



**Annual Report
of BPS-Sberbank**

2019

Contents

Address to Shareholders, Clients and Partners	4
General information	8
Macroeconomic environment and banking system development in the Republic of Belarus	10
IFRS financial results of BPS-Sberbank Group.....	12
Main performance indicators of the Group	12
Consolidated profit and loss statement review	14
Consolidated statement of financial condition review	18
Equity	22
Corporate business	24
Clients	24
Corporate business development. Lending.....	25
Small and micro business development.....	25
Funding	26
Transaction business	26
Remote banking service.....	27
Client service quality	27
International business	28
Operations in financial markets.....	30
Development of relations with international financial institutions, insurance companies, foreign banks.....	30
Correspondent relations	30
Stock market	31
Foreign exchange market	31
Precious metals market	32
Retail business	33
Retail market positions	33
Clients	33

Contents

Retail lending.....	33
Retail funding	35
Cards and transaction products and services	35
Remote banking service of retail clients.....	37
Customer Support Centre	37
VIP client service	38
Retail client service quality improvement	39
Financial awareness	40
Risk management.....	41
Project management and innovation activity development	43
IT Development.....	46
Cyber security.....	47
Operations.....	48
Regional network	49
Human resources	50
Corporate governance	52
Organizational structure	52
General Meeting of Shareholders	53
Supervisory Board.....	53
Audit Committee.....	56
Risk Committee	60
Remunerations Committee.....	62
Corporate Secretary	64
Management Board.....	64
Audit Commission	67
Corporate governance development.....	68
Corporate social responsibility of the Bank	69
Bank holding participants	71
Contacts and bank details	73

Dear Shareholders, Clients and Partners!



In 2019, BPS-Sberbank demonstrated strong financial result once again and achieved growth in all business directions. Net profit made BYN 107.2 million*.

The reporting year was never easy for the Belarusian economy. However, due to our diversified and flexible business model, we ensured our role as a systemically important financial institution holding leading positions in the corporate and retail business markets. The financial result for the recent two years proves that we have chosen the correct long-term strategy aimed at improving business efficiency, primarily due to implementation of innovation products and services.

Risk management and control over the assumed risks remained an important factor in conditions of slow progress of the economy. We found the balance between risk appetite and business profitability. The loan portfolio for 2019 exceeded BYN 3 billion, which means growth by 10.9%.

Traditionally, a large scope of our business is concentrated in the corporate segment where our loan portfolio exceeded BYN 2.6 billion in 2019. Our corporate client base expanded considerably: at the beginning of 2020, 50 thousand corporate clients were choosing BPS-Sberbank.

We still remain a solid financial centre for the largest companies of the country: 75% enterprises in this segment are our clients. Trust towards BPS-Sberbank from small and micro businesses is continuously increasing as well. We focused on that segment and tried to simplify the process of communication with the bank by offering remote service channels, introducing up-to-date services including non-financial ones, that positively influence effectiveness of micro and small businesses. As a result, every 10th micro and

* IFRS – BYN 91.5 million.

small business has become our client by the year-end, and the client base increased by 10%. This is an important trend for us: we feel that we not only meet our clients' expectations in functionality, speed and availability of services, but also exceed them, especially in digital channels.

Businesses responded more clearly to our efforts in the second half of the year when BPS-Sberbank shook up the market with its offer of loans using Smart Technology mechanism. Due to this technology, the procedure of application review and loan issuance reduced tenfold: now only 120 minutes pass from submitting the application to crediting loan proceeds to the client account. Thus, the accelerated time-to-yes relying upon a vast dataset created new reality in the lending market. The result of 'tailored' lending process optimization was growth of credit exposure in small and micro business segment almost by a third, up to BYN 367 million.

Taking into account interest of business community, we gave our corporate clients the opportunity to become the first users of our 24/7 instant money transfer system. Adaptation of software complexes expanded operational functionality for individual entrepreneurs and organizations: payments can be executed all day round, and money is credited in the real-time mode.

The new convenient format of bank-client communication via the smartphone became an important step on the way of implementing digital channel development strategy and moving to the universal platform of digital sales and services. The Sberbank Business Online application was developed for Android and iOS based mobile devices and makes account operations available for clients at any location with active Internet connection in any part of the world.

Improvement of quality and speed of our digital services helps us reach ambitious goals in retail business. In tough competitive environment we increased our retail portfolio by 21.8% up to BYN 799 million and ensured our positions among the top 3 banks of the Belarusian banking system by this indicator.

The existing demand for digital products predetermined launch of the online loan. The consumer loan 'I want online!' offered by BPS-Sberbank opened new horizons in the retail banking product line: private clients can get a loan within just a couple of minutes and bring their plans to life without visiting the bank. We take care to make our interest rates attractive, and the issuance process understandable.

Deposit operations most vividly reflect total migration into digital channels and the upcoming era of banking online markets. The amount of retail deposits as of January 1, 2020 exceeded BYN 1.3 billion, while the share of online deposits in the total scope of operations made 43% and can be expected to be at least on par with offline deposits in the following year.

Diversion of clients into digital channels does not reduce the value of our compact branch network (61 sales locations in 34 towns and cities of the country). As convenient as the bank's digital services may be, it is hard to compensate face-to-face communication needed by a part of our clientele. Meanwhile, the role of physical locations is evolving: they become a 'fitting room' before buying a banking product online, and the front office staff give advice, on non-financial services as well, and teach clients digital skills.

The Call Centre (the Client Support Centre since 2019) performs an important function of the individual financial assistant. The number of communications performed by the Centre as the single point of information and client service support on products and services exceeded 2.5 million, of which the virtual assistant Alesya processed more than 330 thousand calls without the operator's participation.

Introduction of voice biometrics by the Client Support Centre became another proof of high degree of IT competence of our experts. The system takes just a couple of seconds to verify the voice against the specimen to identify the caller. This is an important step on the way of application of unique physical characteristics of people in the banking of the future. Nowadays it already is an advantage in terms of service speed and security.

Therefore, the banking environment becomes more and more automated and digitalized, that is why we focus on elimination of any vulnerabilities at the stage of IT architecture and software solution development. In 2019, we paid specific attention to cyber security and introduced the Security Situation Centre. Protecting our interest will remain one of the top priorities in the upcoming year.

As a socially responsible brand, we focused on improvements in the school education area which is important for the whole country. Seeing a certain lag between education in towns and rural areas, we decided to deploy the educational initiative started by Sberbank Group in Belarus. In summer, the project 'Teacher for Belarus' was launched with support of the Ministry of Education. In the first year, 9 talented teachers became its participants, they will receive a special monthly grant from BPS-Sberbank during the next two years of work in rural schools. In 2020 it is planned to double the number of teachers and educational establishments involved into the project.

BPS-Sberbank signed the memorandum of cooperation with the football club BATE, the leader of the Belarusian sports, and issued the payment card for Borisov team fans. We also acquired the status of the official partner of Ice Hockey Federation of Belarus as the bank that provides financial support to development of children's hockey and the national teams.

In conclusion, I would like to thank our clients, shareholders and partners for continuous support of our innovational teamwork! Thank you for being with us, filling us with energy and creating the dynamic environment that motivates us for new achievements to make life better.

*Yours sincerely,
Igor Merkulov
Chairman of the Management Board*



General information

Full name:

BPS-Sberbank

Abbreviated name:

BPS-Sberbank

Main shareholder:

Sberbank of Russia

Head Office of the Bank is located at:

6, Mulyavin Boulevard, Minsk 220005, the Republic of Belarus

Licenses

Banking license issued by the National Bank of the Republic of Belarus No. 4 dated 06.06.2019.

Special permit (license) for professional and stock market activity with securities, issued by the Ministry of Finance of the Republic of Belarus No. 02200/5200-1246-1086, registered in the register of licenses of the Ministry of Finance of the Republic of Belarus No. 5200-1246-1086, valid until 30.01.2022.

International credit ratings

Credit ratings of BPS-Sberbank assigned by the international rating agency Fitch Ratings are at the country ceiling level for the Republic of Belarus.

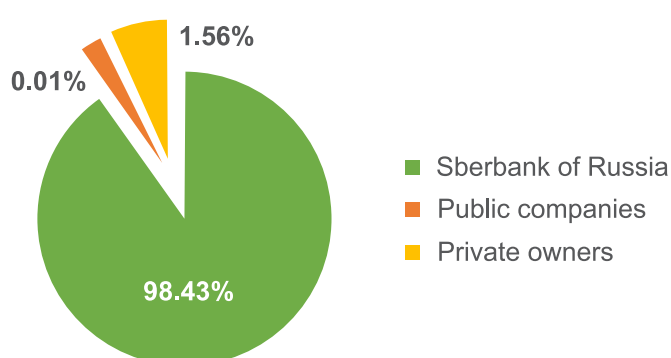
Rating	Current level
<i>Long-term issuer default rating (IDR)</i>	<i>B</i>
Short-term IDR	B
Sustainability	b
<i>Long-term IDR outlook</i>	<i>Stable</i>

Equity

The amount of the Bank's equity as of 01.01.2019 made BYN 73.58 million. The authorized capital of the Bank is divided into 1 470 828 888 common shares and 870 805 preferred shares.

The number of the Bank's shareholders as of 01.01.2019 is 13 959 legal entities and individuals.

Equity structure



**The Bank's position
in the financial market of the Republic of Belarus (as of 01.01.2020)**

Indicator	Market share	Position
Assets	6.2%	4
Equity	5.8%	5
Loans to economy	5.6%	5
<i>Corporate</i>	5.7%	5
<i>Retail (without beneficial loans)</i>	8.3%	3
Customer funding	6.5%	6
<i>Corporate</i>	8.2%	6
<i>Retail</i>	5.2%	5
Profit	9.4%	3

Macroeconomic environment and banking system development in the Republic of Belarus

In 2019, the Belarusian economy showed low positive dynamics. The tax maneuver in the oil sphere undertaken by the Russian Federation, issues with quality of the Russian oil, as well as reduction of prices and volumes of the Belarusian export restrained the economic growth pace.

Main macroeconomic indicators

	2018	2019
Real GDP growth, %	+3.1%	+1.2%
Industrial production growth, %	+5.7%	+1.0%
Consumer price index growth, % (December to December)	+5.6%	+4.7%
Real disposable income of the population growth, %	+8.0%	+6.0%

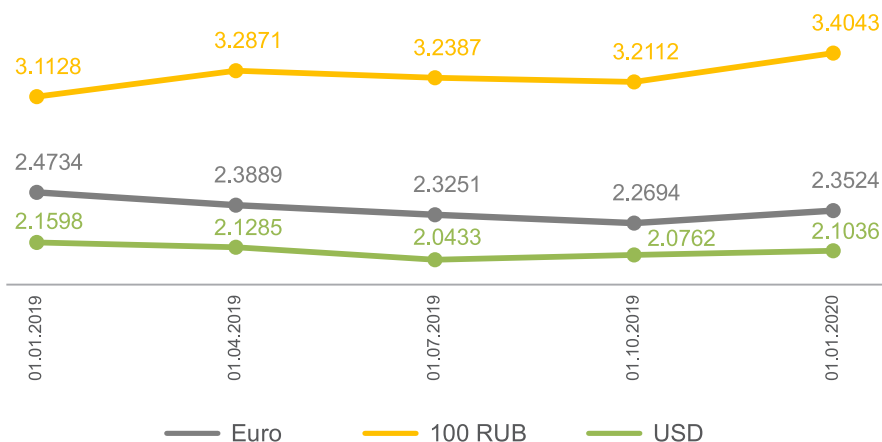
Real GDP of Belarus grew by 1.2% in the annual terms. The main factor of GDP growth reduction was low growth of industrial production being 1%. The steepest dropdown was seen in oil processing (-5.2%), machinery and equipment engineering (-7.4%), and chemicals (-1.2%). Positive dynamics was recorded in production of transport and equipment (+18.4%), and metallurgy (+9.8%).

The domestic economic policy remained balanced against the backdrop of foreign trade terms deterioration. The inflation rate in 2019 made 4.7%. The annual budget surplus was 2.6% to GDP. Real disposable income of the population increased by 6%, which promoted growth of retail trade turnover by 4.2%.

The domestic FX market remained stable. Net supply of foreign currency from the population (USD 0.6 billion), economic entities and non-residents (USD 0.5 billion and USD 0.6 billion, respectively) largely contributed to increase of gold and FX reserves to USD 9.4 billion by 01.01.2020, which is the historical maximum of the independent Belarus.

In 2019, the Belarusian rouble gained value to US Dollar by 2.6%, to Euro by 4.9%, and lost value to the Russian rouble by 9.4%.

Belarusian rouble exchange rate dynamics



Due to reduction of inflation process intensity in 2019, the regulatory authority reduced the refinancing rate twice, from 10% at the beginning of the year to 9% as of 01.01.2020.

Assuming low economic growth rate and slowdown of industrial production, financial condition of companies remained controversial. Against the growth of profit (+8%) and reduction of the share of loss-making companies (from 16% at the year start to 13.1% at the year end), the sales profitability in 2019 dropped by 0.6 p.p. down to 7%.

Moderate economic growth and financial condition of enterprises predetermined low growth of banking sector performance ratios.

Assets of banks in 2019 increased by 6.3% up to BYN 78.3 billion. The banking sector equity at the beginning of 2020 made BYN 11.2%, i.e. increased by 4.6% throughout the year.

In 2019, banks earned profit by 7.2% more than in 2019. Return on assets of the banking system was 1.5%, and return on equity made 10.9%.

Bank loans to the economy grew by 9.8% up to BYN 48.4 billion, of which loans in the local currency grew by 13.8% up to BYN 25.8 billion. Retail loans were the main source of growth: exposure thereunder increased by 21.1% and made BYN 14 billion.

The amount of deposits placed with banks increased by 12.8%. Retail deposits grew by 8.3%, corporate deposits grew by 19.4%.

The share of non-performing loans in assets subject to credit risk made 4.6% as of January 1, 2020.

IFRS financial results of BPS-Sberbank Group

BPS-Sberbank Group (hereinafter – the Group) achieved the following financial results in 2019:

- Net profit – BYN 91.5 million;
- Operational income before loan loss provisioning for interest-bearing assets – BYN 340.1 million;
- Net fee and commission income – BYN 128.2 million;
- Operational costs – BYN 250.5 million;
- Net interest margin – 3.9%;
- Aggregate assets increased by 9.8%;
- Total capital adequacy ratio – 18.7%;
- Equity of the Group – BYN 695.6 million.

In the reporting year, the Bank restored loan loss reserves in the amount of BYN 11.8 million.

Capital for CAR calculation purposes reduced by 1.1% to BYN 785.8 million in the result of subordinated loan amortization (CAR – 18.7%).

