



**Annual Report
of BPS-Sberbank**

2018

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Dear Shareholders, Clients and Partners!

In 2018, BPS-Sberbank (hereinafter – the Bank) maintained its leading market position as a systemically important bank both in corporate and retail sectors, adhering to the key principles of service quality and client focus.

The annual financial result proves reliability of our diversified banking model oriented towards client support, and shows our ability to achieve strategic and financial objectives.

We put an emphasis on working with high quality borrowers, increasing the share of interest and commission income, developing remote service channels and improving operating activity in all business areas. Net profit of BYN 131 million is the best evidence of the Bank's performance. This result became possible also due to effective cost and risk management with minimal losses in the loan portfolio, which grew by 31% in relation to 2017, and exceeded BYN 3.1 billion at the end of 2018.

We continued to implement measures to increase profitability in corporate business, which, in addition to stable positions in corporate business, secured our 5th rank in the Belarusian banking system by the amount of corporate lending and funding. Thus, we maintained the role of a leading and one of the largest financial centres for corporate business in our country. This positioning resulted in growth of the corporate client portfolio by a third, up to BYN 2.5 billion.

Being a part of Sberbank Group, we have the potential to become the leader in servicing foreign trade turnover between Belarus and Russia, offering the best services in international settlements in the local market.

We set an ambitious goal for 2018 to increase the share of small business in the Bank's income structure. As a result of this strategic effort, the number of small business borrowers increased by 35%. This dynamics was attributed to certain synergizing improvements aimed both at client business development and the Bank's financial result. Thus, we offered a new format of the Bank's office for private entrepreneurs in Gomel, uniting bank and non-bank infrastructure, with the possibility to solve finance, accounting, legal and insurance issues at a time, and the client base in this segment increased by 3.8 thousand new clients. We also removed red tape from the business launch process: a future entrepreneur needs just to use the service 'Open Your Business' to get a full set of documents for registration of the legal entity.

In the reporting year, we strengthened our position in retail business. Today the Bank serves more than 1.3 million retail clients and occupies the 2nd place among Belarusian banks by the retail loan portfolio amount – BYN 656 million, which is by 43% more than in 2017. Mortgage lending under the programme ‘New Home with Sberbank’ was the growth driver, attracting the largest developers in Belarus: growth of the mortgage loan portfolio made 60%. In the consumer lending segment, the Bank increased its business volume due to the interest of the population to the instalment payment card KartaFUN with the unique set of benefits: for the first time Belarusians got an opportunity to make a purchase with 60-day instalment at any merchant in the world.

The banking business is going along with active digital transformation. Creation of financial products and services with the use of the leading-edge information technologies is an important component of the Bank’s strategy. Now our cards support not only Samsung Pay, but also SberPay contactless smartphone payment service, which is the in-house development of the Bank on the basis of the unique technology in the Belarusian market, yielding to no other reputable global solution by safety, and surpassing some of them by convenience. Our investments in the online environment allowed deployment of the new infrastructure of mobile and Internet banking ‘Sberbank Online’ to be used by individuals. These services were recognized as winners of ‘Consumer Experience’ and ‘Bank of the Year’ awards in ‘Innovative Bank: Technologies’ nomination. They were chosen by more than 300 thousand our clients to make the majority of financial operations without the need to visit the Bank’s office. And this is not just the best client experience: the system became less costly in terms of maintenance and operation, which made a positive contribution into profitability.

Marking our achievements, we perceive new reality with accelerated technology evolvement and the necessity for our IT architectures to respond to such developments. The year 2019 will become the time for large-scale revision of the culture of communication between engineering and business. We shall rebuild our processes so that to achieve maximum synchronization with the market demand, by means of full-fledged integration of Agile principles – the management philosophy of the XXI century, above all. This will secure our leadership in toughly competitive environment due to client satisfaction, staff productivity and quick implementation of innovative products and services, taking full account of the existing and future demands of our clients in any business segment.

We value the achieved results and set ambitious goals, to convert client loyalty into immaculate service quality. Please, accept my sincerest gratitude for your support and fruitful cooperation!

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

General Information

Full name:

BPS-Sberbank Open Joint-Stock Company

Brief name:

BPS-Sberbank

Majority shareholder:

Sberbank of Russia

Head Office address:

6, Mulyavin Boulevard, Minsk 220005, Republic of Belarus

Licences

Banking licence No. 4 dated 28.11.2014 issued by the National Bank of the Republic of Belarus.

Special permit (licence) No. 02200/5200-1246-1086 for professional and stock exchange operations with securities issued by the Ministry of Finance of the Republic of Belarus, registered in the register of licences of the Ministry of Finance of the Republic of Belarus under No. 5200-1246-1086, valid until 30.01.2022.

International credit ratings

Credit ratings of BPS-Sberbank assigned by the international agency Fitch Ratings Ltd. are at the country ceiling level.

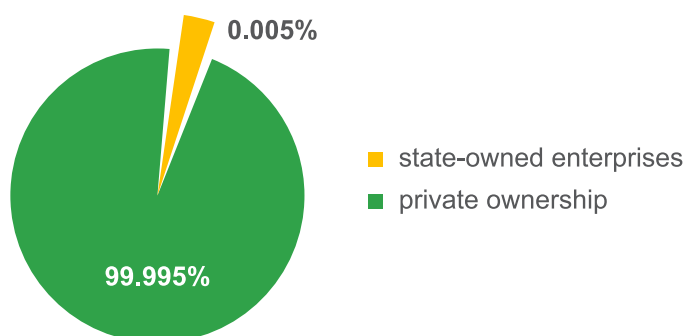
Rating	Current level
<i>Long-term issuer default rating (IDR)</i>	<i>B</i>
Short-term IDR	B
Stability	b–
Support	4
<i>Long-term IDR outlook</i>	<i>Stable</i>

Share capital

The Bank's share capital as of 01.01.2019 made BYN 73,58 million, divided into 1 470 828 888 common (ordinary) shares and 870 805 preference shares.

The Bank's shareholders comprise 13 970 legal entities and individuals as of 01.01.2019.

Share capital structure



The Bank's ranking in the financial market of the Republic of Belarus (as of 01.01.2019)

Indicator	Market share	Rank
Assets	6.1%	4
Equity	6.7%	4
Loans to economy	5.8%	4
<i>Corporate</i>	5.9%	5
<i>Retail</i>	9.4%	2
Customer funding	6.5%	6
<i>Corporate</i>	8.2%	6
<i>Retail</i>	5.4%	5

Macroeconomic Environment and Banking System Development in the Republic of Belarus

The economy of the Republic of Belarus showed positive dynamics throughout 2018. Favourable external conditions (increase of physical export volume by 4.8% against the drop of export prices by 10.1%), relatively balanced domestic economic policy (budget surplus of 4.1% to GDP) secured real GDP growth by 3%.

Main macroeconomic indicators

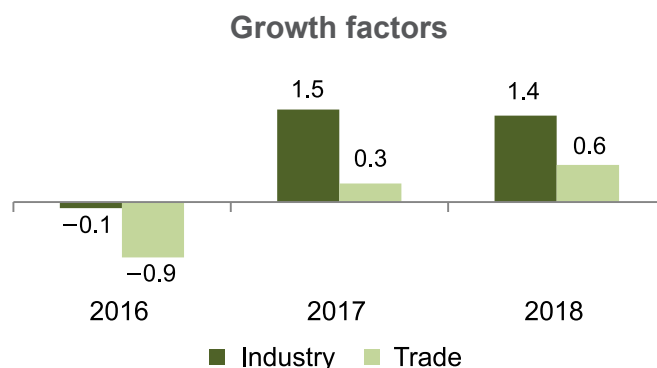
	2017	2018
Real GDP, growth %	+2.5	+3.0
Industrial production, growth %	+6.1	+5.7
Investments into core capital, growth %	+5.1	+5.1
Consumer price index, growth % (December-to-December)	+4.6	+5.6
Real disposable income of the population, growth %	+2.8	+8.0

Industrial production increased by 5.7% and was the main contributor into the GDP growth. The most positive dynamics was observed in transport and equipment engineering (+14.1%), wood processing (+13.8%), machinery and equipment engineering (+13,3%).

The balance of foreign trade with goods and services was positive – USD 694.4 million against USD 82.9 million in 2017. Totally, the foreign trade turnover for 2018 increased by 14.1%.

Real disposable income of the population grew by 8% (in 2017: by 2.4%).

Positive dynamics of the productive sector of the economy and the population's income supported growth of trade: during the year, the wholesale trade turnover increased by 3.1%, the retail one grew by 8.4%.

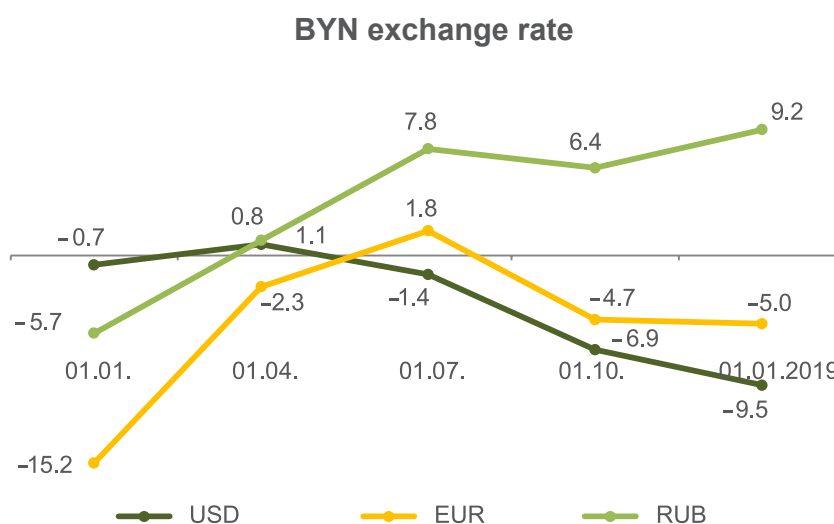


In 2018, the inflation rate was relatively low: the consumer price index growth made 5.6%.

The situation in the domestic FX market remained stable: the population sold net USD 1.1 billion of foreign currency, while the net purchase of foreign currency by companies made USD 0.7 billion.

Growth of export, net supply of foreign currency in the domestic FX market, Eurobonds placement for USD 0.6 billion against payments under external and internal foreign currency obligations of the National Bank and the Ministry of Finance of the Republic of Belarus (ca. USD 5.7 billion) avoided material decrease of gold and FX reserves: in 2018, decrease made USD 157.7 million (2.2%), down to USD 7 157.6 million.

The exchange rate of the Belarusian rouble remained predictable and relatively stable. In 2018, BYN lost value by 9.5% and 5% to USD and EUR, respectively, and gained value to RUB by 9.2%.



Against relatively stable macroeconomic situation, the financial condition of companies recovered but at a slower pace. Though the share of loss-making entities did not exceed the previous year number (15.2%), net loss per loss-making entity almost doubled, and the net profit of companies decreased by 38.9%.

Preservation of a dubious situation in the productive sector of the economy was one of the underlying factors of the banks' dynamics. Complicated financial position of enterprises and low investment activity restrained progress of the banking sector indicators.

The banks' assets increased by 10.5% up to BYN 73.7 billion. Equity of the banking sector at the beginning of 2019 made BYN 10.7 billion, which means annual growth by 8.3%.

In the reporting year, the banks earned by 23.6% more profit than in 2017.

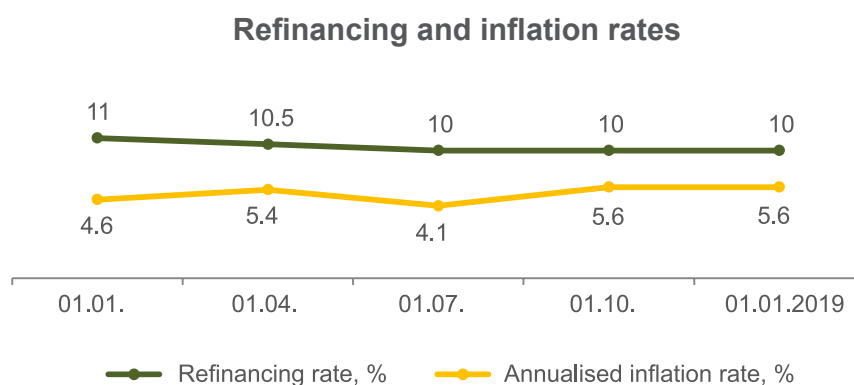
Return on assets of the banking system made 1.6%, return on equity was 10.7%.

