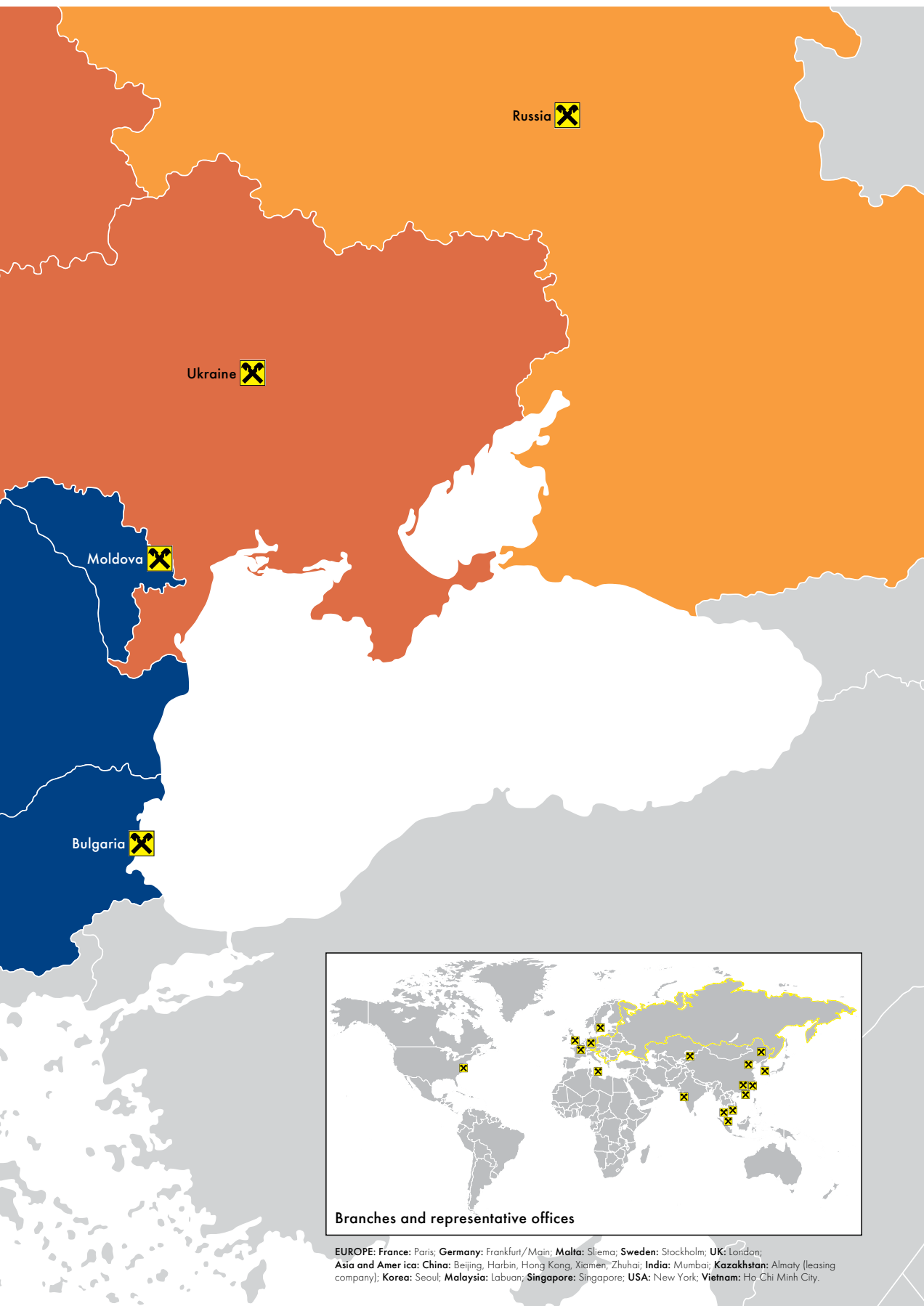
With total assets of € 285.9 billion as at 31 December 2014, RBG is Austria's largest banking group. As at this reporting date, RBG managed € 92.8 billion in domestic customer deposits (excluding building society savings), of which € 49.4 billion were held in savings deposits. RBG has thus maintained its market share of around 30 per cent and, once more, its role as market leader among Austria's banks. RBG's strong market position was

achieved through healthy organic growth. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as universal banks. Each province's Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 90 per cent of RZB's ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer Friedrich Wilhelm Raiffeisen (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen's fundamental principle of self-help, the promotion of their members' interests is a key objective of their business policies.







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