Main performance indicators of the Group

	2019	2018	Change in 2019 to 2018, %	2017	2016	2015
Financial indicators, BYN million						
Operating income before provisioning	340.1	413.6	-17.8	386.9	435.3	502.0
Restoration/(Creation) of loan loss reserves (2019-2018) / loan portfolio depreciation reserves	11.8	(41.4)	-	(103.1)	(196.9)	(276.5)
Operating income	357.5	369.9	-3.4	282.6	239.4	225.1
Operating cost	250.5	222.8	+12.4	209.4	216.5	216.0
Profit before tax	107.1	147.1	-27.2	73.2	26.2	12.2
Net profit	91.5	122.5	-25.3	65.0	19.9	19.0

IFRS financial results of BPS-Sberbank Group

	2019	2018	Change in 2019 to 2018, %	2017	2016	2015
Balance sheet indicators, BYN million						
Corporate loans (<i>net</i>)	2 217.1	2 066.1	+7.3	1 556.8	1 785.5	2 614.5
Retail loans (<i>net</i>)	787.1	643.4	+22.3	445.1	180.1	166.6
Loan loss provisions (2019-2018) / loan portfolio depreciation reserve	459.3	463.0	-0.8	398.7	430.8	388.6
Customer loans (<i>gross</i>)	3 463.5	3 172.5	+9.2	2 400.5	2 396.4	3 169.8
Total assets	4 735.6	4 313.0	+9.8	3 828.3	3 641.8	4 709.4
Corporate funding	1 619.4	1 429.4	+13.3	1 252.0	960.7	1 023.2
Retail funding	1 331.1	1 279.1	+4.1	1 253.2	1 488.5	1 822.3
Total liabilities	4 040.0	3 645.4	+10.8	3 224.5	3 103.8	4 256.6
Total equity	695.6	667.6	+4.2	603.7	537.9	452.8
Capital for CAR calculation as per Basel Accord	785.8	794.6	-1.1	756.9	670.9	554.4
Efficiency indicators, %						
Return on equity (<i>ROE</i>)	13.4	19.3	-5.9 p.p.	11.4	4.0	4.3
Return on average annual assets (<i>ROA</i>)	2.0	3.0	-1.0 p.p.	1.7	0.5	0.4
Spread (<i>profitability of assets less cost of borrowings</i>)	3.5	4.2	-0.7 p.p.	5.9	6.8	8.5
Net interest margin (<i>net interest income to average annual income- generating assets</i>)	3.9	4.6	-0.7 p.p.	6.2	7.0	7.8
Operating cost-to-income ratio before provisioning (<i>CIR</i>)	73.6	53.9	+19.7 p.p.	54.1	49.7	43.0
Net customer loans to deposits (<i>LDR</i>)	101.8	100.0	+1.8 p.p.	79.9	80.3	97.7
Capital adequacy ratios, %						
Core capital adequacy ratio (<i>Tier 1</i>)	15.7	15.7	0.0 p.p.	17.2	15.0	11.2
Total capital adequacy ratio (<i>Tier 1 and Tier 2</i>)	18.7	20.0	-1.3 p.p.	22.9	20.0	14.6
Equity to assets ratio	14.7	15.5	-0.8 p.p.	15.8	14.8	9.6
Assets quality indicators						
NPL share in the loan portfolio, %	10.3	14.3	-4.0 p.p.	15.6	18.0	10.0
Loan loss provisions (2019-2018) / loan depreciation reserves to NPL, x	1.3	1.0	+0.3	1.1	1.0	1.2
Loan loss provisions (2019-2018) / loan depreciation reserves to the gross loan portfolio, %	13.3	14.6	-1.3 p.p.	16.6	18.0	12.3

Consolidated profit and loss statement review

Net interest income

Net interest income before loan loss provisioning made BYN 159.9 million in the reporting year.

Throughout 2019, interest rates on provided financial resources lowered, while interest rates on attracted funds grew up. The spread narrowed by 0.7 p.p. down to 3.5% (2018 – 4.2%) was not compensated by the volume of banking operations of the Group, and that led to the total decrease of net interest income by BYN 12.5 million in comparison with the previous year.

Factor analysis of income/expense, *BYN thousand*

	Volume factor	Interest rate factor
Assets		
Loans to legal entities	27 150	(33 041)
Loans to individuals	21 558	(2 501)
Loans to other banks	(925)	2 136
Securities	(4 544)	13 296
Change of interest income	43 239	(20 110)
Liabilities		
Due to legal entities	5 232	17 740
Due to individuals	959	7 406
Due to other banks	3 368	(773)
Debt securities issued	6 735	(5 003)
Change of interest expense	16 294	19 370
Change of net interest income	26 945	(39 480)

In the reporting year, interest income increased by 8.3% and made BYN 301.7 million, of which 53% were earned from corporate loans, 30% from retail loans, and 16% from securities. The average annual assets increased by 9.4%, while profitability dropped by 0.1 p.p.

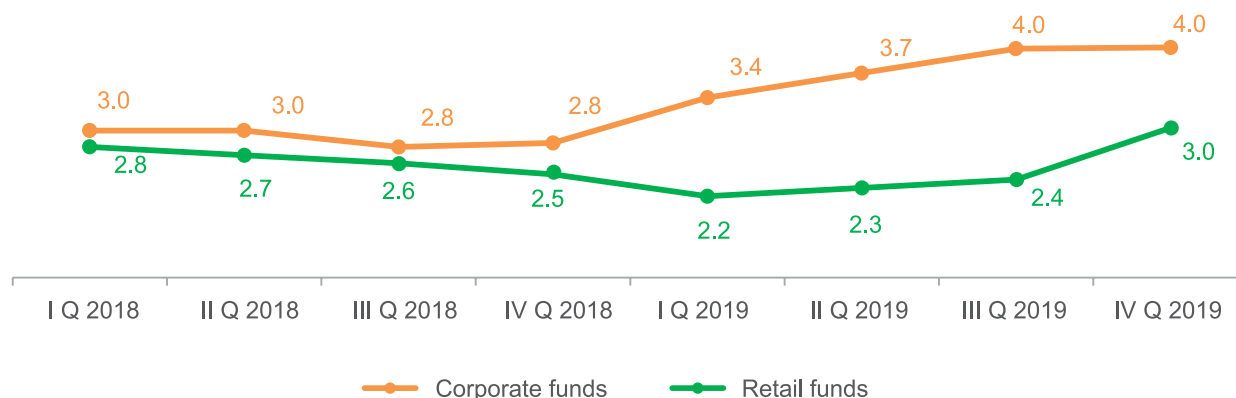
Interest income increased by 33.6% and made BYN 141.8 million. The largest share in the interest expense structure is occupied by retail funding (71%) which is the main funding source. The average annual liabilities increased by 12.3%, and the average cost of funding grew by 0.6 p.p. up to 3.8%.

Net interest spread and net interest margin decreased by 0.7 p.p. in 2019.

The table below shows average annual values of assets and liabilities of the Group, as well as income/expense generated by each item of the statement of financial condition, and average annual profitability/cost.

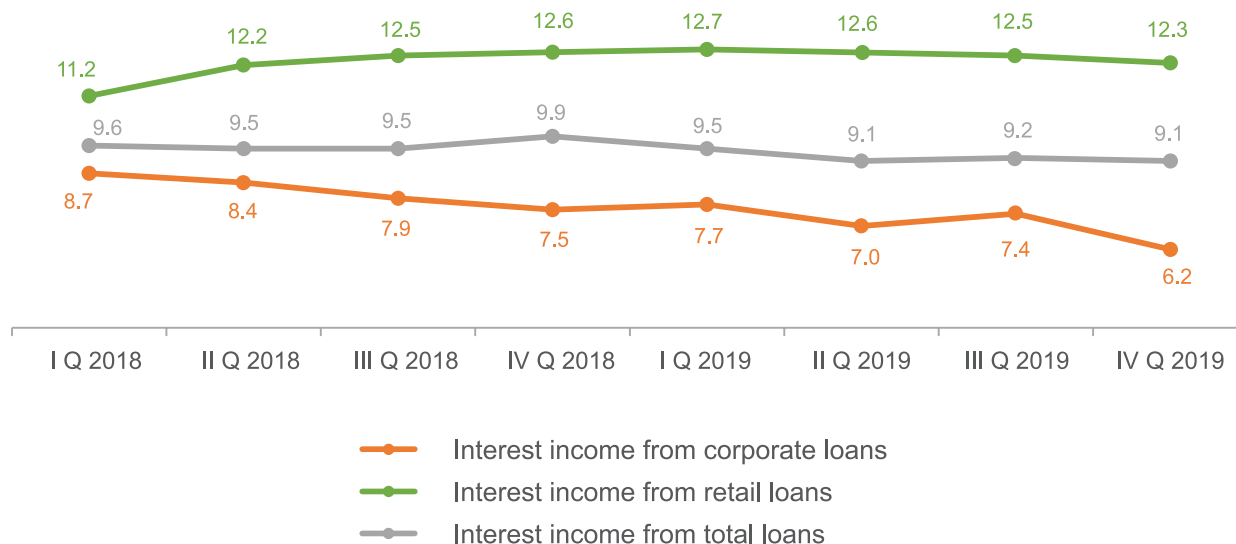
BYN thousand	2019			2018		
	Average annual value	Interest income / expense, %	Average profitability / cost, %	Average annual value	Interest income / expense, %	Average profitability / cost, %
Assets						
Loans to legal entities	2 575 061	160 855	6.2	2 214 496	166 746	7.5
Loans to individuals	727 464	89 252	12.3	556 540	70 195	12.6
Loans to other banks	210 885	4 194	2.0	305 730	2 983	1.0
Securities	611 637	47 426	7.8	693 062	38 674	5.6
Total interest income generating assets	4 125 047	301 727	7.3	3 769 828	278 598	7.4
Expected loan loss provisions	(461 169)			(430 845)		
Assets not generating interest income	436 046			716 150		
Total assets	4 099 924			4 055 133		
Liabilities						
Due to legal entities	1 524 391	61 164	4.0	1 340 708	38 192	2.8
Due to individuals	1 305 096	39 564	3.0	1 266 171	31 199	2.5
Due to other banks	559 376	20 866	3.7	472 309	18 271	3.9
Debt securities issued	382 617	20 192	5.3	280 334	18 460	6.6
Total interest expense generating liabilities	3 771 480	141 786	3.8	3 359 522	106 122	3.2
Liabilities not generating interest expense	71 199			55 394		
Total liabilities	3 842 679			3 414 916		
Net interest spread			3.5			4.2
Net interest margin			3.9			4.6

Customer funding cost dynamics (all currencies, %)



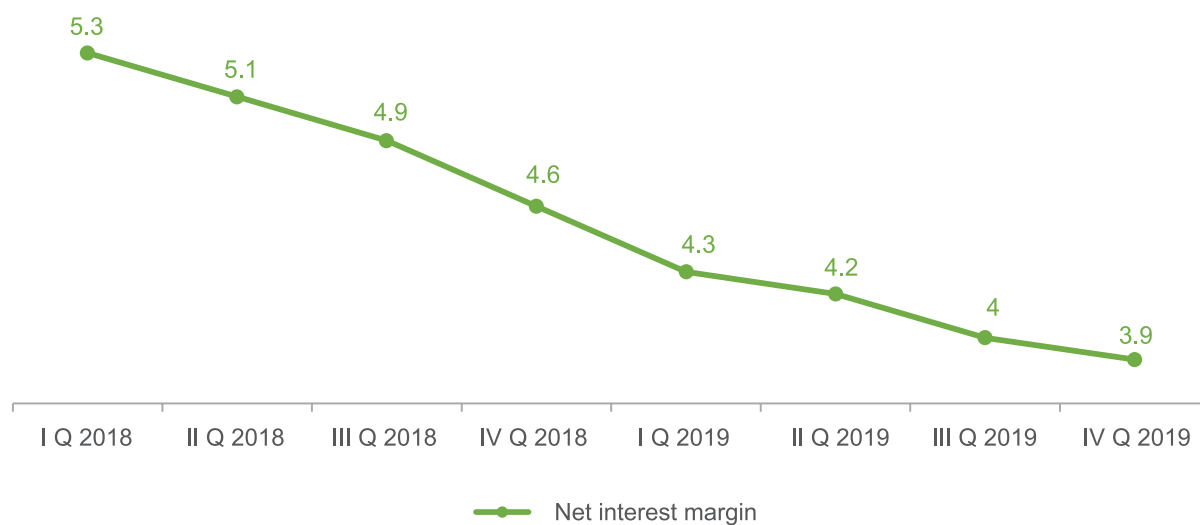
Interest expense on retail deposits increased by 26.8% due to the attraction volume growth by 3.1% and the funding cost increase by 0.5 p.p. Interest expense on corporate deposits increased by 60.1% due to the attraction volume growth by 13.7% and the funding cost increase by 1.2 p.p.

Loan profitability dynamics (all currencies, %)



The trends shown above had their influence on the net interest margin dynamics.

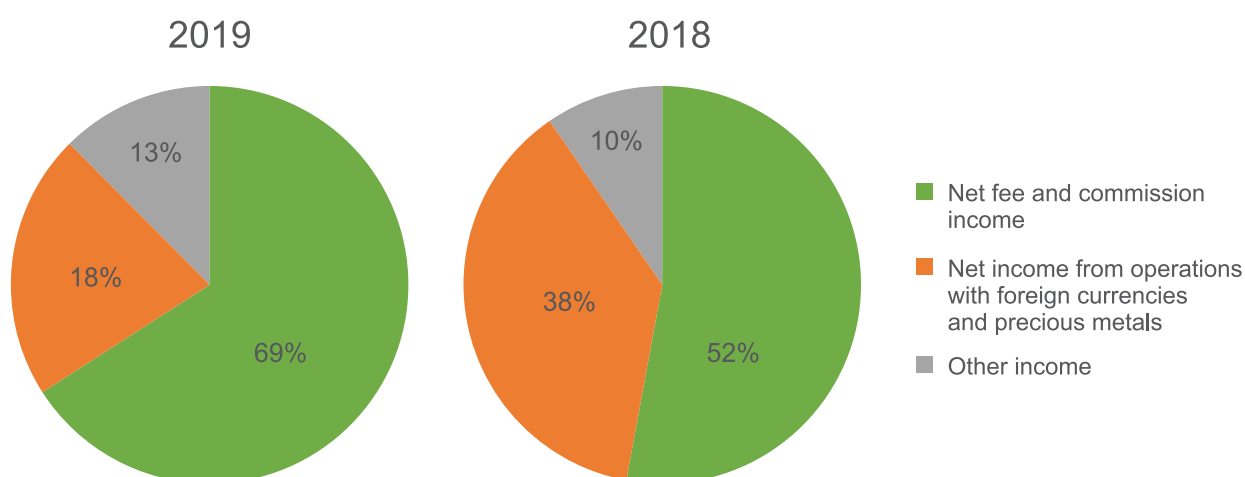
Net interest margin dynamics (%)



Net non-interest income

Net non-interest income of the Group reduced by 22.2% down to BYN 185.5 million. Net fee and commission income of the Group increased by 3.0% and made BYN 128.2 million.

Net income from operations with foreign currencies and precious metals reduced by 61.9% to BYN 33.9 million.



Operating costs

Operating costs of the Group increased by 12.4% in comparison with 2019, up to BYN 250.5 million.

The main item of operating costs is staff maintenance (44.3%). Staff costs remained unchanged in 2019, while their share in the operating cost structure decreased by 5.5 p.p.

Growth of operating costs was attributed mainly to increase of tangible and non-tangible asset depreciation by 73.0% and software maintenance costs by 33.9%.

Operating cost to income ratio before provisioning (CIR) made 73.6 % (2018 – 53.9%). Growth of the ratio was attributed to increase of operating costs for depreciation and software maintenance, as well as decrease of interest income and earnings from trade operations.