Loans to the economy grew by 13.7% up to BYN 44.1 billion, of which domestic currency loans increased by 19.1% up to BYN 22.7 billion. Retail loans were the main growth contributor: the exposure increased by 28.4% and made BYN 11.6 billion.

Deposits placed with banks increased by 7.7%, of which retail deposits grew by 10.3%, corporate deposits grew by 4.2%.

The NPL share in the assets subject to credit risk made 5% as of January 1, 2019.

With regard to relatively high uncertainty of the external environment, the regulating authority decreased refinancing rate only slightly, from 11% to 10%.



Correspondingly, interest rates in the deposit and loan market gradually changed. Average rates for new loans in the domestic currency (without interbank loans) decreased from 11.6% in January to 10.8% in December, and for new term deposit grew from 6.2% to 7.5%.

IFRS Performance Results of BPS-Sberbank Group

BPS-Sberbank Group (hereinafter – the Bank Group) achieved the following financial results in 2018:

- Net profit doubled and made BYN 130.9 million;
- Operating income before provisioning for impairment of interest-bearing assets grew by 6.7%;
- Aggregate income doubled up to BYN 130 million;
- Net fee and commission income was earned in the amount of BYN 124.6 million;
- Operating costs increased in comparison with the previous year by 6.4%;
- Interest rate margin made 4.6%;
- Aggregate assets grew by 11.9%;
- Total capital adequacy ratio made 20.3%;
- Equity of the Bank Group increased in comparison with the previous year by 12.1% and made BYN 676.7 million.

Capital increase by 6.2% up to BYN 803.7 million created a reliable safety cushion (CAR – 20.3%).

Main performance indicators of the Bank Group

	2018	2017	Change in 2018 to 2017, %	2016	2015	2014*
Financial indicators, BYN million						
Operating income before provisioning	412.9	386.9	+6.7	435.3	502.0	319.9
Expense on expected loss from loans (<i>from 2018</i>) / Provisioning for loan impairment	41.4	103.1	-59.8	196.9	276.5	42.8
Operating income	369.2	282.6	+30.6	239.4	225.1	277.1
Operating cost	222.8	209.4	+6.4	216.5	216.0	206.6
Profit before tax	146.4	73.2	+100.0	26.2	12.2	28.7
Net profit	130.9	65.0	+101.4	19.9	19.0	6.8

	2018	2017	Change in 2018 to 2017, %	2016	2015	2014*
Balance sheet indicators, BYN million						
Corporate loans (<i>net</i>)	2 035.1	1 556.8	+30.7	1 785.5	2 614.5	2 373.3
Retail loans (<i>net</i>)	643.4	445.1	+44.6	180.1	166.6	181.4
Expense on expected loss from loans (<i>from 2018</i>) / Provisioning for loan impairment	463.0	398.7	+16.1	430.8	388.6	132.3
Loans to customers (<i>gross</i>)	3 141.5	2 400.5	+30.9	2 396.4	3 169.8	2 781.1
Total assets	4 282.0	3 828.3	+11.9	3 641.8	4 709.4	3 990.7
Corporate funding	1 429.4	1 252.0	+14.2	960.7	1 023.2	990.5
Retail funding	1 279.1	1 253.2	+2.1	1 488.5	1 822.3	1 231.0
Total liabilities	3 605.3	3 224.5	+11.8	3 103.8	4 256.6	3 557.8
Total equity	676.7	603.7	+12.1	537.9	452.8	432.9
Capital for CAR calculation as per Basel Accord	803.7	756.9	+6.2	670.9	554.4	504.9
Efficiency indicators, %						
Return on equity (<i>ROE</i>)	20.5	11.4	+9.1 п.п.	4.0	4.3	1.6
Return on average annual assets (<i>ROA</i>)	3.2	1.7	+1.5 п.п.	0.5	0.4	0.2
Spread (<i>profitability of assets less cost of borrowings</i>)	4.2	5.9	-1.7 п.п.	6.8	8.5	8.5
Net interest margin (<i>net interest income to average annual income- generating assets</i>)	4.6	6.2	-1.6 п.п.	7.0	7.8	7.0
Operating cost-to-income ratio before provisioning (<i>CIR</i>)	54.0	54.1	-0.1 п.п.	49.7	43.0	64.6
<i>Net customer loans to deposits ratio (LDR)</i>	98.9	79.9	+19.0 п.п.	80.3	97.7	115.0
Capital adequacy ratios, %						
Core capital adequacy ratio (<i>Tier 1</i>)	16.0	17.2	-1.2 п.п.	15.0	11.2	12.1
Total capital adequacy ratio (<i>Tier 1 and Tier 2</i>)	20.3	22.9	-2.6 п.п.	20.0	14.6	15.2
Equity to assets ratio	15.8	15.8	+0.0 п.п.	14.8	9.6	10.9

	2018	2017	Change in 2018 to 2017, %	2016	2015	2014*
Assets quality indicators						
NPL share in the loan portfolio, %	14.5	15.6	-1.1 п.п.	18.0	10.0	2.4
Provision for expected loan loss (from 2018) / Loan impairment reserves to NPL, x	1.0	1.1	-0.1 п.п.	1.0	1.2	2.0
Provision for expected loan loss (from 2018) / Loan impairment reserves to the loan portfolio (gross), %	14.7	16.6	-1.9 п.п.	18.0	12.3	4.9

* In drawing the IFRS consolidated financial statements of the Group for 2014, IAS 29 Financial Reporting in Hyperinflationary Economies was applied. Financial performance indicators of the Group for 2014 were restated with regard to the requirements of the standard and shown in the purchasing power prices at the end of 2014.

Consolidated profit and loss statement review

Net interest income

Net interest income before provisioning for loan impairment made BYN 172.5 million in the reporting year, influenced by decrease of interest rates in the financial market of the country in 2018. Decrease of interest rates stimulated demand for loan products, which allowed expanding corporate and retail loan portfolio.

Factor analysis of income/expense, BYN thousand

	Volume factor	Interest rate factor
Assets		
Loans to legal entities	13 700	(49 521)
Loans to individuals	33 828	(10 851)
Loans to other banks	3 355	(7 174)
Securities	(9 212)	(5 917)
Change of interest income	41 671	(73 463)

	Volume factor	Interest rate factor
Liabilities		
Due to legal entities	5 946	4 174
Due to individuals	(3 215)	(7 682)
Due to other banks	(400)	(1 123)
Debt securities issued	6 515	4 001
Change of interest expense	8 846	(630)
Change of net interest income	32 825	(72 833)

Interest income for 2018 reduced by 10.2% and made BYN 278.6 million. The interest income structure consists of corporate loans by 60%, retail loans by 25%, and securities by 14%.

Interest expense for 2018 increased by 8.4% and made BYN 106.1 million. Expense on customer funding, which is the main funding source, occupies the largest share of interest expense (65.4%).

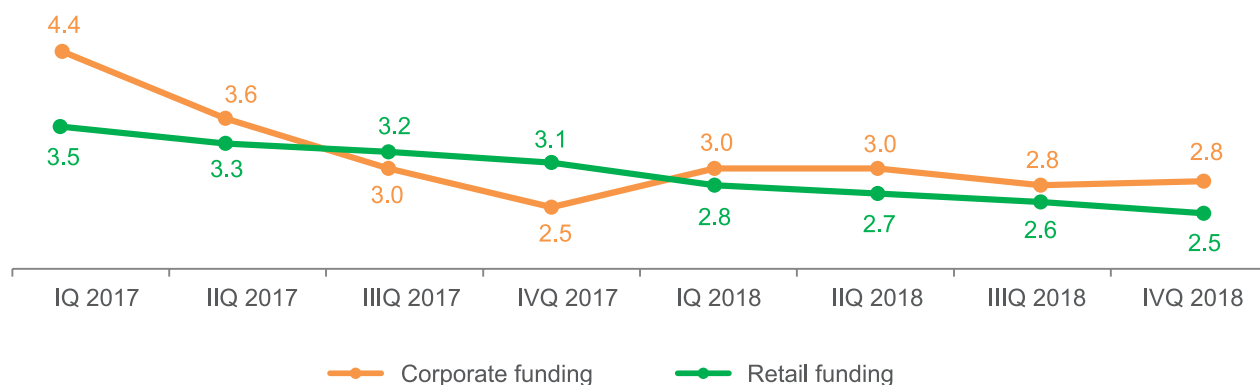
The average annual volume of assets increased by 9.6%, while their yield decreased by 1.6 p.p., down to 7.4%.

In 2018, net interest spread and net interest margin reduced by 1.7 p.p. and 1.6 p.p., respectively.

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

BYN thousand	2018			2017		
	Average annual value	Interest income/ expense, %	Average profitability/ cost, %	Average annual value	Interest income/ expense, %	Average profitability/ cost, %
Assets						
Loans to legal entities	2 214 496	166 746	7.5	2 074 209	202 567	9.8
Loans to individuals	556 540	70 195	12.6	324 244	47 218	14.6
Loans to other banks	305 730	2 983	1.0	204 750	6 802	3.3
Securities	693 062	38 674	5.6	836 242	53 803	6.4
Total interest income generating assets	3 769 828	278 598	7.4	3 439 445	310 390	9.0
Provision for expected loss from loans (from 2018) /						
Loan impairment reserves	(430 845)			(414 740)		
Assets not generating interest income	716 150			710 319		
Total assets	4 055 133			3 735 024		
Liabilities						
Due to legal entities	1 340 708	38 192	2.8	1 106 364	28 072	2.5
Due to individuals	1 266 171	31 199	2.5	1 370 861	42 096	3.1
Due to other banks	472 309	18 271	3.9	481 740	19 776	4.1
Debt securities issued	280 334	18 460	6.6	154 020	7 944	5.2
Total interest expense generating liabilities	3 359 522	106 122	3.2	3 113 287	97 906	3.1
Liabilities not generating interest expense	55 394			50 895		
Total liabilities	3 414 916			3 164 182		
Net interest spread			4.2			5.9
Net interest margin			4.6			6.2

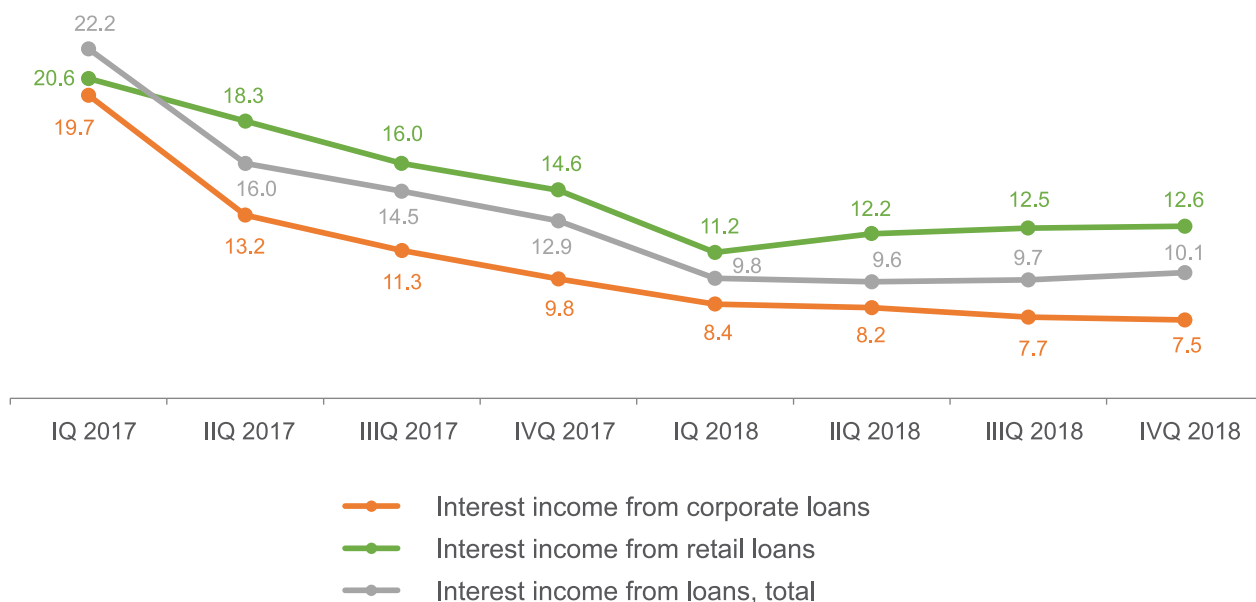
Customer funding cost dynamics (all currencies, %)



Interest expense on retail deposits decreased by 25.9%: due to fall of deposit taking by 7.6% and decrease of funding cost by 0.6 p.p.