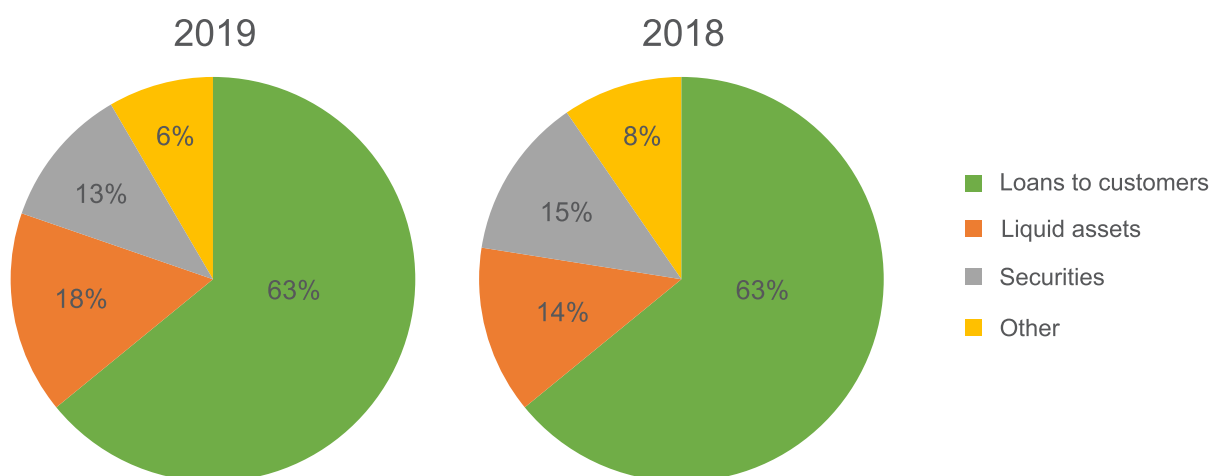
The Bank restored loan loss reserves in the amount of BYN 11.8 million in 2019. The provisioning rate made 13.3%.

Consolidated statement of financial condition review

General trends

As at the end of 2019, the assets of BPS-Sberbank Group increased by 9.8% in comparison with the previous year and made BYN 4 735.6 million. Customer loans occupy the largest share in the asset structure – 63.4%.

The share of liquid but low margin assets including cash and correspondent accounts in foreign currencies and precious metals with other banks made 17.5%.



Loans to customers

The aggregate loan portfolio of the Group before loan loss provisioning made BYN 3 463.5 million. Corporate loan portfolio grew by 7.2% to BYN 2 664.5 million.

The retail loan portfolio before loan loss provisioning grew by 21.8% to BYN 799 million. Loans for housing construction purposes reduced to 22.2%, the amount of issued housing loans as at the end of 2019 made BYN 521.8 million.

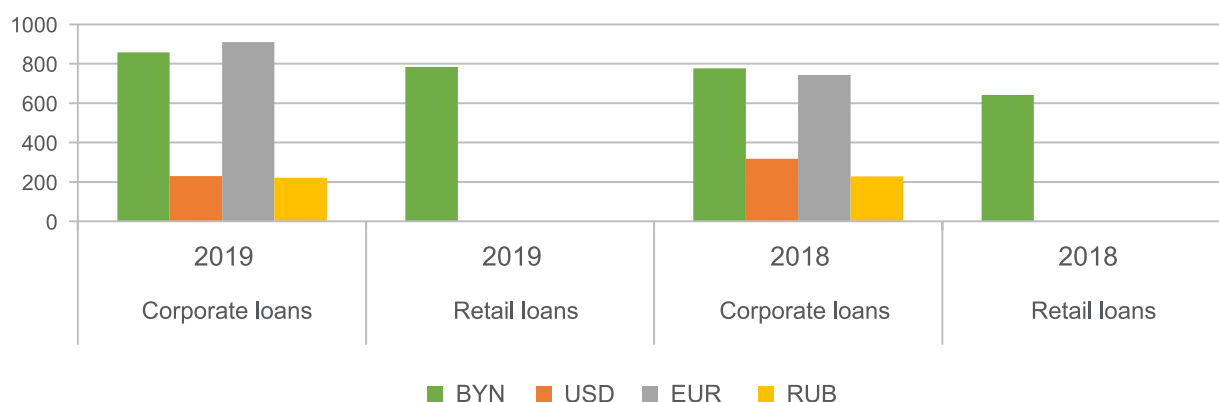
The trend of intensive demand for bank loans from households continued in the reporting year. The main factors were stable monetary and credit situation in 2019, clear interest rate reduction trend, and more convenient channels to deliver financial services to the clients proposed by the Bank.

Loans to customers, *BYN thousand*

	2019		2018		
	amount	% of amount	amount	% of amount	Change, %
Corporate commercial loans	2 493 932	72.0	2 326 695	74.1	7.2
Corporate special purpose loans	170 588	4.9	158 907	5.1	7.4
Corporate loans	2 664 520	76.9	2 485 602	79.2	7.2
Retail consumer and other loans	136 883	4.0	120 644	3.8	13.5
Credit cards and overdrafts	85 779	2.5	71 633	2.3	19.7
Retail housing loans	521 808	15.0	427 013	13.6	22.2
Retail car loans	54 526	1.6	36 641	1.1	48.8
Retail loans	798 996	23.1	655 931	20.8	21.8
Total loans to customers	3 463 516	100.0	3 141 533	100.0	10.2

Non-performing loans were covered by reserves by 130% in 2019.

Breakdown of loans to customers by currency, BYN million



Securities portfolio

The securities portfolio is represented by public bonds by 98.9%.

	2019		2018	
	BYN thousand	Share, %	BYN thousand	Share, %
Public bonds	591 592	98.9	618 354	98.9
Municipal bonds	2 112	0.4	2 133	0.3
Total debt securities	593 704	99.3	620 487	99.2
Shares	4 321	0.7	4 762	0.8
Total securities	598 025	100.0	625 249	100.0

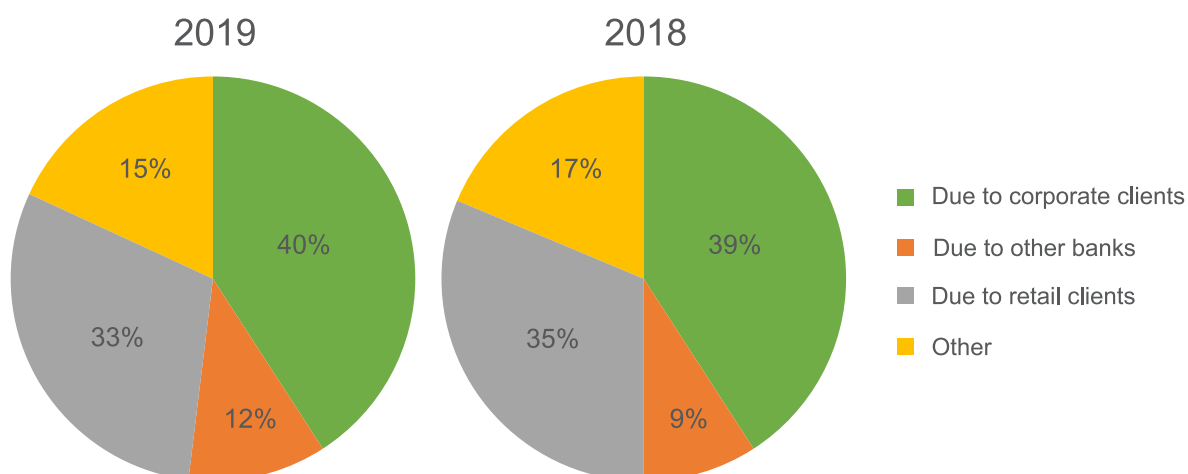
99.3% of securities were evaluated by fair value booked as other aggregate income. The fair value was determined on the basis of market quotations valid as of the reporting date. When market quotations were absent, standard evaluation models were applied using data observed in the open market. The interest instruments (shares) were booked at fair value in the profit and loss statement.

Liabilities structure review

Liabilities of the Group increased by 10.8% to BYN 4 040 million in 2019. The structure of liabilities is dominated by retail and corporate funding – 73%.

Due to other banks

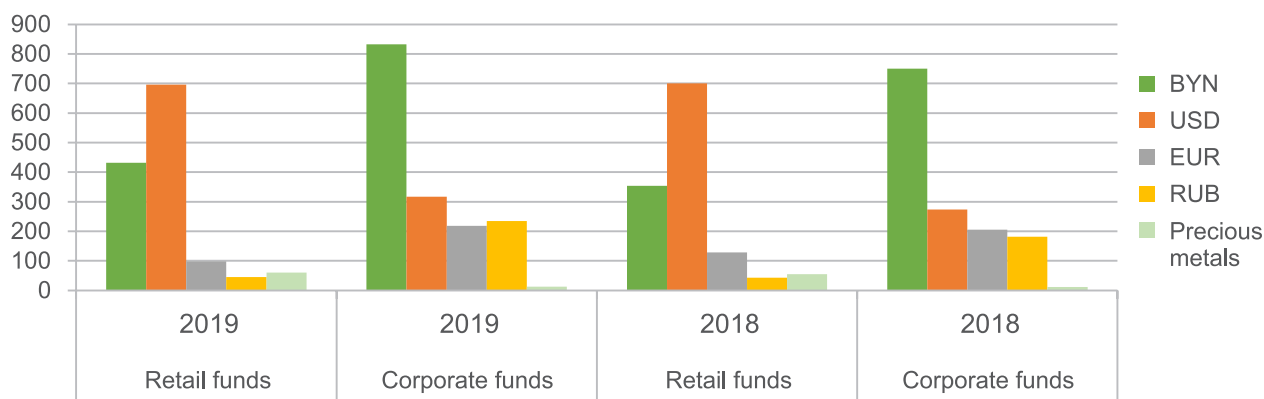
Funds due to other banks increased by 42.3% in the reporting year, and made BYN 472.5 million. Their share in the liabilities structure increased by 2.6 p.p. and made 11.7%.



Customer funding

Customer funding increased by 8.9% up to BYN 2 950.5 million in the reporting year, showing growth of call accounts in the customer funding structure.

	2019		2018	
	BYN thousand	Share, %	BYN thousand	Share, %
Retail accounts				
Current/ call accounts	498 578	17	464 436	17
Time deposits	832 512	28	814 665	30
Total retail accounts	1 331 090	45	1 279 101	47
Corporate accounts				
Current/ call accounts	832 438	28	663 816	25
Time deposits	786 947	27	765 581	28
Total corporate accounts	1 619 385	55	1 429 397	53
Total	2 950 475	100	2 708 498	100

Breakdown of customer funding structure by currency, *BYN million*

The share of foreign currencies in retail deposits decreased by 4.8 p.p. to 67.5% in comparison with 2018, which was attributed to stability of the local currency and reduction of FX deposit profitability.

The share of foreign currency in the corporate funding structure marginally increased from 47.6% to 48.7%.

Equity

The Group's equity increased by 4.2% up to BYN 695.6 million.

The authorized capital of the Bank remained unchanged in the reporting year. The share of Sberbank of Russia was stable, 98.43%, in comparison with 2018.

Equity, *BYN thousand*

	2019	2018	Change
Share capital	321 756	321 756	-
Share premium	576	576	—
Revaluation reserve for fixed assets	27 233	33 151	(5 918)
Revaluation reserve for investments	8 960	10 198	(1 238)
Retained earnings	337 071	301 907	35 164
Total equity attributable to shareholders of the Bank	695 596	667 588	28 008
Total equity	695 596	667 588	28 008

Capital adequacy

The Group manages its capital to ensure compliance with the law and continuity of business, aiming to maximize profit for the shareholders by means of balancing liabilities and equity of the Group.

The table below shows capital adequacy ratio of the Group calculated pursuant to Basel Accord of 1988 (as amended to include market risk).

Capital adequacy, *BYN thousand*

	2019	2018
Tier 1 capital		
Share capital	321 756	321 756
Share premium	576	576
Retained earnings	337 071	301 907
Total Tier 1 (core) capital	659 403	624 239
Tier 2 capital		
Revaluation reserve for office premises	27 233	33 151
Revaluation reserve for investments available for sale	8 960	10 198
Applicable subordinated loan	90 175	126 968
Total Tier 2 capital	126 368	170 317
Total capital	785 771	794 556
Risk-weighted assets	4 201 312	3 977 313
Tier 1 (core) capital adequacy ratio (Tier 1 capital / Risk-weighted assets), %	15.7	15.7
Total capital adequacy ratio (Total capital / Risk-weighted assets), %	18.7	20.0

Core and total capital adequacy ratios for 2019 are well above the minimum requirement set by the Basel Committee (8%).

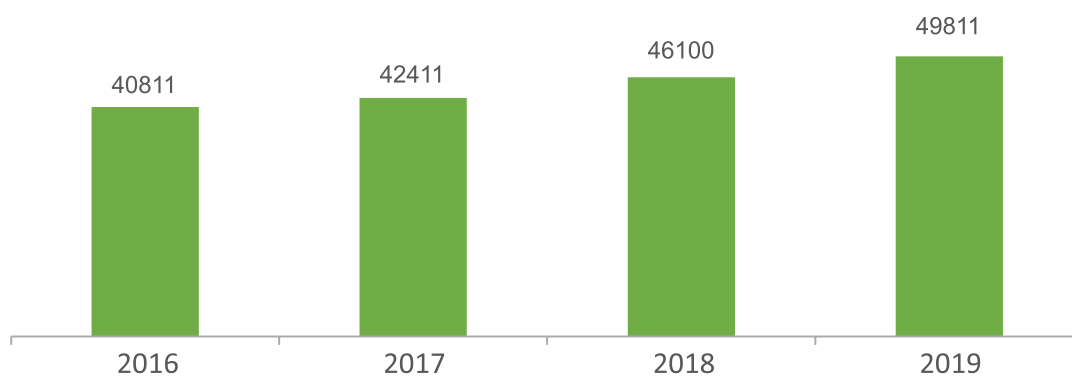
Corporate business

Clients

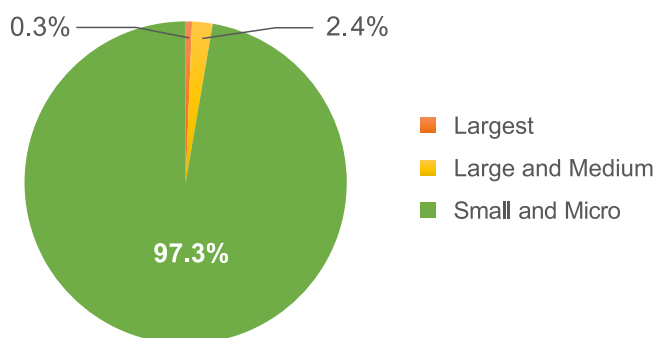
In 2019, the Bank continued to implement its client-focused business model based on the principles of long-term cooperation, mutually beneficial business and tailored approach to each client.

Development of relations with small and micro businesses remain the strategic priority.

**Dynamics of the number of legal entities served
by BPS-Sberbank**



**Client base structure as of 01.01.2020
by segments**



Corporate business development. Lending

The corporate loan portfolio (including corporate bonds) grew by BYN 155 million in 2019, meanwhile its structure remained almost unchanged: 78.9% – loans for current activity purposes (in 2018 – 78.8%), 21.1% – investment loans (in 2018 – 21.2%).