Interest expense on corporate deposits increased by 36.1%: due to growth of deposit taking by 21.2% and increase of funding cost by 0.3 p.p.

Loan profitability dynamics (all currencies, %)



The trends displayed above influenced the net interest margin.

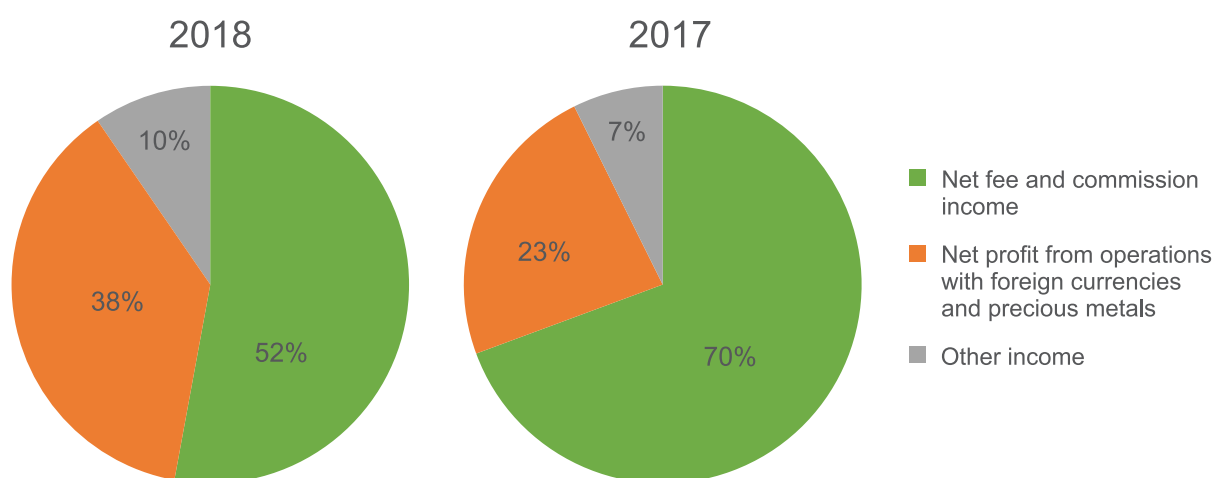
Net interest margin dynamics (%)



Net non-interest income

Net non-interest income of the Group increased by 37.4% up to BYN 237.6 million, net fee and commission income increased by 3.8% and made BYN 124.6 million.

Net profit from operations with foreign currencies and precious metals grew by 120.9% up to BYN 89.1 million, in 2018.



Operating costs

Operating costs of the Group increased by 9.5% in comparison with 2017, up to BYN 222.8 million.

Growth of operating costs was mainly attributed to increase of depreciation of fixed and non-tangible assets by 15.9% and expense on software maintenance by 32.6%.

Operating cost to income ratio before provisioning (CIR) made 54%.

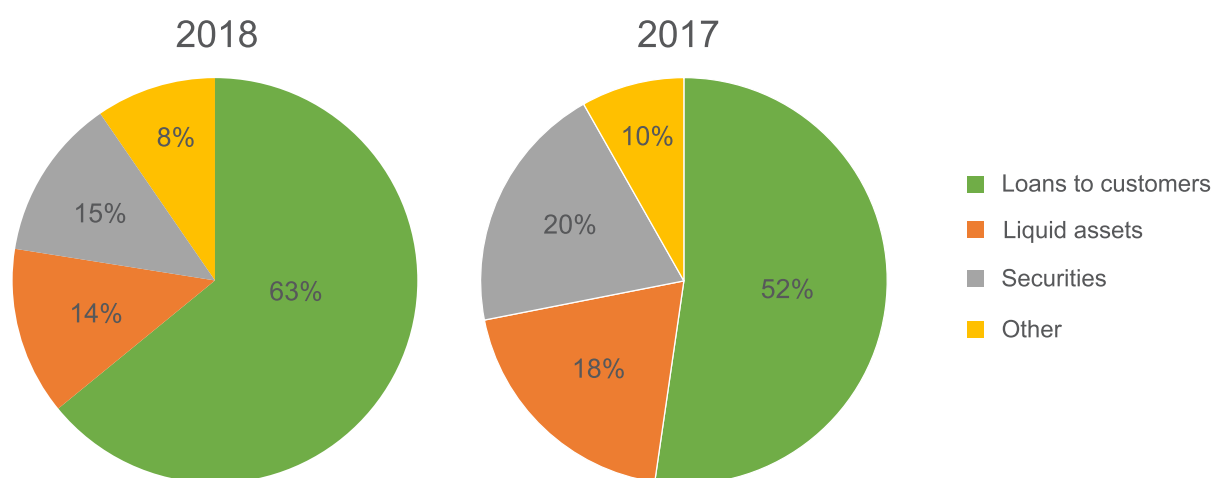
In the reporting year, BYN 41.4 million was allocated into loan loss provisions, thus forming up the provisioning rate of 14.7%.

Consolidated financial condition statement review

General trends

In the reporting year, the assets of the Group increased by 11.9% in comparison with the previous year, and made BYN 4 282 million. Loans to customers grew by 10.3 p.p. throughout the year and occupy the largest share in the assets structure – 62.6%.

The share of liquid assets including cash and correspondent accounts in foreign currencies and precious metals with other banks made 14%.



Loans to customers

The aggregate loan portfolio of the Group before loan loss provisioning made BYN 3 141.5 million. Corporate loan portfolio increased by 27.9% and made BYN 2 485.6 million.

Retail loan portfolio before loan loss provisioning increased by 43.5% up to BYN 655.9 million. The main growth factor was lending for housing construction purposes which expanded by 60.1% and made BYN 427 million.

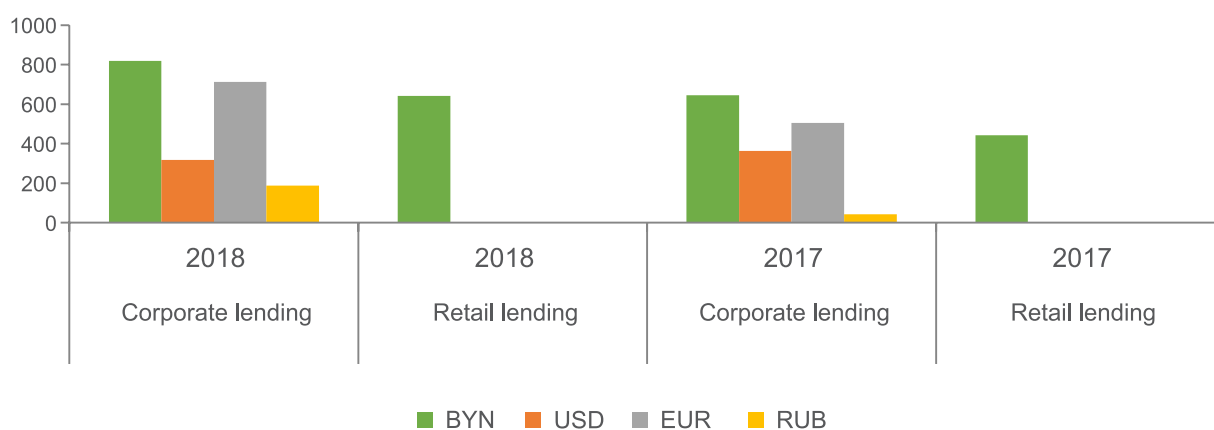
Loans to customers, BYN thousand

	2018		2017		Change, %
	Amount	% amount	Amount	% amount	
Commercial loans to legal entities	2 326 695	74.1	1 695 922	70.6	37.2
Specialised loans to legal entities	158 907	5.1	247 467	10.4	(35.8)
Loans to legal entities	2 485 602	79.2	1 943 389	81.0	27.9
Consumer loans and other loans to individuals	120 644	3.8	117 148	4.9	3.0

	2018		2017		Change, %
	Amount	% amount	Amount	% amount	
Credit cards and overdraft loans	71 633	2.3	52 431	2.2	36.6
Mortgage loans to individuals	427 013	13.6	266 747	11.1	60.1
Car loans to individuals	36 641	1.1	20 823	0.8	76.0
Loans to individuals	655 931	20.8	457 149	19.0	43.5
Total loans to customers	3 141 533	100.0	2 400 538	100.0	30.9

In 2018, NPL coverage ratio made 102%, and the cost of risk reduced from 4.3% to 1.5%.

Customer loans structure by currency, BYN million



Securities portfolio

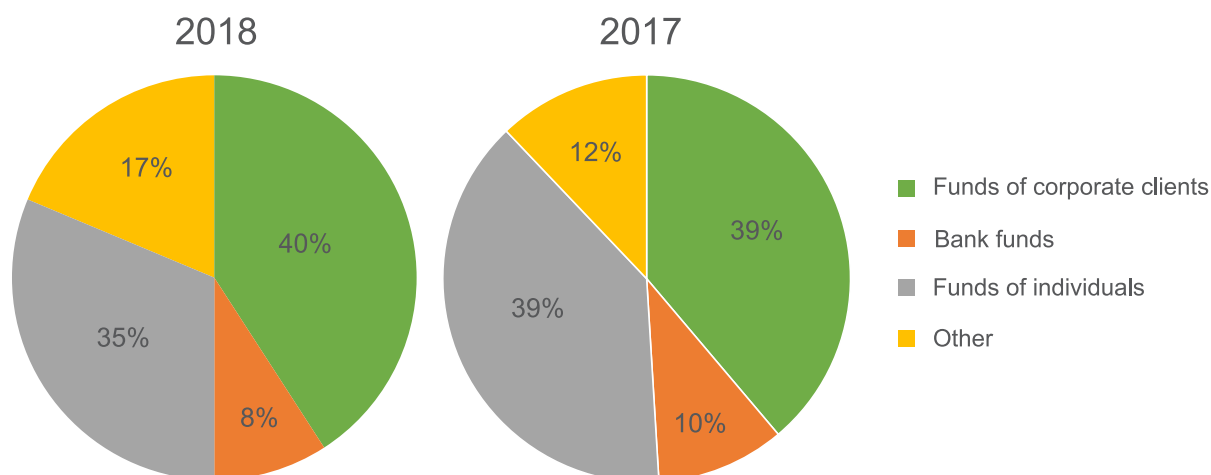
	2018		2017	
	BYN thousand	Share, %	BYN thousand	Share, %
Public bonds	618 354	98.9	754 586	99.2
Municipal bonds	2 133	0.3	2 185	0.3
Total debt securities	620 487	99.2	756 771	99.5
Shares	4 762	0.8	4 103	0.5
Total securities	625 249	100.0	760 874	100.0

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

99.8% of securities are recognized at fair value in other aggregate income.

Structure of liabilities

In 2018, liabilities of the Group increased by 11.8% and made BYN 3 605.3 million, dominated by retail and corporate funding (75.1%).



Due to other banks

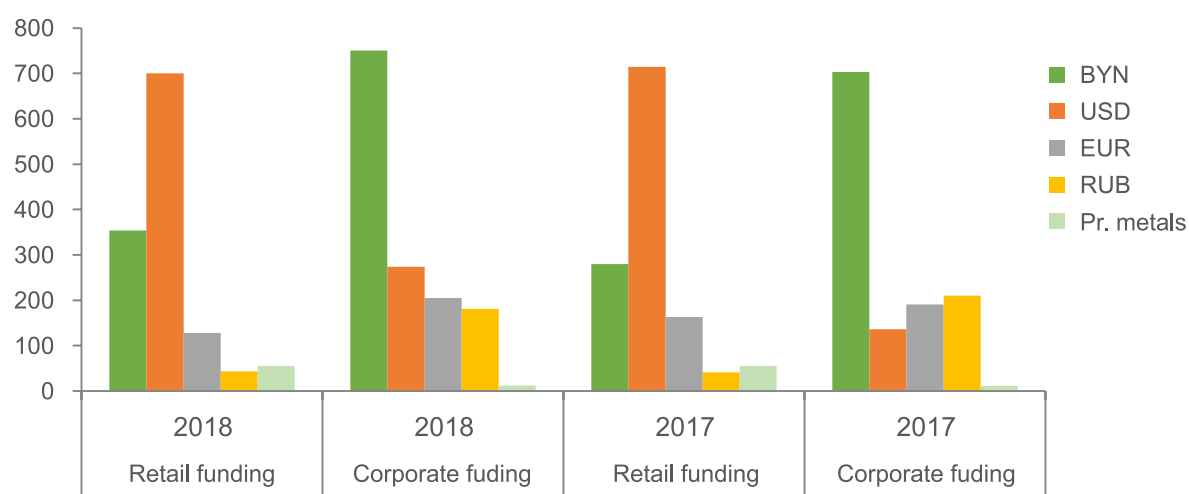
In the reporting year, funds due to other banks decreased by 8.5% and made BYN 301.1 million, with their structure in liabilities reducing by 1.8 p.p. down to 8.4%.

Due to customers

The amount of customer funding in the reporting year increased by 8.1% up to BYN 2 708.5 million. In 2018, the share of current and call accounts in the customer funding structure increased.

	2018		2017	
	BYN thousand	Share, %	BYN thousand	Share, %
Retail accounts				
Current accounts/ Call deposits	464 436	17	327 322	13
Time deposits	814 665	30	925 918	37
Total retail accounts	1 279 101	47	1 253 240	50
Corporate accounts				
Current accounts/ call deposits	663 816	25	559 576	22
Time deposits	765 581	28	692 443	28
Total corporate accounts	1 429 397	53	1 252 019	50
Total customer funding	2 708 498	100	2 505 259	100

Customer funding structure by currency, BYN million



The foreign currency share in retail deposits reduced by 5.4 p.p. down to 72.3% in comparison with 2017, which was attributed to stability of the local currency and decrease of FX deposit yield.

The share of foreign currency in corporate funding structure increased from 43.9% to 47.6%.

Equity

Equity of the Group increased by 12.1% up to BYN 676.7 million, sourced from the Group's profit.

The share capital amount of the Bank remained unchanged in the reporting year. In comparison with 2017, the share of Sberbank of Russia stayed the same – 98.43%.

Equity, BYN thousand

	2018	2017	Change
Share capital	321 756	321 756	-
Share premium	576	576	-
Revaluation reserve for fixed assets	33 151	32 721	430
Fair value reserve for investments	13 306	2 512	10 794
Retained earnings	307 919	246 162	61 757
Total equity attributable to shareholders of the Bank	676 708	603 727	72 981
Minority interest	-	-	-
Total equity	676 708	603 727	72 981

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

Capital adequacy, BYN thousand

	2018	2017
Tier 1 capital		
Share capital	321 756	321 756
Share premium	576	576
Retained earnings	307 919	246 162
Total Tier 1 (core) capital	630 251	568 494
Tier 2 capital		
Revaluation reserve for office premises	33 151	32 721
Revaluation reserve for investments available for sale	13 306	2 512
Applicable subordinated loan	126 968	153 095
Total Tier 2 capital	173 425	188 328
Total capital	803 676	756 822
Total risk-weighted assets	3 949 656	3 303 453
Tier 1 (core) capital adequacy ratio (Tier 1 capital/ Risk-weighted assets), %	16.0	17.2
Total capital adequacy ratio (Total capital/ Risk-weighted assets), %	20.3	22.9

Core and total capital adequacy ratios for 2018 are well above the minimum requirement set by the Basel Committee (8%).

Corporate Business

The Bank's development strategy continues to focus on certain client segments, recovery of impaired assets, digitalization of services, and improvement of operational efficiency.

According to the strategic priorities in 2018, the Bank continued to act towards enhancement of the loan portfolio quality, expansion of the client base in micro and small business segments, improvement of remote banking services, development of transactional business, and broadening of sales channels.

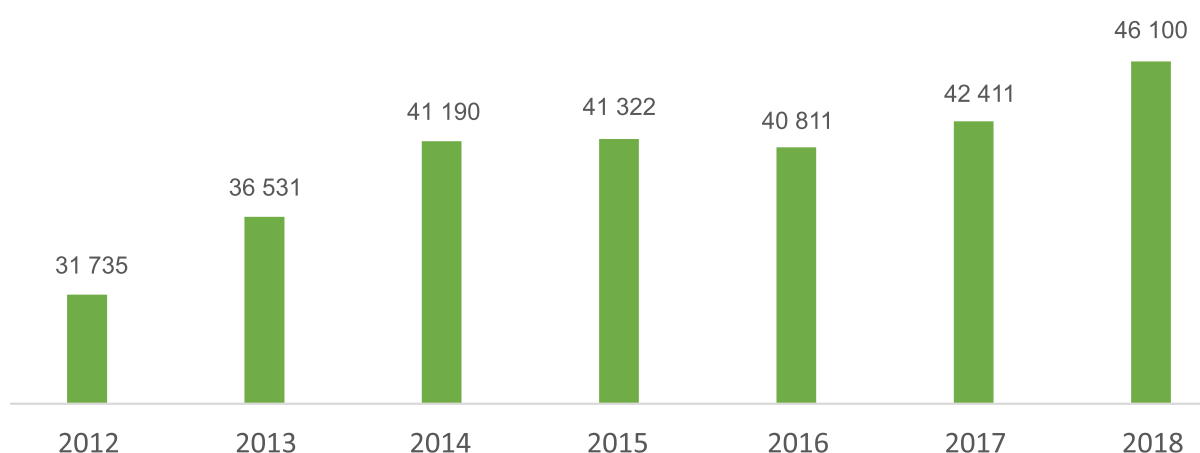
Clients

The client relationship policy of the Bank applied in the framework of the client-focused business model traditionally relied on the principles of long-term partnership, mutually beneficial cooperation, and tailored approach to each client. Timeliness of decisions in the process of banking service provision, use of leading-edge IT solutions, affordable fee policy, and high quality service were the main driving factors of the client base expansion.

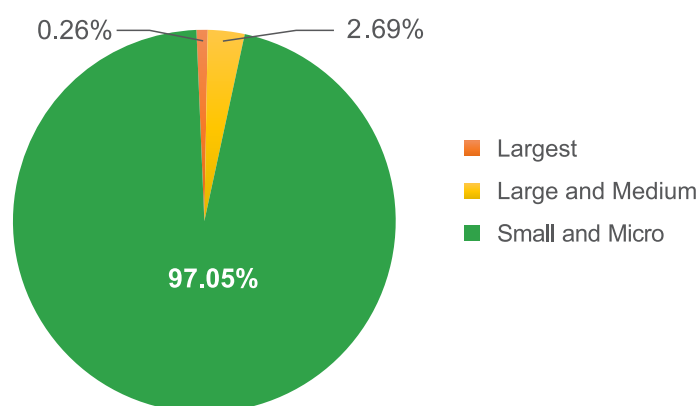
Micro and small business was a strategically important direction aimed at creation of favourable environment for development of entrepreneurship.

The Bank paid much attention to those business segments in 2018, resulting in increase of SME client base by 8% (+3.8 thousand new clients).

Number of legal entities served by BPS-Sberbank



**Client base structure as of 01.01.2019
by segment**



Transactional business development

BPS-Sberbank is a banking sector leader in introduction of new information and innovation technologies. A range of technological projects unique for the financial market of the Republic of Belarus were implemented through BPS-Sberbank.

In 2018, the first digital office was opened, providing a wide scope of cash and settlement services to clients via remote channels and unattended devices.

In the framework of transfer from the classical transactional system of remote banking service (hereinafter – RBS) to the universal platform of service and digital sales of banking products, the first stage of transformations was accomplished, changing RBS model for corporate clients. The technological core and basic functionality were implemented, and the contemporary in-house RBS platform Sberbank Business Online comprising a new web version and mobile business application started running in the test mode.

Implementation of new services for corporate clients was an important direction of transactional business development. The following was launched:

- Package offer 'Easy Start' for business start-ups focused on micro and small business, already subscribed by more than 2700 clients.
- Generation of the customer's electronic digital signature when opening an account with the Bank, allowing saving the customer's time and connect them to the remote banking service system during just one visit to the Bank.
- Online service to inform the client about credit of funds from executed payments in foreign currency in favour of recipients served by Sberbank of Russia (the Russian Federation) and Sberbank JSC (the Republic of Kazakhstan). The information is sent to the client as an electronic message.

- New service 'Start Your Business' allowing novice entrepreneurs receiving a ready-to-use package of documents for registration of their business.
- Special offer 'Bring Your Friend', which attracted 589 new clients.

In order to improve service quality and client loyalty, the Bank established the single centre of competence for foreign exchange operations with corporate clients on individual, mutually beneficial terms.

Client service quality

Consistent improvement of client service quality is one of the main conditions for development of the Bank's business and maintenance of its competitiveness. Pursuant to development of the client experience management system, the Bank regularly monitors CSI and NPS indices.

In 2018, the consumer satisfaction with the Bank's performance (CSI) increased from 8.4 to 8.8, and the willingness of corporate clients to maintain trusted business relations with the Bank (NPS loyalty index) raised from 33% to 53%. In 2018, over 2500 corporate clients participated in the survey.

Positive dynamics of CSI and NPS was underpinned by lending process optimization in MSB segment, introduction of new deposit and cash-and-settlement products, redesign of the Bank's web-site, launch of the first non-banking service 'Start Your Business', organization of the multi-channel phone line of operational support for corporate clients.

In 2018, the process of review of corporate customers' applications was redesigned, which shortened the average time of review and raised the index of total satisfaction of corporate clients from 23% to 45%.

The data analysis results obtained in the course of the survey are forwarded to the relevant departments to eliminate deficiencies and introduce suggestions.

Corporate lending

More than BYN 6 billion of loans were provided to the economy of the country.

The branch structure of the loan portfolio changed. According to the lending policy, financing was issued to such industries as trade, oil and gas supply, machinery engineering, energy and petrochemicals.

In 2018, the lending process for Medium+ client segment was optimized:

- The format of lending with differentiated interest rate was changed – the client may accept an electronic offer without conclusion of supplementary agreements;
- The overdraft loan product line was expanded by adding foreign currency loans;
- The products 'Project finance' and 'Finance of commercial and residential property construction' were introduced;
- Approaches to security were modified;
- Documents may be received from the borrower via RBS system without the need to send them in hard copy;

For Small and Micro client segment:

- New loan products and services were developed: factoring, online application for overdraft loan;
- Loan product terms, including those with simplified express analysis, were updated and made less stringent;
- TOP-UP event was launched aimed at replenishment of the client's loan portfolio for the amount of repayment under the existing loan agreements under a simplified procedure, as well as an event to refinance loan indebtedness of clients to other banks;
- The mechanism for EverGreen limit establishment for small clients was developed, allowing making quick decisions on new deals under a simplified procedure;
- The lending process was optimized: the time of loan application review was shortened, and the verification process was automated.

Due to the lending process optimization, introduction of new loan products and active attraction of clients in comparison with 2017, the loan exposure to MSB segment and the number of borrowing clients increased by 35%.

Investment business

The Bank supported projects aimed at development of commercial and residential property, and expanded cooperation with clients under the existing investment projects.

In the reporting year, the Bank continued financing projects of Belarusian energy supply infrastructure upgrade targeted at faultless power supply to domestic consumers.