In the reporting year, a range of investment projects were commissioned with financial support of the Bank, including opening of the new shopping centre Palazzo.

Loans were provided under projects aimed at building commercial and residential estate, and development of transport communication in the country.

The Bank continued to finance renovation of infrastructural objects of the power supply system, aimed at provision of uninterrupted energy supply to the consumers, expansion of cooperation with clients within the current investment projects.

Besides, the Group's potential was utilized to finance Belarusian enterprises in the reporting year.

The volume of cross-border transactions as of 01.01.2020 made USD 266.7 million, of which USD 132.9 million were direct loans from banks of the Group.

Small and micro business development

Historically, the Bank's clients are representatives of such branches of economy as oil and gas industry, energy, machinery construction, and trade. Small and micro businesses were financed actively as well. The number of active clients from the latter segment increased by more than 10% and made 36.3 thousand (+3.3 thousand clients).

The unique loan process solution 'Smart technology' was launched for micro segment clients. It allows making decisions to provide a loan within 2 hours/ 2 days, depending on the risk degree of the loan application. Smart technology was launched into operation on 01.07.2019 and deployed in the regional network by 01.10.2019. During that period, 1156 loan agreements were concluded for the total amount equal to BYN 78.5 million.

The concept for optimization of decision-making time in transactions was developed for small segment clients, allowing taking quick decisions under the simplified procedure within the established evergreen limits.

The product 'Express guarantees for micro and small business' was improved: customs guarantees maturing up to 3 years were included, limitation by activity was lifted with regard to positive experience of using that product (26% of the guarantees issued from the year start were 'express guarantees').

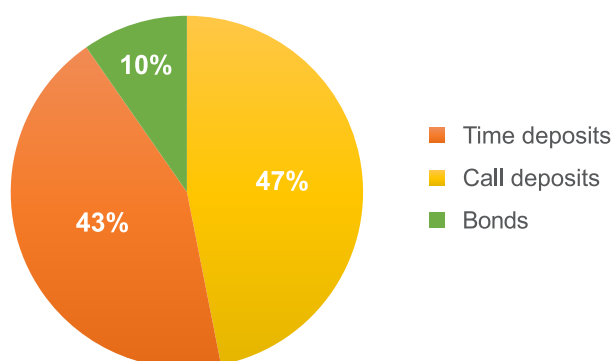
Due to the lending process optimization, holding events, introduction of Smart technology and active attraction of clients, the exposure in the micro and small business segment increased by 32.4% in 2019, while the share in the total corporate loan portfolio made 16%.

The resource base growth in that segment made 24.4%, the share in the corporate business liabilities reached 44%.

Funding

In order to form a stable resource base and maintain its competitive level, the deposit line is being continuously improved.

Corporate funding structure as of 01.01.2020



The clients are provided a comprehensive range of cash and settlement and remote services based on contemporary high-tech processes.

Transaction business

In the framework of further development and improvement of the transaction business, a set of activities were implemented in 2019, including:

- The cash and settlement service package line 'Together to success' was updated both for start-ups and developed business with a large number of payments: limitations on the number of opened accounts for start-ups and the number of electronic payments for entrepreneurs were lifted, the online notification service was added;
- The Bank was one of the first in the country to connect to the interbank instant payment system allowing making payments any day in the 24/7/365 mode with instant (up to 1 minute) credit of funds to the counterparty;
- The option was introduced to open accounts and make payments in 10 exclusive currencies;

- The new service 'Office delivery' was developed and introduced, allowing the client ordering account opening service to be provided at the client's premises. The service is available for clients from any segment who reside in regional cities.

Additional measures to improve the existing services include dedication of an additional hotline for top 100 corporate clients, in order to improve service quality, reduce waiting time and increase loyalty.

Remote banking service

Implementation of information and innovation technologies continued in 2019. In March, the Bank switched to transmission of financial messages in RUB between BPS-Sberbank and Sberbank of Russia via Sberbank FinLine remote banking service system. The main advantages of the system are speed, autonomy, security, reliability, and low cost.

In the framework of transfer to the universal platform of services and digital sales of banking products, the new modern in-house remote banking service platform 'Sberbank Business Online' was launched, including the web version and the mobile application for business.

This platform is continuously supplemented with new functionality and services. In 2019, more than 30 services were introduced in SBOL, including instant payments and payments with the use of corporate cards, which are popular among clients in any segment.

The basic version of mobile SBOL application has the functionality of SMS code confirmation of transactions and sending PUSH-notifications, as well as sending payment orders to the Bank.

As of 01.01.2020, the number of unique SBOL accounts (both mobile and web) made 12.4 thousand.

Client service quality

Creation of positive client experience is one of the Bank's main priorities. In order to deepen relations with the existing corporate clients and develop contacts with potential ones, the Bank continued creating comfortable environment for its clients in 2019. This process is based on using modern approaches to quality improvement of the provided services.

Regular marketing research is the source of information. Corporate client loyalty (NPS) and satisfaction (CSI) indices are monitored on a regular basis.

Readiness of corporate clients to use the Bank's services in future (NPS) as of the end of the reporting year was 44%. The index of total corporate clients' satisfaction with the Bank's performance (CSI) made 8.5, the index of corporate clients' satisfaction with operation of departments (CSIdpt) made 9.2.

In 2019, the Bank started annual measurement of the value showing the total degree of satisfaction and loyalty of corporate clients in cooperation with the Bank (TRIM index), and quarterly measurement of customer effort score (CES) evaluating easiness of cooperation with the Bank.

As of the end of the reporting year, TRIM made 86, with the highest score for the large client segment – 89. Customer effort score was 55%.

International business

Geographical coverage of Sberbank Group makes it possible to offer wide opportunities of international business support to the clients. The Bank's correspondent network includes more than 100 banks all over the world.

In the reporting year, the amount of trade finance transactions increased by 1.7 times and equaled to USD 433 million. In 2019, 314 transactions with opening and confirming letters of credit and issuing bank guarantees were executed. As of 01.01.2020, exposure under L/Cs and guarantees made USD 115 million.

The balance sheet liabilities of the Bank relating to trade finance with resources attracted from foreign banks made USD 40 million.

Together with other banks of the Group, the unique offer for the Belarusian market was developed: import financing with foreign resources. The clients have the opportunity to finance transactions for up to 8 years under the letter of credit form of settlements without ECA cover, which lowers the cost and makes it easier to obtain financing with the use of foreign resources.

Special attention was paid to further development of the product line. The new product, discounting of letters of credit issued by BPS-Sberbank with deferred payment, was offered in the market.

Terms and conditions of guarantees within the standard lending procedure were updated and allow setting multi-currency limits for guarantee issue with partial cover or uncovered. The express procedure of credit analysis for issuance of guarantees by order of small and micro segment clients was simplified.

In order to raise financial awareness of the clients and their knowledge about contemporary banking instruments of foreign trade support, a special educational trade finance seminar was held, 7 special conferences and seminars were attended, the Bank's representatives being speakers at 4 of them.

BPS-Sberbank won the prestigious Operational Excellence Award for excellent performance in the area of international EUR settlements.

This is another acknowledgement of spotless cooperation with international financial leaders. Earlier, beside the awards from Deutsche Bank AG, BPS-Sberbank was recognized by Citibank N.A., Commerzbank AG and Sberbank of Russia in various fields of international cooperation.

Operations in financial markets

Development of relations with international financial institutions, insurance companies, foreign banks

In 2019, the Bank continued to develop relations with bank counterparties and to provide trade finance services to foreign and Belarusian banks.

By order of financial institutions, guarantees were issued and letters of credit were confirmed for the total amount of USD 30 million.

Active cooperation with foreign banks continued in the traditional direction – import financing. The total amount of direct risk limits established by the Bank for trade finance transactions made USD 580 million.

In the reporting year, BPS-Sberbank was appointed as the agent bank under 3 new agreements concluded between the Government of the Republic of Belarus, foreign banks and leasing companies according to Decree of President of the Republic of Belarus No. 466. As of 01.01.2020, 39% of all agreements concluded under the Decree are served by BPS-Sberbank as the agent bank.

Correspondent relations

BPS-Sberbank operates a widespread correspondent network comprising 67 nostro and 149 loro accounts.

In 2019, 19 new loro accounts were opened, 5 new banks were attracted as clients.

BPS-Sberbank maintains 11 nostro accounts in exotic currencies, which allows the Bank provide its clients with the unique opportunity to make settlements with counterparties from various countries in local currencies.

In the reporting year, the Bank connected to Sberbank FinLine remote banking service system. The system is actually a channel for transmission of financial messages between financial institutions alternative to SWIFT.

BPS-Sberbank is the first bank in the country that switched to settlements via the alternative channel. Payments under all correspondent nostro accounts with Sberbank of Russia in foreign currency are executed solely via Sberbank FinLine.

Stock market

In the reporting year, the Bank continued to develop as a high quality professional participant of the securities market. New clients were attracted with support of a widespread regional network allowing providing its clients a broad range of services in the securities market in all regions of Belarus.

7 corporate loan issues were launched in the framework of cooperation with legal entities in 2019.

The Bank invests large amounts into corporate and public securities. The volume of the securities portfolio as of 01.01.2020 exceeded BYN 1 billion.

In order to increase the resource base, own bonds were actively placed.

In 2019, 3 new issues of the Bank's bonds were registered. The volume of the Bank's bonds issued and unredeemed as of 01.01.2020 made BYN 442.7 million.

The amount of funds raised via placement of own bonds exceeded BYN 390 million.

Much attention was paid to launching new products and improving quality of provided services.

In 2019, the Bank's clients were offered a full range of operations in the stock and OTC markets in the Republic of Belarus, and the trust management services with investment of client funds into foreign securities.

Traditionally, much attention was paid to providing depositary services. The Bank's depositary serves 340 security issuers and over 117.4 thousand depositors.

The Bank's depositary is among the four largest depositaries in the Republic of Belarus.

Foreign exchange market

BPS-Sberbank holds firm positions as a market maker and a key player in the domestic FX market of the Republic of Belarus.

The Bank has access to such trading platforms as Sberbank Markets (Sberbank of Russia), NT-Pro (Alfa Bank Moscow), MICEX Trade Currency (Moscow Stock Exchange), FX Trading (Thompson Reuters), Bloomberg Professional.

Due to high-tech electronic platforms, the clients get services of foreign exchange operations at the rates most approximate to the current market levels.

In the reporting year, in order to offer its clients the maximum possible service of foreign exchange operations, the Bank opened correspondent accounts in such currencies as CZK, HRK, HKD, SEK, SGD, and TRY. These currencies may be used in settlements under export and import contracts. Today, the Bank's clients may use more than 40 quotation pairs for foreign exchange operations.

Precious metals market

BPS-Sberbank executes operations with individuals, legal entities and individual entrepreneurs on purchase and sales of precious metals in the form of bank ingots and bullions, investment coins made of precious metals and issued by foreign countries, and holds the leading position in this segment of banking services.

The Bank maintains the largest in the country portfolio of precious metal balances on unallocated and deposit metal accounts of its clients.

Improvement of remote service systems is the main focus in client service development.

Retail business

BPS-Sberbank holds firm positions among the top 3 banks in the retail market of Belarus.

Each third working age citizen of the country is a client of BPS-Sberbank.

In the retail segment, the Bank's activity in 2019 was aimed at steady development, improvement of the existing and introduction of new banking products and services.

Retail market positions

The Bank's presence in the retail segment of the financial market of the Republic of Belarus can be described as follows:

- 2nd place by card issuance, with the market share of 8.0%;
- 3rd place by retail loans (without beneficial mortgage lending and estate financing), with the market share of 8.3%;
- 4th place by the number of ATMs, with the market share of 11.3%; and 5th place by the number of information terminals, with the market share of 5.32%;
- 4th place by the number of payment terminals at merchants, with the market share of 9.55%;
- 5th place by retail funding, with the market share of 5.2%.

Clients

The total number of retail clients of the Bank is around 1.4 million people. In the reporting year, the VIP client base increased by 13.4%, affluent client base grew by 36.4%. Quality changes of the client profile take place.

Due to making tailored offers, the product penetration level increased by 5.6% and made 1.94 types of active products.

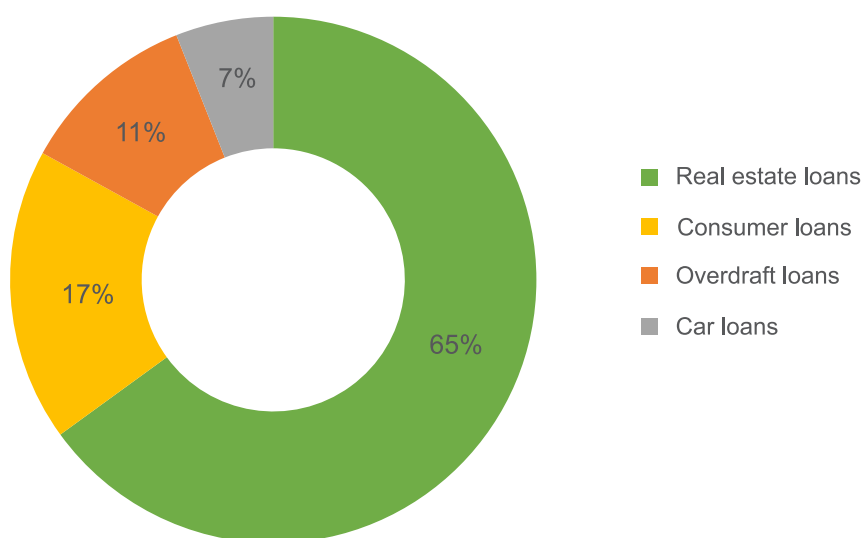
Retail lending

BPS-Sberbank occupies a stable position in offering key banking products and services: it is ranked the 3rd in the retail lending market, with the share of 8.3% according to performance results in 2019.

The main retail lending growth driver was mortgage lending under the programme 'New house with Sberbank' and joint lending programmes with the leading developers of the Republic of Belarus.

In 2019, the Bank continued to develop partnership sales channels. Partner programmes of real estate financing were implemented together with Iron LLC, Inforeal LLC, DANA Holdings, A-100 Development, YurStroyMash, and others.

Retail loan portfolio structure by product, %



In 2019, certain attention was paid to development of partner programmes for car loans.

A new product for purchasing cars 'Afterburner from Sberbank' was launched. Retail clients can obtain a loan on unique terms under the car loan programme 'Geely with Sberbank'.

In order to develop the digital retail client service channel by means of online applications, online lending process was executed via Sberbank Online system. A new consumer loan product 'I want online!' and the overdraft loan 'One-click!' were introduced.

BPS-Sberbank was the first in Belarus to offer individuals a premium instalment card FUN Platinum with the following main advantages:

- Increased money-back rate of 1.5%;
- Free of charge Concierge service;
- Special discount package from MasterCard partners allowed for Platinum card only.

The Bank continued to develop the instalment card KartaFUN and the associated partnership network comprising 17500 stores all over the country.

Retail funding

Retail funding (including bonds) increased by 10% from the year start, while the amount of BYN funds increased by 25.3%.