Cross border business with Sberbank Group

In the reporting year, the potential of Sberbank Group was actively used for financing of the domestic companies. As of 01.01.2019, the exposure under cross border transactions

made USD 342.5 million, of which USD 170.1 million were the deals executed by the banks of the Group directly, and the remaining USD 172.4 were the risks transferred to the Group's balance sheet.

In the framework of cross border settlements development, the Bank improved the existing and introduced new services for corporate clients. In 2018, it became possible to open the second and every following account without the need to visit the Bank's office. For the clients' convenience, the cut-off time for payments in Russian roubles was extended to 6 p.m., which is one of the best offers in the Belarusian market.

As of 01.01.2019, the amount of cross border corporate payments from BPS-Sberbank to the banks of Sberbank Group made USD 816 million or 113.1% comparing to 2017.

International business

The Bank utilizes all advantages of geographic coverage of Sberbank Group and offers its customers wide opportunities to support international business. The Bank actively cooperates with over 100 banking institutions all over the world.

The total amount of trade finance transactions grew by 20% comparing to 2017 and made equal to USD 255 million. Throughout 2018, 345 deals on issuing and confirming letters of credit, issuing bank guarantees were executed. As of 01.01.2019, the amount of liabilities under letters of credit and guarantees made USD 130 million.

In the reporting year, the Bank actively developed the services of confirming and discounting letters of credit issued by other banks. Pursuing provision of such services to Belarusian exporters, the Bank introduced this product in the domestic market and expanded possibilities of its provision to clients of other banks, also in the domestic currency. Thus, 21 deals were executed to confirm and discount letters of credit issued by other Belarusian banks, for the total amount exceeding BYN 40 million.

In 2018, the Bank for the first time introduced an express product line for bank guarantees. Express guarantees were developed for all corporate client segments and allowed shortening the time of application review and making decisions on certain types of guarantees down to two business days. The share of express guarantees in the total amount of issue reached 30%.

Following the principle of financial education of clients and raising their awareness of contemporary banking instruments of foreign trade support, 8 special trade finance seminars were held, attended by more than 170 corporate clients.

Besides, in 2018 the Bank actively participated in international events including Business Days in Gomel, Business Visit to Beijing (PRC), Belarus-Lithuania Economic Forum,

Contact and Cooperation Exchange with representatives of Jiangsu province (PRC), The 5th Forum of Regions of Russia and Belarus, Euroregion Neman.

Funding

The resource base of the Bank was formed up by companies operating in the leading industries of the Belarusian economy, mainly from energy and industrial complex.

The Bank offers its clients contemporary technological services. Packages for corporate clients include the full range of cash and settlement and remote services (account opening and maintenance, execution of payment documents, cash collection, remote banking service, unique trade platform for deposits and foreign exchange operations – Savex, operations with corporate cards, salary projects).

In order to attract additional funding and maintain competitive deposit terms, the new type of deposit with the minimal maintained balance was introduced, allowing withdrawal of funds down to such minimal balance and topping up without limitation.

In the reporting year, the use of the service 'Self-collection' drastically increased: 2391 agreements were concluded, which is 2.5 times more than in 2017.

Financial Markets

Development of relationship with financial institutions, insurance companies, foreign banks

In 2018, the Bank continued to develop relationship with counterparty banks.

More and more foreign banks were viewing BPS-Sberbank as a reliable partner in the Belarusian markets and applied for bank guarantee issues. In the reporting year, guarantees for the total amount of USD 26.5 million were issued to foreign banks. Totally, 11 partner banks established trade finance limits utilized by USD 47 million under 33 transactions.

Cooperation with foreign banks continued in a traditional business direction – import financing. Direct risk limits on the Bank were extended, and cooperation reinstated with certain banks and international financial institutions. As of 01.01.2019 the amount of direct risk limits set on the Bank for trade finance transactions was USD 535 million.

Promoting trade between the Republic of Belarus and the Russian Federation, in addition to typical banking products, the Bank executed a framework agreement with Roseximbank on financing of import of goods, works and services in the framework of the Programme for support of manufacturing high-tech products in Russia, resulting in a number of deals with subsidized rates for the total amount of RUB 170 million.

In the reporting year, the Bank was appointed as the agent bank under 3 new agreements concluded between the Government of the Republic of Belarus and foreign banks and leasing companies under Decree No. 466 issued by President of the Republic of Belarus.

Totally, 345 transactions for the total amount of USD 255 million were executed in 2018, comprising issuing and confirming letters of credit and issuing guarantees.

Correspondent banking

The Bank's correspondent network is one of the most widespread in the Republic of Belarus.

To carry out client settlements and own operations, about 60 Nostro correspondent accounts are maintained in main foreign currencies used in Belarus for foreign payments, and precious metals (gold, silver, platinum, and palladium).

The Bank maintains over 130 Loro correspondent accounts of Belarusian and foreign banks in different currencies.

Developing international activity, increasing the number of counterparties and scope of transactions, the Bank adheres to international anti-money laundering standards, complies with the national legislation and internal regulations, and strictly follows Know-Your-Customer policy.

Stock market

Being a professional participant of the securities market, the Bank makes large investments into public and corporate bonds.

In 2018, the Bank's clients were offered a comprehensive range of services in the stock and OTC markets of the Republic of Belarus, and trust management services to invest the clients' funds into foreign securities.

Search for new clients never stops, the regional network allows provision of the full range of services in the securities market in all regions of the country. In 2018, the Bank arranged 12 corporate bond issues.

The Bank's securities portfolio exceeds BYN 1 billion.

In order to build up the resource base, own bonds were placed. In 2018, six new issues of the Bank's bonds were registered, placement among individuals was initiated, work with sight documentary bonds for individuals resumed.

The amount of issued bonds as of 01.01.2019 exceeded equivalent of BYN 571 million.

The amount of funds attracted through sale of own bonds of the Bank made BYN 376.2 million.

The Bank's activity in the securities market of the Republic of Belarus was marked with Cbonds Awards CIS as The Best Investment Bank in Belarus. The award ceremony took place on 31.05.2018 during The XV Bond Congress of the CIS and the Baltic states in Astana, Kazakhstan.

In the reporting year, the Bank continued to provide depository services to legal entities and individuals. As of 01.01.2019, the Bank's depository serves 354 securities issuers and over 115 thousand depositors.

The Bank's depository is among the five largest depositories of the country out of 28 operating ones, and occupies the 4th position among depositories of the country and 3rd position among bank depositories by the market share which makes 8.2%.

FX market

During 2018, the Bank held firm positions as the key player and domestic FX market maker in the Republic of Belarus.

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

Due to that, our clients are provided with foreign currency exchange services at the rates most approximated to the currently dominating market rates for a wide range of currencies (30 quotation pairs).

The amount of interbank forex deals increased by 20% in comparison with 2017 and exceeded BYN 20 billion.

Precious metals market

The Bank is the country leader in the precious metals market. In particular, precious metal bullions and ingots and a wide collection of investment and memorable coins (including exclusive ones) issued by the National Bank of the Republic of Belarus and foreign countries, are sold to clients.

Besides, the Bank maintains the largest domestic portfolio of precious metals on unallocated and deposit metal accounts of clients.

Providing services to the clients, the Bank focuses on remote service channels, allowing dealing with metals in the form of bank bullions in a 24/7 mode, and the coin collection is available at the Internet display on the Bank's web-site.

Retail Business

BPS-Sberbank is one of the leaders in the retail business market. Each third working age citizen of the Republic of Belarus is the Bank's client.

The retail business strategy for 2018 was directed towards its steady development, improvement of the existing and introduction of new banking products and services.

One of the key projects implemented in the reporting year was the project in city transport industry: the technology of contactless fare payment by any bank card including cards issued by foreign banks, was introduced at all fare gates of Minsk underground railway.

The Bank's achievements were acknowledged by the Brand of the Year 2018 award in the nomination High-Tech Banking Services and Products.

Retail market position

The Bank's retail segment holds the following positions in the financial market of the Republic of Belarus:

- 2nd by retail loans, with the market share 9.4%;
- 2nd by cards issue, with the market share 8.4%;
- 4th by the number of active unattended terminals, with the market share 10.9% by ATMs and 5.9% by information terminals;
- 4th by the number of merchant terminals, with the market share 8.6%;
- 5th by retail funding, with the market share 5.4%.

Clients

As of 01.01.2019, the total number of retail clients exceeded 1.3 million people. The VIP client base grew by 15.5%, affluent segment grew by 78.7%.

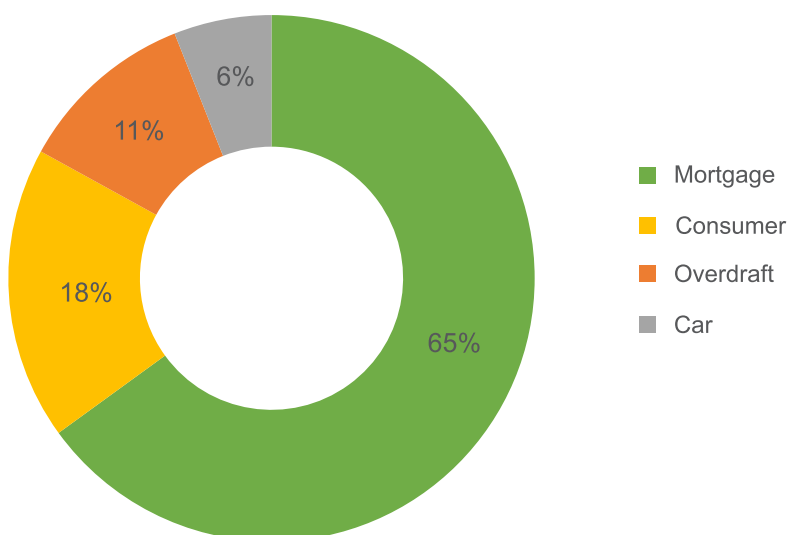
The share of active clients made 47%. Besides, the client profile undergoes qualitative changes. In the result of building a comprehensive customer service system, product penetration increased by 18.2% and made on average 1.83 types of active products per customer. Product penetration is increasing due to tailored offers. Accumulating history of cooperation and expanding opportunities to analyze information, the Bank makes interesting and well-perceived offers to its clients.

Retail lending

Lending for housing purposes under the programme «New Home with Sberbank» and mutual lending programmes with the largest developers in the Republic of Belarus was the main retail lending growth driver in 2018.

At the same time, social support was provided to the population in terms of housing finance with governmental aid under Decree of President of the Republic of Belarus No. 240. Totally, 4112 loans for the aggregate amount BYN 218.9 million were issued in the reporting year for housing purposes.

Retail loan portfolio structure by product, %



In 2018, partner sales channel continued to develop. More than 60 agreements were concluded with partners in lending for residential housing.

New products and services became market leaders, offering unique terms for individuals:

- BPS-Sberbank was the first in the country to offer unique car loan terms «Geely with Sberbank», at the interest rate of 1.9% p.a.;
- Development of instalment card KartaFUN and partner network expanded the network with over 7 thousand merchants all over the country. Not only single individuals could become cardholders: the 'family card' product option allowed all members of a family ordering an additional card to the principal KartaFUN account and get the full scope of service available for the main card.