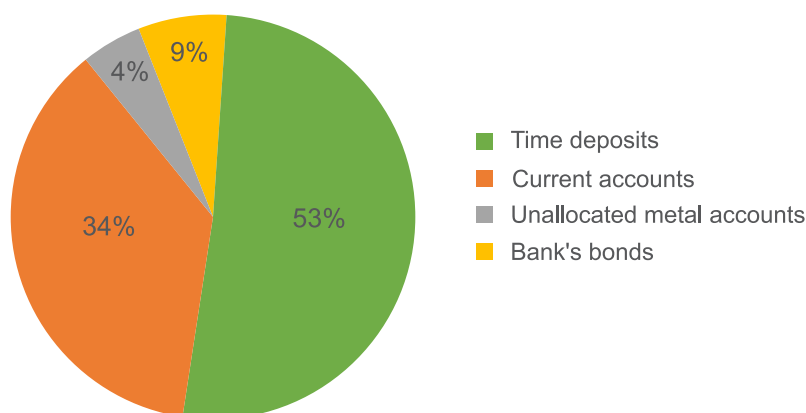
In 2019, deposit products were developed with regard to market trends, terms and conditions were modified and unified, new online products were launched.

The Bank continued to develop its alternative investment instrument – bonds, including Internet bonds. As of 01.01.2020 the total amount of sold bonds equaled to BYN 140.4 million.

Funds were raised into another investment product – metal accounts (gold, silver, palladium, platinum), including deposits which grew by 23.6%. The balances of metal accounts as of 01.01.2020 made BYN 59.6 million.

The balances of pension accounts increased by 29.3% and made BYN 40.8 million in the reporting year.

Retail funding structure as of 01.01.2020



Online products were improved in the reporting year. The share of online deposits in the total volume of transactions increased by 11.6 p.p. and exceeded 43%.

Cards and transaction products and services

BPS-Sberbank holds the 2nd rank in the banking payment cards market. The number of cards in circulation is 1.2 million (including 784.5 thousand contactless cards). The share of premium cards increased by 11.3 p.p. and made 90.8%.

BPS-Sberbank is a member of international payment systems MasterCard Worldwide, Visa International, American Express, and the national payment system BELKART.

In 2019, the Bank together with Visa payment system developed and launched new card products – FC Bate fan card and LaCard payment card (co-branded with Lamoda store). The product ComPass was supplemented with a new concierge service package and exchange of miles for gifts and promo codes.

The option of refinancing of the Bank's loans was implemented in the course of KartaFUN product upgrade.

The payment card line for VIP clients was updated, the service package Sberbank 1 was launched. This package includes a set of high class products and services taking into account peculiarities of VIP client service. Besides, sales of the premium card FUN Platinum started.

Together with Visa, the Bank launched MVP Constructor card. This product is a payment card with a set of lifestyle categories, a possibility of money bank and additional options to cover all client needs.

The Bank continued to provide traditional services to the population:

- Funds transfer from account and without account opening in favour of individuals and legal entities and individual entrepreneurs;
- Credit to account and cash withdrawal from account and without account opening.

Payments and transfers for individuals are executed in all service channels: at the Bank's offices, in remote channels, at unattended terminals.

Within the strategy of shifting from the Bank's cash desks into digital channels, the share of retail payments in remote channels and at unattended terminals made 99.6% by the number and 97.5% by the amount.

BPS-Sberbank has the 5th rank among the banks of the Republic of Belarus in terms of accepting payments in the Uniform settlement and information space ERIP. The market share by the number and the amount of payments accepted in ERIP made 5.3% and 4.8%, respectively.

In 2019, 42% of retail SWIFT transfers outside the Republic of Belarus executed in Russian roubles were made by clients via Sberbank Online system. In the reporting year, the services of transfers outside the country via SWIFT system in USD and EUR were launched.

The amount of P2P transfers in remote channels and at unattended terminals increased by 1.9 times by the number and 2.7 times by the amount and made 1 019.9 thousand transfers and BYN 109.6 million, respectively.

Due to the convenient transaction technology and attractive fee rates, the population actively use the international transfer services via private payment systems: their amount equaled to USD 35.4 million.

The Bank actively sells coins issued by the National Bank of the Republic of Belarus, purchases and sells gold bullion (investment) coins 'George the Victorious' issued in the Russian Federation, and coins from precious metals issued by foreign countries, which is the exclusive offer in the market.

Remote banking service of retail clients

In 2019, the Bank's strategic objectives included further development of digital business meeting requirements of the banking market, expectations and needs of the clients in new digital products and services.

In the reporting year, the number of Sberbank Online users increased by 14% compared to 2018 and made 357 thousand.

New digital services were launched: issuing loans online (Credit Factory – online), opening deposit account and purchasing bonds, the family service 'Shopping together', push notifications, SWIFT transfers in USD and EUR, the service 'Moneybox', and issuing insurance policies online.

In addition to SamsungPay and SberPay, Apple Pay was put to market.

Customer Support Centre

In 2019, the Bank continued to develop its Customer Support Centre (hereinafter – the Centre) as the uniform channel of information and service support of clients in use of the Bank's products and services.

During the year, the Centre received more than 1 775 000 calls from clients. Over 330 000 calls were processed by the virtual assistant Alesya without participation of the operator, which is twice more than in 2018. 25% and 16% of clients were served in the voice channel and the text mode, respectively.

The availability of the Centre's hotline was 72 seconds on average throughout the year. The average waiting time for VIP client made 9 seconds.

The total client satisfaction with operation of the Centre made 93%, based on IVR calls.

The operator productivity (Utilization EN15838) made 78%, while the standard value is 72%.

The Centre continued its development as a sales channel for banking products and services. The Centre's operators made about 785 thousand outbound calls to clients, which is by 9% or 85 thousand more than in 2018.

The total volume of communications in all channels of the Centre exceeded 2.5 million calls, which is by 4% more than in 2018.

More than 53 000 transactions were made in 2019, based on results of inbound and outbound communications with the Centre's operators

The Centre's share as the channel of client acquisition in the total scope of the Bank's sales by key products made: 12% for payment cards; 18% for consumer loans; 15% for real estate loans; 9% for car loans; 24% for overdraft loans.

Two new directions were established on the basis of the Centre in the reporting year:

- Support line of regional network experts from the retail business domain of the Bank;
- Corporate client support line.

During 7 months of functioning, the support line of regional network experts received 12 000 calls, while the corporate client support line processed over 82 000 calls.

In 2019, a range of technological solutions were put to life on the basis of the Centre:

- Voice biometrics system allowing automation of client identification by voice;
- Execution of the application for overdraft and consumer loans under Credit Factory online technology;
- RPA (Robotic Process Automation) technology for the process of operation with captured cards at the Centre.

One of the Centre's achievements was the victory at the international contest 'Crystal Headset' in the nomination 'Best application of automation, robotisation and artificial intelligence'.

The Centre passed the certification audit according to the international standard ISO 18295:2017.

VIP client service

In 2019, the Bank continued to develop premium-class service of retail clients, offering tailored banking service at the special-format office Sberbank 1 (Minsk) and Sberbank Premier zones.

In the reporting year, the active VIP client base grew by 13%. Due to further development of segment-focused products and services, the product penetration level in VIP client segment increased by 4%.

The premium package service 'Sberbank Premier' with unique terms in the market and a set of privileges was offered to VIP clients.

High service quality and focus on the client needs are key drivers of VIP client service of the Bank. In 2019, the new service of redirecting calls from Sberbank Premier office clients to VIP client support line was initiated.

The loyalty index Net Promoter Score allows declaring high loyalty of Sberbank Premier clients to the Bank (NPS – 91.7%).

Retail client service quality improvement

BPS-Sberbank always offers its clients convenient and friendly service, appreciates good relationship and exceeds expectations.

In order to ensure leadership in client service, determine client needs and potential preferences, the Bank focuses on customer voice research. This process is based on application of contemporary approaches to service quality improvement and creation of the best client experience within the Bank.

Frequent marketing research and review of client applications serve as the source of information about client impressions.

The Bank regularly carries out comprehensive research of service quality at all points of interaction between the client and the Bank (NPS and CSI indices). The retail NPS as of the end of the reporting year made 58%, CSI was 9.4.

In 2019, client voice study tools were improved: the technology of online surveys was introduced and allowed receiving unbiased feedback from clients within a short period of time.

Leading ways of business task solution focused on clients are used in the Bank's work: design thinking methodology, client route mapping. These approaches allow updating the Bank's products and services quickly, based on client needs.

Financial awareness

BPS-Sberbank pays special attention to improvement of financial awareness of the population.

Every year the Bank takes part in the international educational project dedicated to drawing attention of children and the young to the issues of money, income and entrepreneurship – Global Money Week, the week of financial awareness of children and young people, as well as supports initiatives and contests within this project.

BPS-Sberbank was one of the first in the Republic of Belarus to support the initiative of holding the International Client's Day. The purpose of this event is to thank the clients for cooperation and trust. This initiative allows bringing business closer to clients, hearing their needs and expectations.

Days of financial awareness, financial knowledge lessons, educational seminars in the 'School of New Opportunities', support of the republican contest in financial awareness, Days of Quality, support of financial awareness events held by the leading higher educational establishments of the country – those were the events attended by more than 5 000 people in 2019.

Risk Management

In 2019, the Bank's risk management system continued to develop on the basis of best practices, including that of Sberbank of Russia.

Risk management system development

In the reporting year, the functionality of forecasting credit risk concentration limitation norms for the Bank holding was implemented.

The group methodology for outsourcing risk management and control over performance of contracts was introduced.

The Bank's economic equity is calculated on a regular basis. Local and group stress-testing of material risks inherent to the Bank was carried out; the system of risk tolerance and risk appetite ratios was established for 2020.

Some components of internal procedures for assessment of liquidity adequacy were added.

With regard to group and local parameters, the architecture and values of ALM and liquidity risk limits were updated.

In the framework of IT risk management development:

- the register of IT risks of the Bank was drawn up;
- the IT risk assessment methodology was elaborated;
- critical risks were assessed;
- mechanisms for critical IT risk reduction/mitigation were defined.

Retail business support

The decision-making process for consumer and overdraft loans was optimized due to reduction of the underwriter's participation in review of the loan application and introduction of individual income forecast based on the database of the Social Security Fund, which allowed reducing time for decision making from 10 to 5 minutes without the underwriter and from 9.5 to 5 hours for applications reviewed with the underwriter's participation.

The model on the basis of customer transaction data for consumer and overdraft loans, the technology of pre-approved offers for non-salary clients were developed, application models for consumer cards and overdraft loans were validated.

Corporate business support

In the reporting year, the project for optimization of lending to 'micro' segment clients on the basis of the scoring model was accomplished. The Smart Technology was put into operation, the time for decision making became 2 days with the underwriter's participation and 2 hours without it.

The technologies of 'express' decision-making procedure and EGL limits were introduced in the 'small' client segment.

The procedure of security coverage of operations subject to credit risk was updated; the approaches to determination of security quality were revised.

Project management and innovation activity development

Project management

In the current year, Agile transformation of the project activity and current operations of IT sector of the Bank was initiated with support of SBI of Sberbank of Russia.

Key features of the transformation were shifting from implementation of individual projects and programmes to the continuous flow of the Bank's product and service development by constant Agile teams.

In the framework of this process, a set of measures were undertaken:

- Agile teams and tribes were created, comprising employees of the Bank and Service Desk CJSC;
- Quarterly monitoring of tribes' activity results was arranged in the form of a regular all-bank event with participation of the top management, employees of the Bank and Service Desk CJSC;
- Budgeting of project activity was redesigned;
- Regular training and skill improvement of participants of tribes and Agile teams were arranged, with participation of external experts and Sberbank of Russia;
- The target model of the tribe as an Agile business unit was formulated and approved.

Innovation activity

In 2019, key directions of the Bank's innovation policy were:

- Blockchain technology development;
- Biometric identification technology;
- Business process robotisation;
- Open API interfaces;
- Contactless payment development for the municipal transport system.

Blockchain technology development

BPS-Sberbank is one of the owners of the information network certification hubs built with the use of the blockchain technology, and is a member of the board of owners of identification hubs which operates this network.

On the basis of this network, there functions the register of bank guarantees, and interaction with notary base is organized in the course of bad debt collection by recording information about online loan and overdraft agreements in the blockchain network. This function allows confirming integrity of agreements concluded in the online mode in the course of bad debt collection.

The Bank is a participant of the experiment held by the National Bank of the Republic of Belarus with the purpose to provide the banks with the possibility to issue own tokenized instruments of investment attraction.

Biometric identification technology

BPS-Sberbank, together with ERIP and the Interbank Identification System, is one of the pilot banks for implementation of client identification by face and voice.

In 2019, the experimental use of the mobile application with the biometric authentication feature started. The software is being improved to allow client identification at sales locations.

Business process robotisation

In the framework of paperless technology development and reduction of the number of manual operations, business processes are automated with the use of Robotic Process Automation (RPA) technology.

The following business processes are launched into production: processing of cards left at the Bank's devices; notifying clients on acceptance of disputed operation application; e-mailing certificates and statements for Karta FUN product, etc.

Open API interfaces

In the reporting year, Open API development concept was adopted, creating the system of open and partner interfaces for provision of the Bank's services remotely, at the platforms of external sites and applications, and the management system for such interfaces was established.

The project was opened to implement the system of Open API management system and the comprehensive service pilot 'Loan application'. Pilot information services were launched: foreign exchange rates, offices, ATM.

Contactless payment for the municipal transport system

In 2019, BPS-Sberbank started experimental use of the contactless fare payment system using contactless cards on road transport in the city of Minsk.

In June, the service became available at all trains of the Belarusian railway within the 1st fare rate zone. Payment at validators installed in carriages was the first solution of this kind in Europe.

In 2019, the number of payments with the use of this innovation service doubled and reached the average monthly value over 2 million transactions per month. Service was used by holders of 208 banks from 83 countries of the world. The total number of payments from the moment of service launch reached 30 million.

IT Development

Development of banking technologies aimed at digital transformation of banking business is impossible without improvement of IT systems stability.

In 2019, the Bank continued to develop in-house competence centres based on internationally recognized standards and methodologies (ISO20000, Agile, DevOps), and strengthen control functions.

In order to improve reliability and productivity of the existing infrastructure, the following projects were implemented:

- Change of architecture and network infrastructure of the Bank's corporate data communication network;
- Creation of the test environment for the Client Support Centre, update of Cisco and Verint software.

In the reporting period, the Bank's data processing centre infrastructure was modernized, which allowed timely provision of the necessary data storage capacities to support top-priority projects of the Bank.

Application of such technological solutions as infrastructure clustering and virtualization was increased step by step.

Risks relating to continuous and safe functioning of the Bank's automated systems were minimized due to optimization and standardization of the existing IT landscape.

Cyber security

Cyber security of the banking infrastructure is maintained with the use of various security systems: firewalls, antivirus software, integrity and configuration control systems, analysis of protection, prevention of information leaks, masking data, collection and correlation of security events, treating cyber security incidents.

The implemented systems are continuously adjusted and updated to provide the necessary level of protection with regard to the increasing danger of cyber threats.

Measures are regularly applied to provide security of operations via remote service channels. They are divided into the following categories:

- Organizational: changes are introduced into the business processes entailing service provision via remote channels and by processing centres and other vendors involved in such channels;
- Technical: remote service channel software complexes are upgraded, specialized software is procured and introduced;
- Clients are advised on cyber threats.

High level of the Bank's cyber security is confirmed by external audit revisions. In particular, the Bank annually confirms compliance with PCI-DSS international payment system security standard.

The Bank runs the Security Situation Centre that timely reacts to cyber security incidents and materially improves maturity of vulnerability and incident management processes.

The projects are implemented:

- to introduce fraud monitoring systems in remote banking service channels for legal entities and individuals, which will help improve protection of the Bank's clients;
- together with subsidiaries and dependent companies, to introduce processes for secure development of software with the use of static and dynamic code analysis components.

Operations

In 2019, the Bank continued to improve its operational function aimed at risk-free and high-quality support of operations undertaken by business departments.

Preliminary work was done to launch the automated information system for execution of monetary liabilities (hereinafter – AIS IDO); the RPA technology was successfully implemented for input of hard copy information on encumbrances applied by public authorities to retail accounts into the Automated Information System for Execution of Monetary Obligations.

Main focus in operations development is:

- Participation in improvement of functionality in the framework of support of the automated information system for execution of monetary obligations;
- Joint effort with the transactional business line to centralize non-business functionality;
- Active participation in automation of end-to-end business processes;
- Implementation of measures aimed at staff number optimization, including improvement of labour intensity.

Regional Network

The Bank continued to optimize its regional network in 2019.

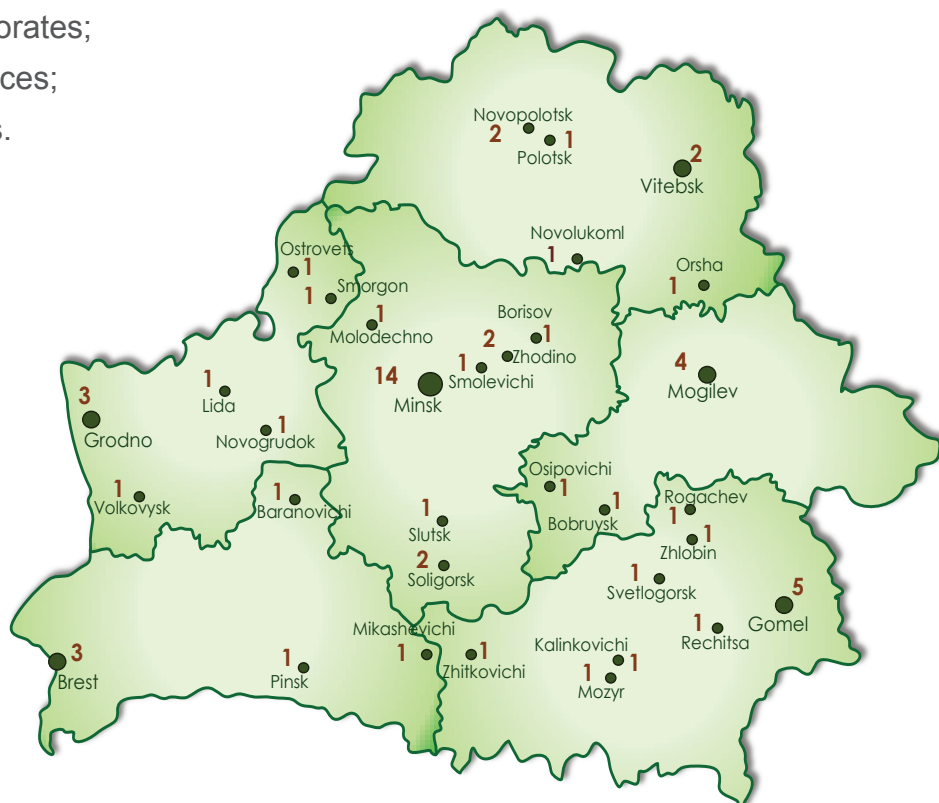
The regional network was reshaped into a new organizational structure, with functional separation of the regional directorate (as the managing authority) and the additional office (as the sales point).

Two vertical lines of management were established in the additional offices: the sales vertical and the universal transactional vertical. Small-sized additional offices were transformed into remote desks.

The Bank's regional network is represented by a two-tier model comprising regional directorates covering the respective regions, and their subordinate additional offices.

BPS-Sberbank maintains its presence in 34 towns and cities of the Republic of Belarus. As of 01.01.2020, its regional network comprised 61 sales locations including:

- 6 regional directorates;
- 38 additional offices;
- 17 remote desks.



Human resources

In the reporting year, the Bank continued developing labour efficiency management, improving staff incentives, and optimizing the Bank's organizational structure, aimed at labour productivity growth.

In 2019, the staff number was further optimized due to improvement and centralization of processes, development of remote client service channels, and other factors.

The new organizational structure was adopted. The Bank's team remained stable: the average work experience is 10 years, staffing as of 01.01.2020 made 95%, and the staff average age is 37 years.

In order to increase involvement of the Bank's employees in successful accomplishment of tasks aimed at building up the economic potential of the Bank, securing its financial stability and profitability, strengthening and maintenance of high corporate culture, the professional contest 'Best in profession' was arranged.

In the reporting year, much attention was paid to staff training and professional improvement. The Bank maintained cooperation with the Corporate University of Sberbank, undertook training at various MBA programmes, training on the basis of Sberbank Virtual School, and electronic libraries. Main focus was on digital learning, which had the largest share in the structure of the Bank's corporate training system. More than 60% of the staff are connected to the resources provided by electronic libraries and Sberbank Virtual School.

Starting from 2019, in order to secure unbiased approach when selecting candidates for key management positions of the Bank, cross functional interview (Green Room) is arranged, which provides for collective and objective decision when appointing a key manager.

The Bank continued to develop the package of social benefits, including voluntary insurance of medical expenses of the staff. The number of family members of the Bank's employees insured under the corporate tariff increases every year.

In the framework of the Plan of measures for implementation of HR policy of BPS-Sberbank in 2019, a range of measures were undertaken to provide social support to the employees:

- The programme of corporate discounts and benefits from partners was developed;
- A set of measures advancing healthy life style and team motivation was adopted.

In order to raise HR brand recognition, the Bank cooperates with higher educational establishments. New educational programmes were arranged:

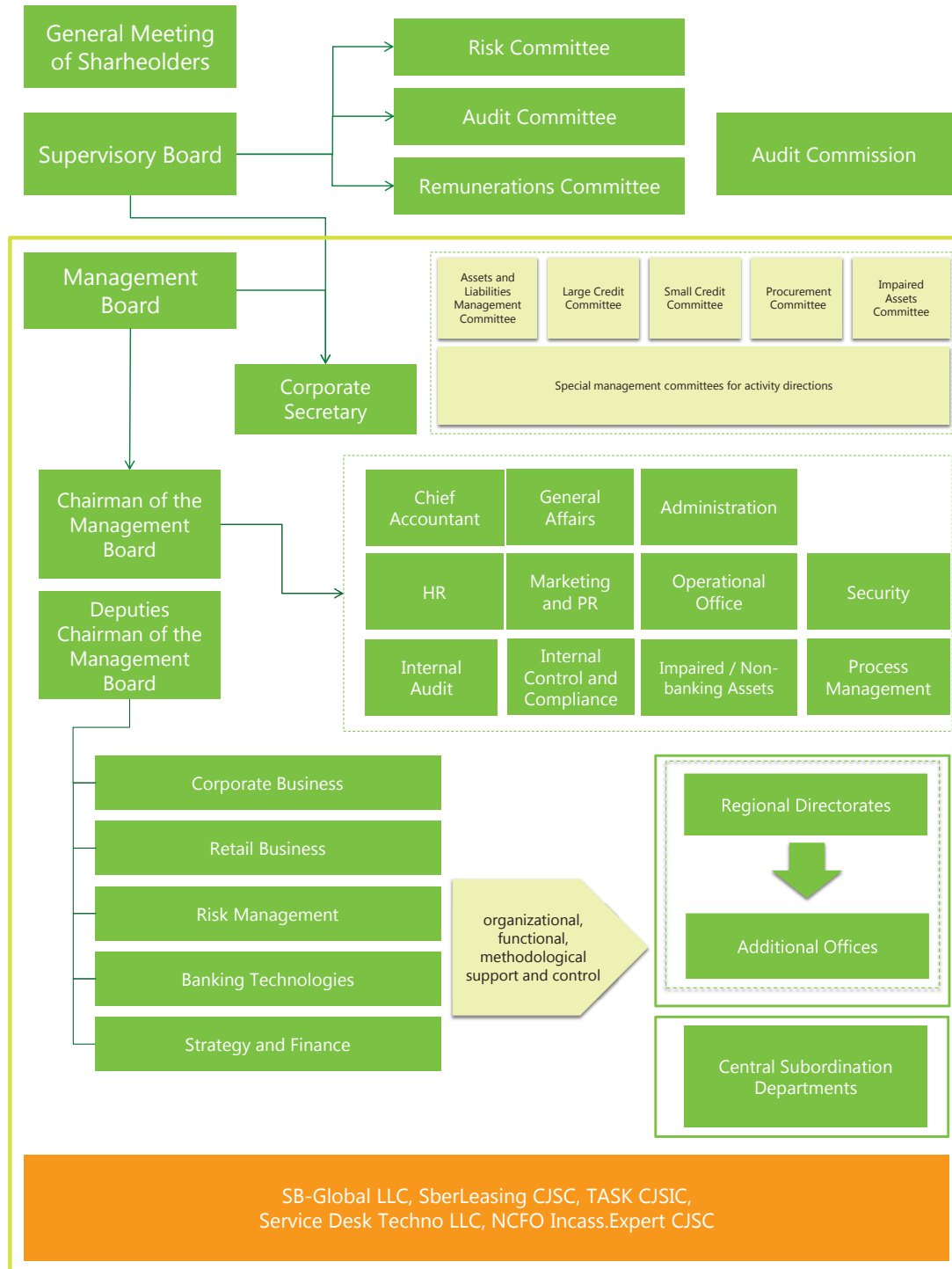
- The project 'Fintech laboratory of BPS-Sberbank on the basis of Belarusian State University' was launched;
- A series of educational seminars, business trainings, and master classes held by the Bank's managers for students, master's degree course students, teachers and professors of Belarusian State Economic University was organized.

In order to attract talented young people for further employment with the Bank, vacancy fairs and Career Days of BPS-Sberbank were held.

In the reporting year, a range of activities and HR sessions for managers from HR departments of the Bank's holding companies were arranged with participation of experts from Sberbank of Russia, in the framework of harmonizing staff management standards, development and translation of the corporate culture of Sberbank Group and Competence Model of Sberbank 'People of the Future 2020'.

Corporate governance

Organizational structure



Corporate governance in the Bank is the system of interaction between shareholders, management bodies, controlling bodies, officers and other involved parties aimed at general management of the Bank's activity, achievement of goals and compliance with the strategy of development, including ensuring financial sustainability and supporting long-term functioning as a profit-making company.

The management bodies of the Bank provided for effective corporate governance corresponding to the nature and scope of executed banking operations and other activities, and securing its financial stability.

The corporate governance structure of the Bank includes the management bodies, other authorities, departments and officers of the Bank who cooperate in the framework of the internal control system, the risk management system, the system of remunerations and compensations, management of the conflict of interest, maintenance of the Bank's relations with shareholders, and information disclosure.

The management bodies of the Bank are:

- General Meeting of Shareholders
- Supervisory Board
- Management Board

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Bank. It acts regularly and is convened in the cases and according to the rules stipulated by the legislation and the Articles of Association of the Bank, which must be complied with to ensure legality of adopted resolutions.

The scope of authority, the procedure of convening and holding the General Meeting of Shareholders, adopting resolutions, and interaction of the Bank with the shareholders are stipulated by the legislation, the Articles of Association and local regulations of the Bank.

The issues attributed to the exclusive scope of authority of the General Meeting of Shareholders may not be delegated to other management bodies of the Bank for resolution.

Supervisory Board

The Supervisory Board is the collective management body that carries out general management of the Bank's activities and determines the priority directions of its development.

The scope of authority, the procedure of holding meetings of the Supervisory Board, adopting resolutions, and other issues relating to the activity of the Supervisory Board and its members are stipulated by the legislation, the Articles of Association and local regulations of the Bank.

The members of the Supervisory Board are elected by the General Meeting of Shareholders according to the procedure stipulated by the legislation and the Articles of Association of the Bank.

The members of the Supervisory Board meet qualification criteria and business reputation requirements as stipulated by the legislation.

In order to perform the functions of the Supervisory Board aimed at ensuring effective functioning of the risk management system, the internal control system, the system of remunerations and compensations, the Supervisory Board elects the Audit Committee, the Risk Committee and the Remunerations Committee from among its members, headed by independent directors.

Members of the Supervisory Board of the Bank as of January 1, 2020

Chair of the Supervisory Board

Piotr P. PROKOPOVICH

Member of the Permanent Taskforce of Administration of President of the Republic of Belarus

Deputies Chair of the Supervisory Board

Natalia N. AVDEYENKO

Senior Managing Director, Sberbank International, Sberbank of Russia

Pavel S. BARCHUGOV

Senior Managing Director, Director of International Subsidiaries and Retail Business Division, Sberbank of Russia

Members of the Supervisory Board

Grigoriy M. ANASHKIN

Senior Managing Director for Foreign Banks, Finances, Sberbank of Russia

Aleksey V. AFANASYEV

Head of Principal Financial Division, Minsk City Executive Committee, representative of the State

Aleksey A. ASHURKOV

Senior Managing Director, Risks, Sberbank of Russia

Aleksey A. VASILYEV

Senior Deputy Chair of the State Committee for Property of the Republic of Belarus, representative of the State

Vadim A. KOTOV

Senior Managing Director, Director of IT Department, Sberbank International, Sberbank of Russia

Svetlana I. MALYKHINA

Independent Director

Mikhail G. PAPASKIRI

Senior Managing Director, Director of International Impaired Assets Recovery Division, Sberbank of Russia

Liudmila P. POPOVA

Independent director

Natalia D. PRASOLOVA

Independent director

Aleksandr V. TITOV

Senior Managing Director, Director of International Corporate Business Development Division, Sberbank of Russia

New composition of the Supervisory Board of the Bank

On March 27, 2020, the General Meeting of Shareholders elected the following composition of the Supervisory Board:

Chair of the Supervisory Board

Piotr P. PROKOPOVICH

Member of the Permanent Taskforce of Administration of President of the Republic of Belarus

Deputies Chair of the Supervisory Board

Timur O. KOZINTSEV

Senior Vice President, Head of Sberbank International, Sberbank of Russia

Members of the Supervisory Board

Natalia N. AVDEYENKO

Senior Managing Director, Sberbank International, Sberbank of Russia

Grigoriy M. ANASHKIN

Senior Managing Director for Foreign Banks, Finances, Sberbank of Russia

Liliya M. ASTAPOVICH

Aleksey A. ASHURKOV

Senior Managing Director, Risks, Sberbank of Russia

Pavel S. BARCHUGOV

Senior Managing Director, Director of International Subsidiaries and Retail Business Division, Sberbank of Russia

Aleksey A. VASILYEV

Senior Deputy Chair of the State Committee for Property of the Republic of Belarus, representative of the State

Vadim A. KOTOV

Senior Managing Director, Director of IT Department, Sberbank International, Sberbank of Russia

Vladislav G. KREYNIN

Vice President, Director for Business Development, Directorate for Ecosystem Development (SberX), Sberbank of Russia

Galina P. KOUKHORENKO

Independent Director

Svetlana I. MALYKHINA

Independent Director

Liudmila P. POPOVA

Independent director

Audit Committee

The Audit Committee was established in order to assist the Supervisory Board in exerting control over effectiveness of the internal control, corporate governance, and internal audit performance control systems.