Funding

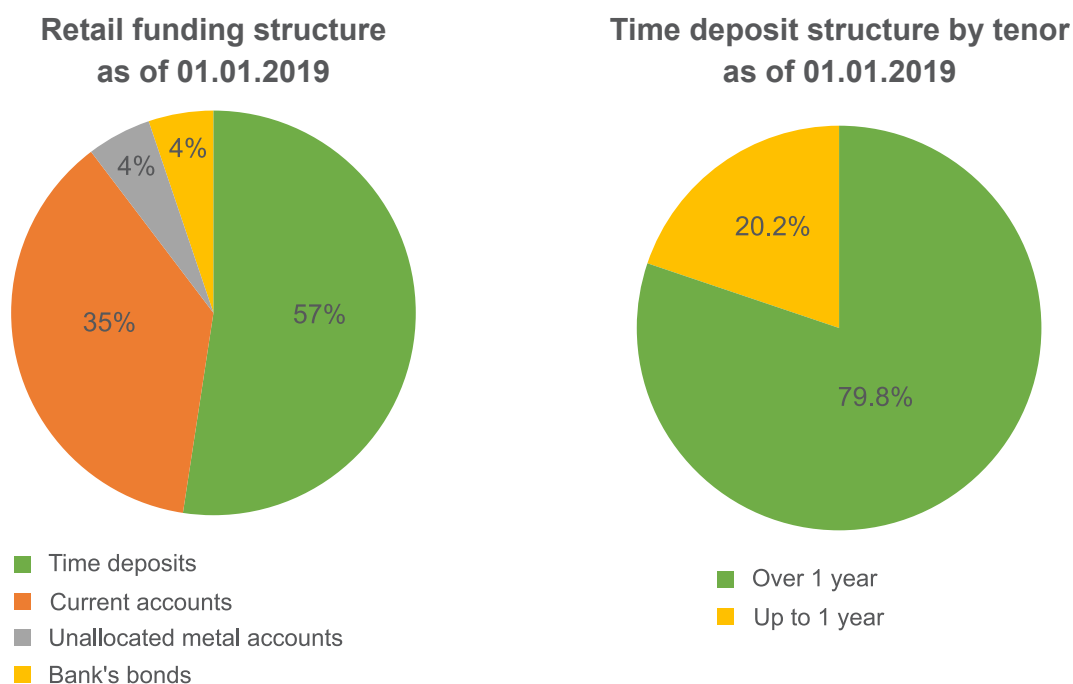
Funding from the population (including bonds) increased by 7.4% in the reporting year, while the volume of BYN funding increased by 22%. Growth was attributed mainly to

expansion of attraction instruments and maintenance of interest rates under time deposits at a competitive level.

Non-documentary bonds were offered as an alternative investment instrument and sold for the amount equal to BYN 56.2 million as of the reporting date.

In the reporting year, the Bank stimulated increase of online deposits and execution of operations under bank accounts via Sberbank Online. As a result, the share of online deposits made 31.7% of the time deposit portfolio, i.e. increased by 12.7 p.p. for year, while the share of online deposits in Belarusian roubles grew by 42.5% (increase by 5.1 p.p.).

Growth of the resource base was supported by attraction of funds into the investment product – metal accounts (gold, silver, palladium, platinum) including deposit metal accounts. In the reporting year, the number of opened metal accounts increased by 9.5%, the account balances equaled BYN 54.5 million.



The number of opened pension accounts increased by 20%, the account balances grew by 44% up to BYN 31.6 million.

Development of deposit products meant quick adaptation of their parameters to the observed market situation and support of the Bank's liquidity, modification and unification of deposit terms, introduction of new deposits in precious metals and VIP segment.

Card and transactional products and services

BPS-Sberbank occupies leading position in the banking payment card market of the country (2nd rank by card issue). The number of cards in circulation was 1.25 million, including 583.8 thousand contactless ones. The share of advanced cards responding to the growing demands of the clients increased by 15.4 p.p. and made 79.5%.

The number of payment terminals increased by 1477 units (+12%), the number of merchant served grew by 1143 (+11%).

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

New products were launched together with MasterCard: virtual GameCard for gamers and Easy Card for children.

In the reporting year, the product line of premium and elite payment cards was modified:

- ComPass product was upgraded: the new car rental service and the SkyClub mile program support chat bot were launched;
- The electronic insurance policy under Visa Platinum card was introduced;
- The partner program of privileges for holders of elite bank payment cards was expanded.

The service was launched for free of charge topping-up any card issued by BPS-Sberbank via the Uniform Settlement and Information Space (ERIP) from any Belarusian bank's card.

The sales of GameCard for games started, offering 2% cashback from funds paid to top up Wargaming accounts, purchases in Google Play and AppStore, with the developing network of partners offering up to 15% discount for their digital products.

In 2018, all fare gates at the stations of Minsk Metro were upgraded to support contactless payment, and BPS-Sberbank acted as the technological partner in that transport project. All stations of Minsk Metro now allow fare payment with a contactless bank payment card of a smartphone, which makes Minsk even more technological and comfortable city (Minsk became one of the three cities of the world, along with London and Vancouver, where such service was implemented).

All deposit products of the Bank were transferred to the digital Sberbank Online environment. The service of non-documentary bonds for private investors is at the completion stage.

Along with introduction of new technologies and services, a wide range of traditional banking services were provided to the population, such as:

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

Money transfers and payments by individuals are executed via different service channels, namely:

- Bank's offices;
- Remote service channels, including Sberbank Online;
- Unattended terminals.

BPS-Sberbank holds the 4th rank among the Belarusian banks by accepting payments in ERIP. The market share by the number and amount of accepted payments made 5.2% and 4.9%, respectively.

Private individuals actively uses the Bank's transfer services. The amount of card-to-card transfers (P2P) in Belarusian roubles via remote channels grew by 1.2 times in terms of the number and 1.3 times in terms of amount, comparing to 2017. The amount of transfers to other person's card increased by 2.5 times both by the number and amount, and made 548 thousand and BYN 40.7 million, respectively.

Due to the convenient operations execution technology and attractive fee schedule, the population actively uses the international money transfer service. The amount of transfers via private payment systems equaled USD 45.3 million. The number of paid out transfers made 131 thousand paid and 24 thousand sent operations.

The projects 'Electronic cashier implementation' and 'Unattended cash collection' continued to develop, optimizing cash service of clients by moving a part of operations to unattended devices.

The project 'Automated exchange rate management system' was launched to display exchange rates and advertising content on LCDs in the automated mode.

The corporate web-site of the Bank shows exchange rates with regard to the client's geolocation and allows viewing the best rates in the city.

Remote banking service of retail clients

In 2018, development of digital services for retail clients continued with regard to strategic objectives and market demand.

The number of Sberbank Online users increased by 11% in comparison with 2017.

In the reporting year, new digital services were introduced: providing clients with digital PIN for the bank payment card (e-PIN), card activation and limit management via the mobile application: use of the product became more convenient and safer – no need to reissue the card when PIN is lost, no time and finance costs are incurred, no visits to the Bank's office are required – it only needs to enter the mobile application and to set a new PIN for the card.

In addition to the implemented digital wallet SamsungPay, own digital wallet SberPay was introduced. Payments may be made at merchants via any Android smartphone.

Call Centre

The Call Centre continued to develop as the uniform point of information and client support in relation to the Bank's products and services.

During the year, the Call Centre processed 1.7 million customer calls, which is by 31% more than in 2017.

The virtual assistant Alesya processed more than 166 thousand calls without operator's participation.

The average annual availability of the Call Centre hotline made 37 seconds. The average waiting time of the VIP client was 12 seconds.

The total customer satisfaction based on IVR calling results made 87% and remained unchanged in comparison with 2017.

In the reporting year, the Call Centre continued to develop as the sales channel for banking products and services (salary packages, overdrafts, loans, SBOL, deposits, personal packages). The Call Centre operators made ca. 700 thousand outbound calls to customers in the framework of the secondary sales campaign, which is by 113% or 368 thousand more than in 2017.

The total number of communications via all channels of the Call Centre increased by 1.5 times and exceeded 2.4 times.

Based on results of inbound and outbound customer communications, over 89 thousand deals were concluded in 2018.

The following services were developed and launched in the reporting year:

- Automated voice service to inform clients about readiness of the card, search for the nearest service location, exchange rates;
- Possibility to execute service operations to manage bank card limits of bank payment cards via the Call Centre;
- Processing applications made via the official web-site for consultations concerning the Bank's products by the Call Centre operators;
- Automated processing of customers' e-mail messages.

Victory of the virtual assistant Alesya in the nomination 'Best automation, robotisation and AI solution' of the prestigious international contest Crystal Headset is the best acknowledgement of the Call Centre successful operation.

VIP client service

Premium service to VIP clients continued to develop. The client base in VIP and Affluent segments increased by 15.5% and 78.7%, respectively. Creation of the relevant environment for premium client service and further expansion of the competitive segment-focused product offer supported product penetration by 17%.

Digital services are actively developing, new 'family banking' products are designed (cards, insurance, service packages, privilege programmes, etc.).

The product line of premium and elite payment cards was modified (the electronic insurance policy for Visa Platinum cards, free pass to VIP lounges and free of charge cash withdrawal with Visa Infinite and MasterCard World Black Edition throughout the world were introduced). The partner programme of privileges for elite card holders was expanded.

The premium deposit line was upgraded: modified and time irrevocable deposit in precious metals 'Capital', time revocable bank deposit 'Premium Trust' with the possibility of offline and online opening were introduced.

Development of product offer for VIP clients comprises expansion of range of investment products under the trust management service, and Sberbank Premier package service.

Retail customer service quality improvement

Creation of the best customer experience, increase of client satisfaction and loyalty, focus on clients' expectations – such are the main directions of the Bank development.

In order to enhance the process of studying customer experience, contemporary tools of service quality management are used. Regular marketing research and retail customer applications analysis are the source of information about customer experience.

Client satisfaction index (CSI) as of the end of the reporting year made 9.3. The net promoter score (NPS) was 60%.

In order to increase retail client service quality, special attention is paid to development and improvement of work with applications. In order to build the effective system of communication with clients, it became possible to submit applications for disputable operations with bank payment cards in the web version of Sberbank Online system, and the service for drawing and sending SMS replies to such applications was introduced.

Analysis of reasons for negative feedback of clients and suggestions to improve the Bank's operation allows upgrading the existing processes according to the clients' expectations. Based on the obtained analytical data, growth prospects are determined, and systemic decisions are taken aimed at elimination of reasons of such claims.

Financial awareness

Raising financial awareness is an important activity in the Republic of Belarus. BPS-Sberbank consistently implements events to increase financial awareness of different layers of the population. The emphasis is put on educating children, youth and pensioners.

Days of financial education, lessons of financial knowledge, Week of financial awareness, participation in the Republican Financial Awareness Contest, Client's Day, Quality Day – such are events attended by 2.5 thousand people in 2018.

In the framework of the project 'School of new opportunities', educational seminars 'Personal finance management' were held for students of higher educational establishments and disabled people. The project was attended by ca. 500 people.

The events held by BPS-Sberbank help the participants gain the necessary knowledge in the field of reasonable personal finance management, effective use of bank instruments and services, saving time, effort and financial resources.

Risk Management

In 2018, the Bank continued improvement of its risk management system and support its business departments.

Risk management system development

Provisioning management development

- Provisioning management function was concentrated in the Risk Management functional area;
- Provisioning calculation was shifted to IFRS 9.

The subsidiary risk management was actively improved:

- The concept of risk management authority in subsidiaries was adopted;
- The system of regular risk metrics report by subsidiaries was introduced.

In the reporting year, the Bank and the banking holding accomplished introduction of internal capital adequacy assessment procedures:

- The risk and capital management strategy was updated;
- The economic capital of the Bank is calculated on a regular basis;
- Economic capital allocation to risk categories and business areas were established;
- Local and total group stress testing of material risks was carried out;
- The system of indicators of risk tolerance and appetite for 2019 was defined.

In terms of credit risk management system improvement:

- The system of evergreen limits on counterparty banks and the new process for monitoring of counterparty banks at the level of Sberbank Group were introduced;
- New metrics and limitations in terms of assessment and management of corporate and retail credit risks were developed and are controlled;
- Methodology for stress testing of retail and corporate loan portfolios was developed;
- The Credit Policy of the Bank was updated:
 - *For corporate clients* – the current risk management system was supplemented with approaches to portfolio management by risk metrics,

client portfolio concentration risk management, currency concentration risk management;

- *For retail clients* – main target parameters of retail credit portfolio and portfolio limits, requirements for risk minimization were determined.

In the framework of ALM and liquidity risk management, functions of the 2nd line of defense were strengthened. Calculation and limitations of new risk metrics were introduced with regard to recommendations of the Basel Committee and the National Bank of the Republic of Belarus.

In 2018, banking book risk control function continued to develop:

- Limit architecture and values were updated with regard to group and local metrics;
- Warehouse of data, limits and risk metrics was developed, the limit server was launched, accuracy and relevance of risk metrics calculation was improved.

In the framework of operating risk management:

- The function of methodology maintenance and internal investigations was delegated to the Risk Management area;
- The system of regular operating risk reporting was introduced, also in subsidiaries.