The functions of the Audit Committee include general management and supporting activity of the internal control system, the internal audit function of the Bank; selection and arrangement of cooperation with the external auditors; profound study of local regulations of the Bank, reports and other issues to be reviewed by the Supervisory Board in the direction of activity of the Audit Committee.

In 2019, the Audit Committee held 17 sessions, at least once a month as stipulated by the legislation, and reviewed 32 issues.

The Audit Committee performed the following activities on the regular basis:

- Monitoring and control over the internal audit procedure, organization of work of the officer responsible for internal control in the Bank, organization of control in the area of legal compliance, and anti-money laundering, combatting terrorist financing, and prevention of proliferation of mass destruction weapons;
- Review of reports drawn on the basis of audit revisions and activities undertaken by the Internal Audit Department, reports by the officer responsible for internal control in the Bank, status of control in the area of anti-money laundering, combatting terrorist financing, and prevention of proliferation of mass destruction weapons, and other issues related to organization of the internal control system, on a quarterly basis in accordance with the plan of action.

The Audit Committee regularly reported to the Supervisory Board on the status of the internal control system, results of audit revisions, measures taken by the Management Board of the Bank to eliminate drawbacks, and sufficiency of measures adopted to improve the internal control system, to raise effectiveness of the Bank's activity and to eliminate shortcomings revealed in the course of external revisions.

The Audit Committee reviewed the results of the external audit revision for confirmation of authenticity of the accounting/financial reports of the Bank, controlled implementation of recommendations proposed by the external auditor, and regularly informed the Supervisory Board.

The Audit Committee controlled development and approval by the Management Board of the Bank of the annual Activity Plan for development of the internal control system of the Bank.

The Audit Committee was in charge of:

- Profound study of the issues of the internal control system development, adequacy of controlling procedures in the processes and maturity of the controlling environment;
- Participation in review of results of the external independent assessment of the corporate governance efficiency of BPS-Sberbank, development of the Bank's position on the issues relating to the scope of authority of the Committee;
- Control over fulfilment of the Activity Plan of the Internal Audit Department for 2019 approved by the Supervisory Board;
- Results of audit revisions, revealing the most urgent issues in organization of the internal control;
- Results of activity of audit commissions in the subsidiary and dependent companies of the Bank, assessment of authenticity and completeness of information submitted to the Bank about the activity of the subsidiary and dependent companies of the Bank;

- Monitoring of fulfillment of the activity plans upon results of revisions carried out by the National Bank of the Republic of Belarus, Sberbank of Russia, external audit, and internal audit recommendations;
- Monitoring of preparation of financial and prudential reporting;
- Monitoring of the process of mandatory audit of the consolidated accounting/financial statements;
- Monitoring and analysis of the controlling environment for sufficiency of control procedures based on the results of audit revisions and activities of the Internal Control and Compliance Department.

Based on review of external and internal audit revisions, monitoring of internal control reports, analysis of the annual accounting/financial statements, the Audit Committee assessed efficiency of the internal control system of the Bank for the reporting year.

The Audit Committee approved selection of the audit company to carry out the independent audit revision of the financial reports, to be adopted by the Supervisory Board, and arranged for cooperation with the external auditor.

The Audit Committee performed self-assessment of its activity in 2019, resulting in determination of development areas aimed at improvement of effectiveness of the Audit Committee.

According to the performing results for 2019, the activity of the Audit Committee and its Chair were declared efficient by the Supervisory Board.

Throughout the year, the independent director – Chair of the Audit Committee regularly communicated with the Internal Audit Department, and the Internal Control and Compliance Department, to fulfil the tasks set for the internal audit and internal control arrangement in the Bank. The Chair of the Audit Committee participated in meetings of the Management Board of the Bank with consent of the Chair of the Management Board.

The Audit Committee determined top priority tasks for 2020 and directions for improvement of effectiveness of internal control and compliance, and activity of the Internal Audit Department.

Members of the Audit Committee as of January 1, 2020:

Liudmila P. POPOVA

Member of the Supervisory Board of the Bank, Independent Director (Chair of the Committee)

Pavel S. BARCHUGOV

Deputy Chair of the Supervisory Board of the Bank, Senior Managing Director – Director of International Subsidiaries and Retail Business Division, Sberbank of Russia

Grigoriy M. ANASHKIN

Member of the Supervisory Board of the Bank, Senior Managing Director for Foreign Banks, Finances, Sberbank of Russia

Mikhail G. PAPASKIRI

Member of the Supervisory Board of the Bank, Senior Managing Director – Director of International Impaired Assets Recovery Division, Sberbank of Russia

Vadim A. KOTOV

Member of the Supervisory Board of the Bank, Senior Managing Director – Director of IT Department, Sberbank International, Sberbank of Russia

Sergey S. KOVALIOV

Director of Internal Audit Department of the Bank

Sergey B. LOGVINENKO

Director of Internal Audit and Compliance Department of the Bank (Chief Internal Control Officer).

On April 14, 2020, the Supervisory Board elected the new Audit Committee:

Liudmila P. POPOVA

Member of the Supervisory Board of the Bank, Independent Director (Chair of the Committee)

Liliya M. ASTAPOVICH

Member of the Supervisory Board of the Bank

Pavel S. BARCHUGOV

Member of the Supervisory Board of the Bank, Senior Managing Director – Director of International Subsidiaries and Retail Business Division, Sberbank of Russia

Vadim A. KOTOV

Member of the Supervisory Board of the Bank, Senior Managing Director – Director of IT Department, Sberbank International, Sberbank of Russia

Vladislav G. KREYNIN

Member of the Supervisory Board of the Bank, Vice President, Director for Business Development, Directorate for Ecosystem Development (SberX), Sberbank of Russia

Sergey S. KOVALIOV

Director of Internal Audit Department of the Bank

Sergey B. LOGVINENKO

Director of Internal Audit and Compliance Department of the Bank (Chief Internal Control Officer).

Risk Committee

The Risk Committee was established in order to assist the Supervisory Board in implementation of the risk management strategy of the Bank and assessment of efficiency of the risk management system on the consolidated basis in the Bank and the bank holding.

The main objective of the Committee is provision for high quality preparation of resolutions of the Supervisory Board of the Bank on the risk management issues by detailed study of certain issues and presentation of the necessary recommendations.

In 2019, the committee seated 16 times, not less frequent than once a month and not less than 1 meeting per quarter in the form of joint presence, and reviewed 31 issues.

During 2019, the Risk Committee performed the following functions:

- Monitoring of fulfilment of the strategy and resolutions of the Supervisory Board;
- Assessment of efficiency of the risk management system on the consolidated basis in the Bank and the bank holding;
- Provision of recommendations to the Supervisory Board concerning risk management issues, suggestions for improvement of the risk management system, reports on the status and results of functioning of the risk management system in the Bank and the bank holding;
- Ensuring timely provision of information for the Supervisory Board to make managerial decisions;
- Preparation of the annual report on the activity of the Risk Committee;
- Review of drafts of certain local regulations of the Bank within the scope of authority, to be submitted to the Supervisory Board of the Bank for adoption.

Along with general control of the status of the risk management system and the level of risks inherent to the Bank and the bank holding as of the reporting dates, special attention was paid to control of quality of the Bank's loan portfolio, currency concentration and provisioning, liquidity control and liquidity risk management, operating and reputational risks, and development of risk culture with the Bank.

When necessary, information from functional departments of the Bank was reviewed concerning certain assumed risks, their level and forecast.

Chair of the Risk Committee continuously communicated with the Risk Management area of the Bank, regularly participated in meetings of the Management Board held to resolve, inter alia, risk and capital management issues, results of compliance with strategies and business plans of the Bank, subsidiaries and dependencies, for the purpose of control of effectiveness of the risk and capital management system of the Bank and the bank holding on the consolidated basis.

Besides, communication was maintained with the National Bank of the Republic of Belarus, Belarusian Banking Association, and the Club of Independent Directors under the latter's aegis.

To monitor effectiveness of the Risk Committee, its self-assessment was held, taken into account in determination of further areas of improvement. The Supervisory Board considered the activity of the committee and its Chair in 2019 as effective.

In the reporting year, the new version of the Regulation on the Risk Committee was adopted, clarifying rights and obligations of the committee and its members, and expanding the area of competence of the committee in terms of risk management system monitoring on the consolidated basis.

Quarterly reports of the Bank's CRO, the annual report on the status and performance results of the risk management system (including assessment of its effectiveness), and the annual report on activity of the Risk Committee (including self-assessment results), were submitted to the Supervisory Board that pays much attention to functioning of the risk and capital management system of the Bank and the bank holding.

Members of the Risk Committee as of January 1, 2020

Svetlana I. MALYKHINA

Member of the Supervisory Board, Independent Director (Chair of the Risk Committee)

Aleksey A. ASHURKOV

Member of the Supervisory Board of the Bank, Senior Managing Director, Risks, Sberbank of Russia

Pavel S. BARCHUGOV

Deputy Chair of the Supervisory Board of the Bank, Senior Managing Director – Director of Corporate Solutions and Efficiency Division, Sberbank of Russia

Andrey A. SAVCHENKO

Deputy Chair of the Management Board of the Bank (CRO).

Aleksandr V. TITOV

Member of the Supervisory Board of the Bank, Senior Managing Director, Director of International Corporate Business Development Division, Sberbank of Russia

Since Aleksandr A. Titov quit the Supervisory Board of the Bank in January 2020, on January 28, 2020 the Risk Committee was re-elected. Aleksandr A. Titov was replaced by Mikhail G. Papaskiri.

On April 14, 2020, the Supervisory Board elected the new Risk Committee:

Svetlana I. MALYKHINA

Member of the Supervisory Board, Independent Director (Chair of the Risk Committee)

Aleksey A. ASHURKOV

Member of the Supervisory Board of the Bank, Senior Managing Director, Risks, Sberbank of Russia

Pavel S. BARCHUGOV

Member of the Supervisory Board of the Bank, Senior Managing Director – Director of Corporate Solutions and Efficiency Division, Sberbank of Russia

Timur O. KOZINTSEV

Deputy Chair of the Supervisory Board of the Bank, Senior Vice President, Head of Sberbank International, Sberbank of Russia

Andrey A. SAVCHENKO

Deputy Chair of the Management Board of the Bank (CRO).

Remunerations Committee

The Remunerations Committee of the Bank was established for the Supervisory Board to take the necessary resolutions in the sphere of arrangement of effective system of remunerations and compensations in the Bank.

The main objective of the committee is preliminary comprehensive review of issues attributed to the scope of authority of the Supervisory Board in the area of remunerations and compensations, and preparation of recommendations for the Supervisory Board to make the respective resolutions.

In 2019, the Remuneration Committee seated 15 times and reviewed 30 issues.

The Remunerations Committee carried out:

- Methodological support of the system of remunerations and compensations including monitoring of fulfilment of decisions taken in relation to the remunerations and compensations system;
- Control over fulfilment of decisions on payment of remunerations to the Bank's employees taking risks;
- Assessment of the system of remunerations and compensations in the Bank and the bank holding;
- Approval of the terms of payment, contract termination and payment of quarterly bonuses to the members of the Management Board of the Bank.

The Chair of the Remunerations Committee regularly checked compliance of the remunerations and compensations system with the current requirements of its functioning, communicated with the National Bank of the Republic of Belarus, the Belarusian Banking Association, and the Club of Independent Directors.

For the purpose of monitoring of effectiveness of the Remunerations Committee, self-assessment was carried out, and its results were taken into account in determination of areas for improvement. The Supervisory Board considered the activity of the committee and its Chair in 2019 as satisfactory.

The management report on the remunerations and compensations system, the annual report on the status and results of functioning of the remunerations and compensations system (including assessment of its effectiveness), and the annual report on the activity of the Remunerations Committee (including the results of self-assessment of its effectiveness) were submitted to the Supervisory Board.

Members of the Remunerations Committee as of January 1, 2020:

Natalia D. PRASOLOVA

Member of the Supervisory Board, Independent Director (Chair of the Remunerations Committee)

Natalia N. AVDEYENKO

Deputy Chair of the Supervisory Board of the Bank, Senior Managing Director, Sberbank International, Sberbank of Russia

Grigoriy M. ANASHKIN

Member of the Supervisory Board of the Bank, Senior Managing Director for Foreign Banks, Finances, Sberbank of Russia

On April 14, 2020 the Supervisory Board elected the new Remunerations Committee:

Galina P. KOUKHORENKO

Member of the Supervisory Board, Independent Director (Chair of the Remunerations Committee)

Timur O. KOZINTSEV

Senior Vice President, Head of Sberbank International, Sberbank of Russia

Natalia N. AVDEYENKO

Member of the Supervisory Board of the Bank, Senior Managing Director, Sberbank International, Sberbank of Russia

Grigoriy M. ANASHKIN

Member of the Supervisory Board of the Bank, Senior Managing Director for Foreign Banks, Finances, Sberbank of Russia

Corporate Secretary

The corporate governance structure includes the Corporate Secretary who is the officer of the Bank supporting management of the Bank to the benefit of its shareholders, compliance of the officers and the management bodies with procedural requirements securing legal rights and interests of the shareholders.

Within the scope of their authority, the Corporate Secretary interacts with the Supervisory Board, the Management Board, and the shareholders of the Bank.

Management Board

The Management Board is the collective executive body carrying out daily management of the Bank's activity. Its scope of authority includes all issues not attributed to the exclusive scope of authority of the General Meeting of Shareholders and the Supervisory Board.

In accordance with the delegated authority, the Management Board:

- Organizes the risk management system in the Bank and the bank holding of which the Bank is the managing company, and the internal control system; provides for achievement the tasks and objectives set by the Supervisory Board in this area;
- Organizes introduction of progressive banking technologies, provides for creation of modern banking infrastructure;
- Approves the organizational structure of the Head Office and structural divisions, regional network offices and the representative office of the Bank;
- Resolves on opening and closing of structural divisions of the Bank;
- Organizes the activity of the Internal Audit Department of the Bank;
- For the purpose of arrangement of the proper internal control system:
 - Provides for fulfilment of resolutions of the Supervisory Board;
 - Implements the Bank's strategy and policy including that relating to internal control;
 - Provides for effective functioning of the internal control system;
 - Provides for internal monitoring of efficiency of the internal control system and control over elimination of detected violations and drawbacks in arrangement of the internal control system of the Bank;
 - Reviews the management reports containing results and materials from regular assessment of efficiency of the internal control system, its directions and types;
 - Performs other functions as stipulated by the Articles of Association;

- Provides for implementation of HR policy of the Bank resolving, inter alia, issues on labour remuneration to the Bank's employees, their incentives and social benefits;
- Resolves on other daily issues stipulated by the law, the Articles of Association, and local regulations of the Bank.

Certain authority of the Management Board may be delegated to Chair of the Management Board, committees, commissions, and/or officers of the Bank unless prohibited by the law and the Articles of Association.

Authority is distributed among Chair of the Management Board, Deputies Chair of the Management Board, and other members of the Management Board based on orders of Chair of the Management Board.

Chair of the Management Board presides it, and is the Bank's CEO.

The Bank has the Assets and Liabilities Management Committee which is a permanent collective body implementing the Bank's policy in effective management of assets and liabilities, liquidity and market risks.

In order to improve and implement the lending policy, the Bank has credit committees with their functions and duties including, inter alia, decision making powers, established by the Management Board.

In order to improve work efficiency and optimization of managerial decision-making process, other collective bodies (committees) may be established.

The Bank has appointed officers responsible for risk management and internal control who are subordinate directly to Chair of the Management Board and report to the Supervisory Board.

There function other divisions for management of certain risk types in accordance with the nature and scope of banking operations and other activities, and the special structural division for prevention of money laundering, terrorist financing, and financing of proliferation of mass destruction weapons.

Members of the Management Board as of January 1, 2020

Igor A. MERKULOV

Chair of the Management Board

Liliya M. ASTAPOVICH

Deputy Chair of the Management Board

Oleg V. BORODKO

Deputy Chair of the Management Board for Retail Business

Dmitriy N. VOYTUSHKO

Deputy Chair of the Management Board for Corporate Business

Andrey A. VUSHEV

Executive Director, Director of Finance

Elena V. DEMIDENKO

Executive Director

Andrey A. SAVCHENKO

Deputy Chair of the Management Board (CRO)

Changes in the Management Board

In accordance with Resolution of the Supervisory Board of the Bank:

- **Dmitriy N. Voytushko** was appointed Deputy Chair of the Management Board for Corporate Business, member of the Management Board (01.07.2019);
- the following members of the Management Board were appointed (since 02.05.2019):

Anatoliy A. Vecherka – Executive Director;

Andrey V. Vushev – Executive Director;

Elena V. Demidenko – Executive Director.

Due to termination of authority, the following members of the Management Board were dismissed:

Sergey V. Susloparov – Deputy Chair of the Management Board for Corporate Business (last day of authority – 31.05.2019);

Anatoliy A. Vecherka – Executive Director (last day of authority – 31.12.2019).

List of the Bank's committees

Assets and Liabilities Management Committee	Provides for implementation of the Strategy of Development of the Bank in the area of assets and liabilities, liquidity and market risks, and capital adequacy management
Large Credit Committee	Provides for implementation of the Strategy of Development of the Bank in the area of lending to largest, large, and medium corporate customers, supports improvement and implementation of the lending policy of the Bank
Small Credit Committee	Provides for implementation of the Strategy of Development of the Bank in the area of lending to micro and small corporate customers and individuals
Impaired Assets Committee	Provides for effective overdue debt recovery
Procurement Committee	Provides for organization and following the procedures of procurement, coordination of purchasing goods (work, services) by the Bank

Audit Commission

In accordance with the Articles of Association of BPS-Sberbank, for the purpose of internal control over financial and economic activity of the Bank, the annual General Meeting of Shareholders elects the Audit Commission consisting of 3 members. The Audit Commission remains in office until the next annual General Meeting of Shareholders.

The Audit Commission evaluates authenticity of accounting and reporting data about financial and economic activity and its correct disclosure in the accounting (financial) statements and other documents.

Members of the Audit Commission elected by General Meeting of Shareholders of the Bank on March 27, 2019:

Olga E. SHIRYAEVA

Leading Auditor, Internal Audit Division, Sberbank of Russia

Ilya I. GUSEV

Executive Director, Division for Operations with International Subsidiaries and Retail Business, Sberbank International, Sberbank of Russia

Irina V. DOVNAR

Deputy Director of Finance Department, BPS-Sberbank

On March 27, 2020 the annual General Meeting of Shareholders re-elected the Audit Commission in the then current composition.

Corporate governance development

In 2019, in order to improve corporate governance aimed at achievement of targets and objectives of the Bank's strategy of development including ensuring its financial reliability and continuous operation as a profit-making company, measures were taken to carry out external independent assessment of efficiency of the Bank's corporate governance including efficiency of activity of the Supervisory Board.

Such assessment was performed by the audit group FBK-Bel LLC, a member of the international law firm network PKF International Limited (UK, London), to assess compliance of the Bank's corporate governance with the standards and principles of corporate governance for banks set by Basel Committee for Banking Supervision.

The efficiency of the Bank's corporate governance including the activity of the Supervisory Board was assessed as properly efficient.

In accordance with the recommendations of FBK-Bel LLC, the Activity Plan for improvement of corporate governance was developed and approved by the Supervisory Board.

In 2020, the Bank will continue to develop its corporate governance system as follows:

- Improvement of business planning, organization of business plan implementation and control;
- Optimal distribution of authorities among management bodies and officers of the Bank, avoiding conflict of interest and providing for balance of interest of the Bank and its shareholders, members of the management bodies and other involved persons;
- Compliance with the law, the Articles of Association and local regulations of the Bank, as well as principles of professional ethics;
- Improvement of the risk management system, the internal control system, and the system of remunerations and compensations.

Corporate social responsibility of the Bank

Charity and sponsorship are important aspects of the Bank's participation in the social life. BPS-Sberbank supports various charity projects both at the national and regional levels.

The top priority directions of charity and sponsorship activity of the Bank were:

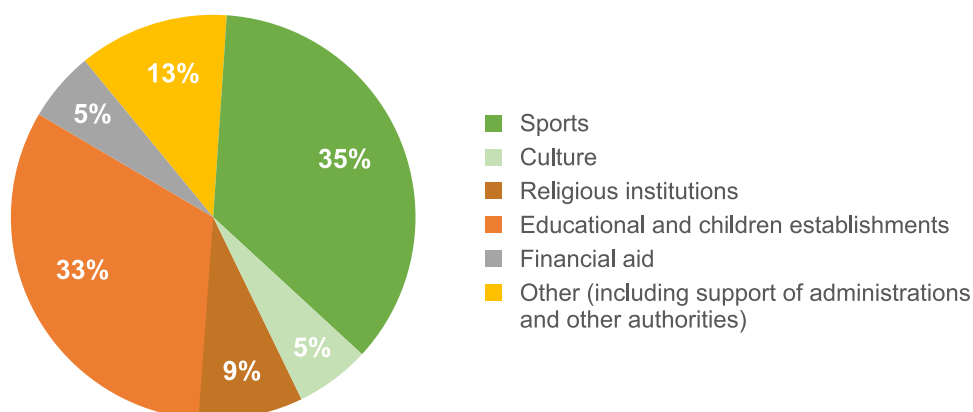
- development of educational and cultural establishments;
- promotion of sports and healthy lifestyle.

In 2019, the project 'Teacher for Belarus' was launched, aiming to provide every Belarusian child with access to high quality education, in order to explore their individual abilities. As the project initiator, BPS-Sberbank was named the leader in social responsibility in Belarus according to the results of public review of the best cases of international and Belarusian companies in the social responsibility sphere, arranged by the local fund 'Dobra'.

The Bank pays special attention to the future generation of the country by supporting children and youth in the area of physical education and sports. Healthy nation underpins stable development of the country, i.e. growth of its prosperity, and forms a responsible generation with future economic activity potential.

To promote healthy lifestyle, the ice hockey development project for children is being implemented in cooperation with Belarus Ice Hockey Association. The funds were intended for enrichment of the inventory, mass sportive and educational activities, sports events and participation in them, including training of athletes and their teams, maintenance of sports facilities.

Structure of charity finance



Once more the Bank organized the Green Marathon – the event that promotes values of responsible jogging.

The Green Marathon 2019 was the fourth event of this kind in Belarus and was timed to the Children's Day. During the event, anyone could make a fair contribution to help children.

The raised funds allow opening a sensor room in Brest that costs several thousand Euros. The room will serve for corrective and educational rehabilitation of disabled children. Brest Regional Centre for Corrective and Development Education and Rehabilitation was the recipient of the aid.

During the Green Marathon, an 'alley of good deeds' was planted near Masherov Avenue (in Brest).

The Bank regularly supports Orphanage No. 7 in Minsk where children with special developmental needs study. The Bank's employees actively participated in gathering various goods for the orphanage interns.

Charity and sponsorship will remain one of the main directions of the Bank's participation in the social life and a part of its corporate culture.

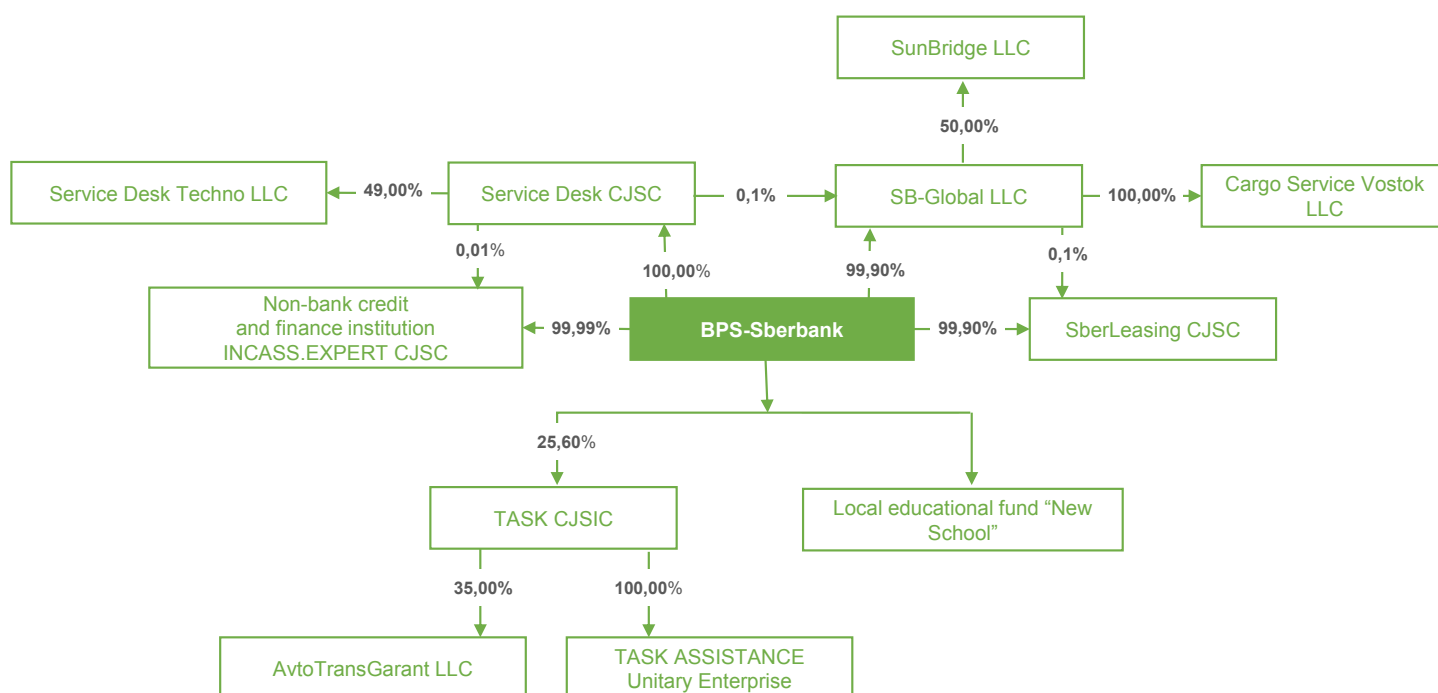
Key directions of charity aid provided by BPS-Sberbank in 2020 will remain:

- education;
- culture;
- sports;
- support of establishments for children, development of children's creativity;
- preservation of environment and objects of cultural heritage;
- scientific research and developments.

Bank holding participants

As of 01.01.2020, the bank holding (hereinafter – the Bank holding) managed by BPS-Sberbank comprises:

- Subsidiaries – Service Desk CJSC (100%), SB-Global LLC (99.9%), SberLeasing CJSC (99.9%), Non-Bank Credit and Finance Organization INCASS.EXPERT CJSC (99.99%);
- A dependent company – TASK CJSIC (25.6%);
- Entities with indirect participation of the Bank through third parties – Service Desk Techno LLC (49%), SunBridge LLC (50%), Cargo Service Vostok LLC (100%), AvtoTransGarant LLC (35%), TASK ASSISTANCE UE (100%);
- Non-affiliated non-commercial entity – Local educational fund ‘New School’.



As of 01.01.2020, the amount of the Bank's investments into authorized capitals of the Bank holding participants made BYN 8.1 million, or 81.8% of the long-term financial investments portfolio.

In the reporting year, the Bank holding participants functioned according to the types of activities formulated in their articles of association and the activity directions set in their business plans.

Bank holding participants

Non-Bank Credit and Finance Organization INCASS.EXPERT CJSC provides cash management and collection services to financial institutions and corporate clients.

SberLeasing CJSC operates in the area of financial leasing.

Service Desk CJSC specializes in software development, IT system implementation in the banking and financial sector. The company is a resident of the High-Tech Park.

Service Desk CJSC is a founder of Service Desk Techno LLC (49%) that focuses on repair of computer equipment and peripherals.

SB-Global LLC provides advisory services on commercial issues and other consulting services in the management sphere. SB-Global LLC is a shareholder of SunBridge LLC (50%) and Cargo Service Vostok LLC (100%).

The main activity of SunBridge LLC is general construction of buildings. Cargo Service Vostok LLC leases cars, equipment and fixed assets.

TASK CJSIC provides more than 30 types of mandatory and voluntary insurance plans both for retail and corporate clients. Main priorities are car and estate insurance. TASK CJSIC is a founder of AvtoTransGarant LLC (35%) and TASK ASSISTANCE UE (100%).

AvtoTransGarant LLC specializes in evaluation of insurance risks and losses. TASK ASSISTANCE UE provides medical assistance services.

In the reporting year, the non-commercial entity Local educational fund 'New School' (hereinafter – the Fund) was established. The Fund was registered by resolution of Minsk City Executive Committee dated 24.06.2019.

Main objectives of the Fund are:

- Promoting development and improvement of secondary education in the Republic of Belarus, including regions;
- Providing access to modern technologies to students of secondary educational establishments in the regions of Belarus, especially in rural areas;
- Comprehensive support of teachers, helping formation of highly skilled professional teachers' community.

Based on results in 2019, the Bank holding participants duly held general meetings of shareholders (participants), adopted the annual accounting (financial) statements with regard to observations made by the external auditor (when required by the law) and the audit commission.

In accordance with the law, the managing and controlling bodies were elected, and resolutions were made on all agenda issues.

Contacts and bank details

Full name

BPS-Sberbank

Abbreviated name

BPS-Sberbank

Legal address:

6, Mulyavin Boulevard, Minsk 220005

Phones:

Fixed and mobile hotline:

148

5 148 148

International calls:

+375 (29) 5 148 148

Fax:

(+375 17) 210 03 42

Telex:

252410AVAL BY

Web-site:

www.bps-sberbank.by

E-mail:

inbox@bps-sberbank.by

BIC:

BPSBBY2X

S.W.I.F.T.:

BPSBBY2X

OKPO:

00040583

TIN:

100219673

OKONH:

96120