In the reporting year, special attention was paid to risk culture development: risk culture was deployed in the Head Office and Regional Directorates of the Bank, a series of seminars for the Bank's executives were held with participation of leaders of the project for risk culture implementation with Sberbank Group.

Retail business support

For consumer and overdraft loans, there were developed and introduced models of assessment of individuals' default probability on the basis of the mobile operator's database, integrated models taking into account customer data from the questionnaire and quality of their loan history, model of reliability assessment.

In the reporting year, retail business processes were actively automated:

- The technologies 'Quick solutions' for car loans and 'Pre-approved limit' for salary project clients were introduced;
- The technology for customer identification for making Top-Up offers was implemented;
- All the line of retail products was moved to PowerCurve Originations platform;
- The time for making decisions on consumer and overdraft products in the automated mode was reduced from 28 to 10 minutes.

Corporate business support

In the framework of corporate business support:

- Upgraded models for probability of default and borrowing capacity of corporate clients were introduced;
- The model for assessment of loss given default of corporate clients was validated, the scoring models for probability of default of Micro segment clients was developed;
- The process of customer verification in Small/Micro segment was automated.

In the framework of lending process improvement;

- The concept of Evergreen limits was introduced for Small segment clients;
- Specifications of Express guarantee for Small+ segment clients were approved.

The process of credit risk monitoring continued to enhance:

- The project for automation of corporate credit risk monitoring functions was accomplished;
- The function of monitoring in Micro segment was centralized and optimized;
- The functions of business covenants monitoring for Medium+ segment clients was centralized.

In order to optimize operations with security:

- The system for automatic calculation of pledged value of security based on minimal applied discounts, also for business departments, was introduced;
- The process of transfer of the function of 'black' problematic client zone monitoring function to the department responsible for working with security was accomplished;
- The process of security monitoring was updated, the system of pledge discounts was optimized.

Innovative Activity and Process Management Development

In 2018, measures undertaken to improve the project and process management system continued:

- At the level of Sberbank Group, regular communication with project offices of SBI of Sberbank Head Office, and the subsidiary bank in Kazakhstan was established in the format of the single taskforce;
- The target model was updated, and approaches to project activity within Sberbank Group were specified;
- In the framework of Agile transformation of project and current activity, approaches to formation of Agile teams and Tribes were defined;
- Agile approaches started to apply in the functional areas of the Bank.

The projects and initiatives were approved within the Business Plan for 2019 with regard to common group approaches. Key directions of the Bank's project activities were:

- Introduction of biometric customer identification technology;
- Introduction of Big Data and Machine Learning technologies;
- Development of Blockchain technology;
- Development of innovative card products;
- Process robotisation via introduction and development of Robotic Process Automation technology.

Development of the Bank's staff communications in the framework of informal professional communities was possible due to the intranet on the basis of IBM Connections. As of 01.01.2019, about 150 professional communities are active in the Bank's corporate social network.

To achieve improvement of the internal service quality, surveys 'Voice of the internal customer' were launch to assess satisfaction with the Bank's internal services. Based on survey results, measures were taken to improve the services.

For the purpose of maximum involvement of the staff in the process of continuous improvement of the Bank's activity, the employees are trained in methods and instruments of Lean 6 Sigma process optimization tools. There were implemented 10 projects for process optimization.

Main results achieved within optimization projects were transformations aimed at increase of effectiveness, improvement of quality, reduction of process cost, and maximum satisfaction of both internal and external customers.

In 2018, the target process optimization methodology changed: the focus on customer demands and digitalization of processes with regard to best practices and Lean 6 Sigma methodology became the main objective of amendments.

IT Development

Taking into account the modern pace of business development and launch of innovative banking products, special attention was paid to quick development of own competencies based on internationally recognized standards and methodologies ISO20000, Agile, DevOps, improvement of control functions.

Optimization of IT infrastructure ownership cost, analysis and elimination of single failure points in the existing IT landscape, its continuous maintenance were the top priority directions of IT development.

In the reporting period there were accomplished:

- Preparation for transfer of the International Processing Centre of Sberbank of Russia to the local data processing centre situated in the Republic of Belarus;
- Applying leading-edge technologies and client expertise in the IT landscape of the Bank (SberPay, the Bank's portal, mobile and Internet banking for individuals);
- Data monetization project, Stage 2, allowing to increase competencies of the Bank in the area of big data analytics.

In order to improve reliability and productivity of the existing infrastructure there were carried out:

- Data processing centre infrastructure upgrade, allowing installation of the necessary power of data storage systems to support operation within top priority projects of the Bank;
- Arrangement of the full-fledged testing and development environment;
- Cost optimization for the system of external communication channels allocation, which allowed not only to reduce the ownership cost but also increase their availability and reliability;
- Stage-by-stage increase of share of such applied technological solutions as clustering virtualization of the infrastructure;
- Optimization and standardization of the existing automated systems landscape.

Cybersecurity

Taking into account active development of digital service channels, special attention was paid to cybersecurity.

To provide cybersecurity of the banking infrastructure, various systems are used: firewalls, antivirus software, integrity control systems, protection analysis systems.

The implemented systems are constantly adjusted and upgraded to achieve the necessary degree of protection with regard to ever increasing risks of cyberattacks.

Measures to ensure security of operations via remote service channels are applied on a regular basis:

- Changes are introduced into business processes of service provision and procurement of services from processing centres and other vendors;
- Special software complexes are developed, specialized software is purchased and installed.

High degree of cybersecurity of the Bank is regularly confirmed by external auditors. In particular, the Bank confirms compliance with the security standard of international payment systems PCI-DSS every year.

Operations

Operating activity management is carried out in accordance with the best standards, which was preceded by a long way of transformations.

The attention in the course of development is focused on implementation of leading-edge information technologies, high quality and riskless support of operations run by business departments.

In the framework of further process optimization and utilization of staff potential, measures were taken in the reporting year to improve the operating function:

- New functional capability to support operations subject to credit risk and credit files of Medium+ segment clients was centralized;
- Efficiency assessment metrics were developed and approved, cost allocation for end-to-end business products was made;
- Subject to material growth of the volume of processed operations, the staff number was reduced due to process automation and standardization and improvement of labour efficiency;
- Operating costs were reduced due to minimization of used areas with regard to optimization of staff and reallocation of resources.

Regional Network

The Bank's regional network follows a two-tier model comprising regional directorates and additional offices in universal and basic formats.

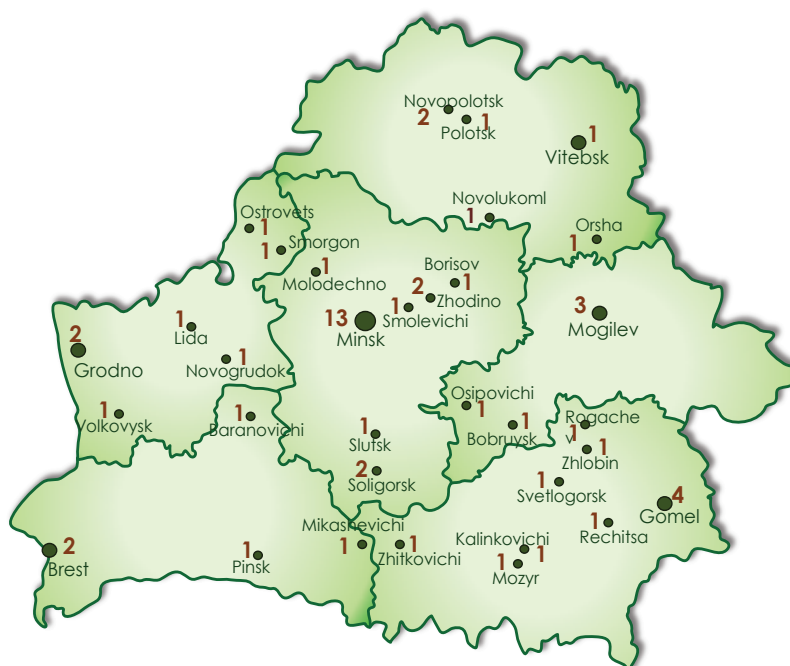
BPS-Sberbank is present in 34 cities and towns of the Republic of Belarus.

As of 01.01.2019, the Bank's regional network included 55 sales locations including:

- 6 Regional Directorates
- 32 universal additional offices providing a comprehensive scope of services to corporate and retail clients
- 17 basic additional offices providing a comprehensive scope of services to retail clients.

In the reporting year, the Bank terminated 4 sales offices, relocates three offices and reformatted another two into new service centres – Entrepreneurship Development Centre and Mortgage Lending Centre.

In December 2018, BPS-Sberbank opened the first Digital Office in its regional network (in Kobrin) that does not employ traditional cash desk operators and consultants: all financial issues may be solved via the multi-functional terminal.



HR Development

In the reporting year, the Bank continued to develop the systems of operational efficiency management, employee incentives, staff optimization and management, aiming at growth of labour productivity.

In 2018, the Bank's average staff number reduced by 7%, while team stability and staffing was maintained: the average time with the Bank makes 10 years, about 40% of the staff work for more than eleven years, staffing level is 95%.

In order to hunt talented youth for a job with the Bank, cooperation was established with higher and secondary special educational establishments. Job fairs and Career Days of BPS-Sberbank were held, aimed at raising effectiveness of cooperation with the leading universities of the Republic of Belarus and the Bank's HR brand recognition among students.

In the framework of the plan of measures for implementation of HR policy of BPS-Sberbank for 2018, certain actions were taken for social support of the Bank's employees:

- A new contract with Belgosstrakh insurance company was concluded, differentiating the programme of voluntary medical insurance for the employees and their families by staff categories, targeted at improvement of the staff social package and cost optimization;
- The Commission was established for collective negotiations jointly with the Bank's trade union;
- A programme of corporate benefits and partner discounts for the Bank's employees was developed;
- Measures were implemented aiming at teambuilding and development of staff competencies.

In 2018, certain measures were taken to promote sports, involvement, team building and development of competencies. A series of corporate intellectual games 'What? Where? When?' were held among employees of the Bank and BPS-Sberbank holding.

The professional contest 'Best Employee of BPS-Sberbank' was held to increase the Bank's staff endeavor and interest in successful accomplishment of tasks aimed at building up economic potential of the Bank, ensuring financial stability and profitability, consolidating and supporting the high level of the Bank's corporate culture.

Throughout the year, the Bank paid much attention to staff training and development: cooperation with Corporate University of Sberbank of Russia, training in various MBA programmes, Sberbank's Virtual School, electronic libraries. Emphasis was laid on digital learning which has the largest share in the corporate learning structure of the Bank.

More than 60% of the staff are connected to the resources of electronic libraries and Sberbank Virtual School.

Comprehensive programmes for the Bank's staff reserve and training sessions were developed and held.

The HR portal was upgraded to improve internal communication of the staff with the HR service on staff management issues.

Bank's Development in 2019

Balanced development of the economy and positive dynamics of main macroeconomic indicators created relatively comfortable environment for further growth of the Bank's business and improvement of its efficiency.

As always, the Bank supports development of the industrial potential and foreign trade of the country. In 2019, lending to the productive sector of the economy will continue, partnership with the largest enterprises of the country and support of small and micro businesses will be pursued.

In the retail lending segment, it is planned to consolidate the achieved positions.

Taking into account dependency on external and internal risks, the Bank steadily improves the risk management system. In 2019, the work will continue to maintain adequate risk level and increase of the Bank's stability of operation.

To improve service quality and expand cooperation with clients, measures are implemented to optimize the regional network, for which the new concept of the standard organizational structure of the regional directorate and the additional office was approved, to be implemented in 2019.

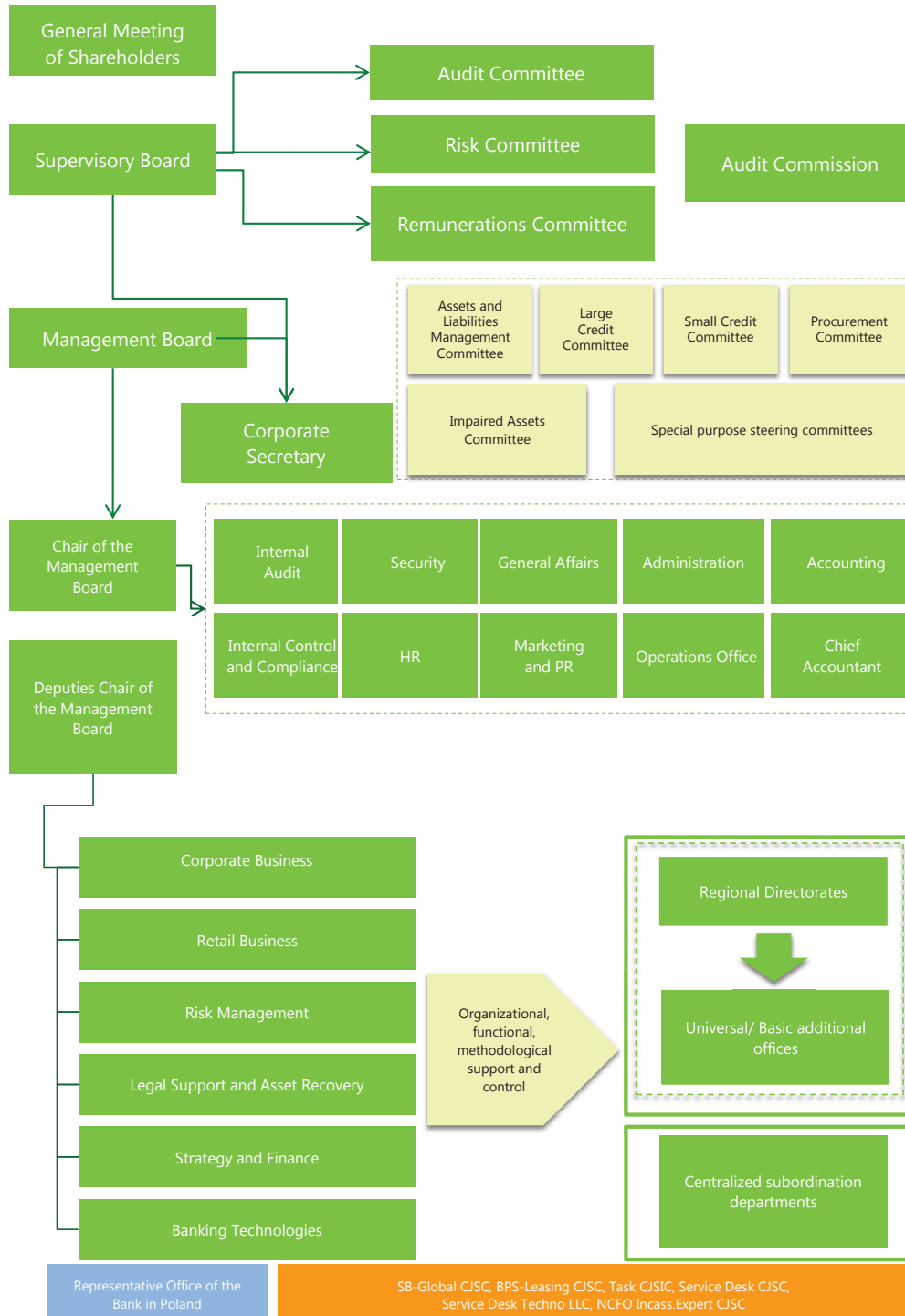
In 2019, the Bank will continue to invest in technological projects. Migration of clients to a new remote banking service platform and introduction of new services and products are in plans, which will bring competitive advantages in the market due to the opportunity of comprehensive service and sale of products and services to corporate clients via digital channels.

Further development of the retail remote banking service platform is scheduled: introduction of the product line for children, development of the marketplace for sale of goods, work, services of third parties, integration of the loyalty programme within the Bank's product line into the remote banking service system.

The Bank's strategic objective is creation of the digital ecosystem for small and micro businesses comprising banking and partner online services and products for effective starting up and running business.

Corporate Governance

Organizational structure of the Bank's management



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 main components of the corporate governance system of the Bank are:

- General Meeting of Shareholders;
- Supervisory Board (with its committees);
- Corporate Secretary;
- Management Board;
- Audit Commission.

General Meeting of Shareholders

The General Meeting of Shareholders is the supreme management body of the Bank. Participating in the sessions of the General Meeting of Shareholders and resolving on the issues attributed to their scope of authority, the shareholders implement their right of participation in the Bank's management.

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 a key link in the corporate governance chain. It carries out general management of the Bank's activities except for the issues attributed to the exclusive scope of authority of the General Meeting of Shareholders in accordance with the Articles of Association.

These tasks are achieved by the Supervisory Board through the functions assigned by the law and the Articles of Association. The Supervisory Board may not resolve on the issues of individual active operations, or current management of the Bank's activity¹.

¹ Except as stipulated by the law of the Republic of Belarus and the Articles of Association of the Bank.

The Supervisory Board:

- Determines main activities of the Bank with regard to the market situation, financial status of the Bank, and other factors;
- Approves the strategic plan of development and the business plan of the Bank and controls its fulfilment;
- Controls operation of the executive body – the Management Board of the Bank, including regular revision of their reports on implementation of the goals and the development strategy, and resolutions of the Supervisory Board;
- Arranges for organization of the corporate governance system of the Bank, adoption of measures to provide for its transparency;
- Arranges for effective functioning of the risk management, the internal control, and the remunerations systems in the Bank and the bank holding of which the Bank is the managing company, on the consolidated basis;
- Determines of the policy of assignments, business continuity, labour incentives, including remunerations and compensations;
- Determines corporate values and rules, including the principles of professional ethics;
- Determines the policy of the conflicts of interests, takes measures on provision of transparency of the corporate governance in the Bank;
- Resolves on carrying out external independent assessment of the Bank's corporate governance efficiency, carries out annual self-assessment of activity of the Supervisory Board and internal assessment of effectiveness of the Management Board;
- Performs other functions stipulated by the law and the Articles of Association.

Besides, the Supervisory Board determines the risk management strategy, reviews the results of risk management functioning, its due organization and improvement of its effectiveness, approves risk tolerance and risk appetite parameters of the Bank.

In order to perform the functions of arrangement of effective risk management, internal control, and remunerations systems, the Audit Committee, the Risk Committee, and the Remunerations Committee were established from among the members of the Supervisory Board and the Bank's officers, headed by independent directors.

Members of the Supervisory Board of the Bank as of December 31, 2018

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

Dmitriy N. VOYTUSHKO

Executive Director of International Corporate Business Development Division, 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*

The current composition of the Supervisory Board was re-elected at the General Meeting of Shareholders of the Bank on March 27, 2019.

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 2018, the Audit Committee held 15 sessions, seating at least once a month in accordance with the legislation, and reviewed 35 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 Chief Internal Auditor of 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 was in charge of:

- Monitoring of completeness and timeliness of fulfilment of plans for application of recommendations made by the external auditor, elimination of drawbacks and improvement of effectiveness of the Bank's activity based on results of revisions made by Sberbank of Russia, and compliance with recommendations of the external auditor;
- Control over fulfilment of the Activity Plan of the Internal Audit Department for 2018 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 development, improvement and raising effectiveness of the internal control system of the Bank and the bank holding, completeness of application of internal control measures by the Bank's management;
- 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.

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 2018, resulting in determination of development areas aimed at improvement of effectiveness of the Audit Committee.

The new version of the Regulation on the Audit Committee was designed in accordance with recommendations of the National Bank of the Republic of Belarus for arrangement of activities of audit committees, taking into account of documents Basel Committee for Banking Supervision 'External audit of banks' and 'Internal audit of banks'.

The new version of the Regulation stipulates expansion of the area of competence of the Audit Committee in the procedure of selection of and communication with the external auditor. In addition, certain issues of preparation and holding sessions of the Audit Committee, rights and obligations of the Chair and members of the committee, and reporting to the Supervisory Board, were specified.

According to the performing results for 2018, the activity of the Audit Committee and its Chair was 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.

The Audit Committee determined top priority tasks for 2019 and directions for improvement of effectiveness of internal control and compliance, and activity of the Internal Audit Department in accordance with the Strategy of Development of BPS-Sberbank.

Members of the Audit Committee:

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

Dmitriy N. VOYTUSHKO

Member of the Supervisory Board of the Bank, Executive Director of International Corporate Business Development Division, 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).

In November 2018, Oleg N. Podoliak was removed from the Audit Committee, and Sergey S. Kovaliov joined the Committee as the appointed Director of Internal Audit Department of the Bank.

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 2018, the committee seated 13 times, not less frequent than once a month as required by the law, and reviewed 30 issues.

During 2018, the Risk Committee performed the following functions:

- Regular monitoring of fulfilment of the strategy and resolutions of the Supervisory Board adopted in relation to the risk profile, tolerance to risks inherent to the Bank's activity, risk appetite and other risk metrics of the Bank and the bank holding;
- Review of monthly reports of the Bank's CRO on assessment of the Bank's risk level;
- Review of quarterly reports of the Bank's CRO on the status of the risk management system and the level of risks of the Bank and the bank holding, including information about compliance with risk appetite, risk tolerance, key credit risk metrics, limits of economic capital allocation, and prudential standards by the Bank and the bank holding;
- Review of the annual report on the status and results of functioning of the risk management system of the Bank, also on the consolidated basis in the bank holding, including results of stress testing and internal capital assessment, top priority objectives and directions of development of the risk management system and assessment of its effectiveness;
- 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;
- Submission of recommendations and suggestions for improvement of the risk management system to the Supervisory Board.

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 and provisioning, liquidity control and liquidity risk management, operating and reputational risks, and development of risk functional units of the Bank explaining specific issues in relation to the risks taken, 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 2018 as efficient.

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

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

Aleksandr V. TITOV

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

Andrey A. SAVCHENKO

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

In August 2018, Viktor V. Vasiliuk was removed from the Risk Committee, and Svetlana I. Malykhina joined the committee as elected member of the Supervisory Board of the Bank, Independent Director.

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 2018, the Remuneration Committee seated 9 times and reviewed 21 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 of 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.

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 2018 as efficient.

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:

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

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:

- Provides for implementation of the strategic plan of development and compliance with the business plan of the Bank;
- 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 functioning of the corporate governance, risk management, internal control, remunerations and compensations systems of the Bank;
- 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;
- 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;
- Creates collective taskforces (committees) of the Bank to support banking operations and activities for own purposes of the Bank;
- 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.

Certain authority of the Management Board was assigned to committees, which does not contradict the law.

Members of the Management Board

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

Andrey A. SAVCHENKO

Deputy Chair of the Management Board (CRO)

Sergey V. SUSLOPAROV

Deputy Chair of the Management Board for Corporate Business

Changes in the Management Board

In accordance with Resolution of the Supervisory Board of the Bank, due to termination of authority by agreement of the parties, Sergey V. Inyushin, Chair of the Management Board, was dismissed from the Management Board on 23.03.2018, and Andrey A. Savchenko, Deputy Chair of the Management Board was assigned to act as Chair of the Management Board.

Besides, due to termination of authority by agreement of the parties, the following officers were dismissed from the Management Board:

- Anatoliy V. Borisevich, Deputy Chair of the Management Board (since 17.1.2018);
- Aleksandr V. Naumov, Deputy Chair of the Management Board (since 23.06.2018).

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 people. 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 29, 2018:

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

Oleg N. PODOLYAK²

Director of Internal Audit Department of the Bank

² Since 19.11.2018 – First Deputy Director of Service Desk CJSC.

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 of the Bank

Corporate governance development

Development of the corporate governance system of the Bank is based on:

- 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 and capital management system, the internal control system of the Bank and the bank holding on the consolidated basis;
- Organization of effective system of remunerations and compensations corresponding to the risk profile and scale of the Bank's activity, aimed at fulfilment of all actions by the management bodies and employees of the Bank necessary to implement the objectives, strategy and directions of the Bank's development, aided by the Remunerations Committee of the Bank.

To promote corporate governance of the Bank in 2019, the Supervisory Board carried out annual self-assessment of performance of the Board, its members and committees, based on performance results in 2018, as well as internal assessment of activity of the Management Board. The results of such assessments determined the directions of development to be pursued in 2019.

Contacts and Bank Details

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Brief name

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